THE ROLE OF INSTITUTIONAL SYSTEMS AND GOVERNMENT POLICY IN SECURING INWARD FOREIGN DIRECT INVESTMENT IN KUWAIT

The impact of institutional and government policy systems on the inward foreign direct investment decision in Kuwait

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Abstract

Promoting economic diversity is important for states reliant on natural resources as the major source of economic development. Many of these states suffer from the Dutch disease leading to negative effects, which hinders economic diversification. One of the ways to reduce dependency on national resources is to encourage Foreign Direct Investment (FDI) inflows, which aids diversification by the transfer of technology, the creation of new employment opportunities, and the adoption of modern management practices. The Gulf Council Cooperation (GCC) countries recognised the necessity and benefits of FDI as an aid to economic diversification; it seems, however, that Kuwait is lagging behind in this endeavour. The government of Kuwait has engaged in a series of policy measures to induce Multinational Companies (MNCs) to invest in Kuwait, but the results, thus far, have been disappointing.

The formal and informal institutions interact in a variety of ways. However, ineffective formal rules can create different outcomes; particularly, in the presence of strong informal institutions. In such a case, formal rules and procedures are not enforced systematically, that is, enabling actors who are involved in the policy process to ignore or violate them, which subsequently results in a failure to attract inward FDI to a host country. Thus, this study investigates the reasons behind this failure by examining the role of formal and informal institutions on FDI policy and on decisions on whether to grant FDI licences by means of using a New Institutional Economics (NIE) approach.

The conceptual framework is used as a guide for an inquiry into the subject of study by constructing a category of intellectual scaffolding, which would provide a coherent structure (Schlager, 2007). The conceptual framework in this study systematically organises the investigation into how a MNC examines a potential investment location by dividing the host country assessments into four distinct ‘stages’. When systematically conducted, the respective approach is grounded in the existing literature, which provides theories regarding the behaviour of MNCs in relation to their decision-making processes for considering locations for their FDI projects.

The research questions derived from the conceptual framework are answered using a mixed methods research approach that uses three sets of data survey, semi-structured interviews, and secondary data.

Firstly, the findings show that almost that all MNCs in the Gulf region have a limited awareness regarding investment opportunities in Kuwait, FDI laws and regulations. Secondly, the findings reveal a number of attractive and unattractive locations, and institutional factors of Kuwait. Finally, it is discovered that the high rejection rate of FDI applications is linked to unsuccessful policy implementation, which is a result of interaction of both formal and informal institutions in Kuwait.

Subsequently, the results are utilised to make a number of recommendations for government policy makers, administrators, and for MNCs regarding how to improve FDI inflows into Kuwait. The results are also used to contribute towards the international business literature concerning the institution based view of FDI, and for government policy connected to attracting FDI.

Keywords:

Inward FDI, institutions, MNC strategy, government policy, Kuwait, Gulf region.

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Dedication

Although, the value of my gratitude cannot compare with everything they have done for me, I dedicate this work to:

My dearest parents, you made me who I am!

My lovely sister and brother, who I am proud of!

My lovely wife who I love !

List of Abbreviation

ASEAN	Association of Southeast Asian Nations
BIT	Bilateral Investment Treaties
CEEC	Central and Eastern European countries
DDT	Dutch Double Taxation Treaties
ECWA	Economic Commission for Western Asia
EPZ	Export Processing Zones
FSA	Firm Specific Advantages
FCIC	Foreign Capital Investment Committee
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FIC	Foreign Investors Council
FPI	Foreign Portfolio Investment
FTZ	Free Trade Zones
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
IAD	Institutions Analysis and Development
IBV	Institution Based View
IPA	Instrument Promotion Agency
IPR	Intellectual Property Rights
KBT	Knowledge Based Theory
KFIB	Kuwait Foreign Investment Bureau
KIA	Kuwait Investment Authority

KPC	Kuwait Patrolmen Corporation
KOC	Kuwait Oil Company
KSE	Kuwaiti Shareholding Company
MENA	Middle East and North Africa
MIGA	Multilateral Investment Guarantee Agency
MNC	Multinational Corporation
NIE	New Institutional Economics
OAPEC	Organization of Arab Petroleum Exporting Countries
OECD	Organization for Economic Cooperation and Development
OIE	Old Institutional Economics
OPEC	Organization of the Petroleum Exporting Countries
PIC	Petrochemical Industries Company
PPP	Public-Private Partnership
RBV	Resource Based View
R&D	Research and Development
SOE	State Owned Enterprise
TC	Transaction Costs
TCE	Transaction Cost Economics
U.S.	United States
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
VAT	Value-added Tax
WIR	World Investment Report
WLL	Limited Liability Company
WTO	World Trade Organization

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CHAPTER ONE

INTRODUCTION

CHAPTER ONE - Introduction

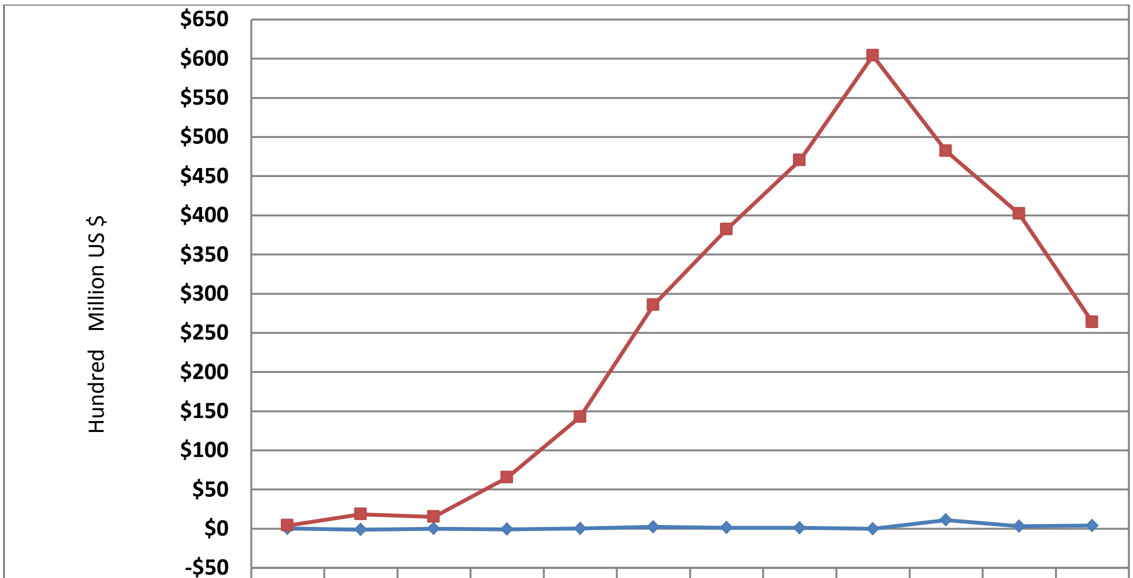
1.1 Background

The problems caused by fluctuating of oil prices from $150 to $9 per barrel (OPEC, 2008) has led the oil dependent countries, such as, Kuwait to seek alternatives to natural resources to achieve sustainable growth. Kuwait's high dependency on oil leads to the possibilities of the Dutch Disease phenomenon (Al-Sabah, 1988). This leads to problems of developing a diverse economy for countries afflicted by Dutch Disease (Davis, 1995, Gray, 2011). The benefits of reducing dependency on oil have spurred the Gulf Cooperation Countries (GCC) to develop policies in order to diversify their economies through attracting FDI. However, the data reveals that Kuwait is one of the least successful of the GCC states in attracting inward FDI (see Figure 1).

The Increase in FDI inflows is not the end desired objective; rather increasing the role of foreign MNCs in the Kuwaiti economy is thought to facilitate the diversification of the economy by developing new technologies, modern management practices, and the creation of new employment opportunities (Tadros, 2011). The necessity for Kuwait to diversify its economy was articulated by Sk. Sabah Al-Sabah, the Amir of Kuwaiti at the eighth opening ceremony of the Kuwaiti Diplomat symposium in March 2013 "*we should not base our economy only on natures recourses, we must diversify our economy*" (Yamin and Sinkovics, 2009).

In line with the above statement, then, the Kuwaiti government took a number of measures to attract FDI flows into Kuwait. The key factors in these measures are contained in the Foreign Investment Law (No. 8/2001) that permitting foreign investors to own up to 100% equity in Kuwaiti companies or ventures. The policy changes also reduced taxation on MNCs profits from 55% to 15% (NBK, 2008), and subsequently, setting up the Kuwait Foreign Investment Bureau (KFIB) in 2003. However, according to United Nations Economic and Social Commission for Western Asia (ESCWA) reports in 2011 and UNCTAD (2012), the FDI flows into Kuwait remain extremely low. Kuwait is still not attracting the volume of inward FDI compared to other GCC, such as, Saudi Arabia, Bahrain, Qatar, United Arab Emirates, and Oman. In 2011, Kuwait accounted for just 0.3% of all FDI inflows into the region (UNCTAD, 2012). In global terms, Kuwait has not performed well in attracting FDI, since it is ranked at 134 out of 140 (UNCTAD, 2008).

Figure 1 - Kuwait and GCC FDI inflow (2000 - 2011)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GCC (Average)	391	1957	1515	6603	14262	28319	38079	46907	60393	47107	39892	25960
Kuwait	16	-112	4	-67	24	234	121	112	-6	1114	319	399

Data Source: UNCTAD (WIR, 2012), IMF (2012) and World Bank (2012)

The specific problems addressed in this research include: the low level of inward FDI flow into Kuwait, the context of the role of institutional system in Kuwait in influencing FDI policy performance, and problems arising from institutional systems used in making decisions to grant FDI licences (Globerman and Shapiro, 2002, Peng, 2003, Bénassy-Quéré *et al.*, 2007, Peng *et al.*, 2008, Dunning and Lundan, 2008a, Meyer *et al.*, 2009, Hotho and Pedersen, 2012).

1.2 Objectives of the Study

The full defence of objectives of this study is given in the Literature Review section of this thesis. These objectives are stated below:

I. To understand, by use of a conceptual framework, the major relationships between MNCs strategies, FDI policies, and institutional systems, which influence FDI inflows into Kuwait.

II. To assess the importance of defects or uncertainties in FDI policy and institutional systems connected to granting FDI licences that limit the achievement of attracting FDI inflows into Kuwait.

III. If policy problems and/or institutional systems' failings are found to significantly impair FDI inflows, then, to propose changes to reduce these problems and failings.

IV. To use the example of Kuwait to develop a better understanding of the literature on the institutional view of FDI and of FDI policy.

The research objectives lead to a set of research questions, which are as follows:

1. What are the key characteristics of Kuwait's FDI policy, institutional systems, and MNC location factors that influence FDI decisions?

2. How does Kuwait's FDI policy, institutional systems, and location factors relate to the strategic objectives and key characteristics of MNCs interested in FDI in the region?

This question is broken down into four sub-questions as follows:

i. *What is the knowledge level of MNCs in the Gulf region of Kuwait as investment location and how does this relate to nationality, Industry, and size of investments in the Gulf region?*

ii. *What are the major factors that MNCs find attractive/unattractive in Kuwait, and how does this relate to nationality, industry, and size of investments in the Gulf region?*

iii. *What are the Kuwaiti location factors that are attractive/unattractive for MNCs, and how does this relate to nationality, industry, and size of investments in the Gulf region?*

iv. *What are the Kuwaiti institutional factors that are attractive/unattractive for MNCs, and how does this relate to nationality, industry, and size of investments in the Gulf region?*

v. *What are the Kuwaiti FDI policies and that are attractive/unattractive for MNCs, and how does this relate nationality, industry, and size of investments in the Gulf region?*

3. Are there institutional obstacles to obtaining approval for FDI in Kuwait, and if there are, how do these relate to key strategic objectives and the major characteristics of MNCs?

4. Can changes to Kuwait's FDI policy and institutional systems be identified, which may improve FDI inflows to Kuwait?

1.3 Research Methodology

The research questions are answered by means of a mixture of qualitative method. However, the approach does not fall within the definition of pure mixed-methods research (Hurmerinta-Peltomäki and Nummela, 2006), as it adopts a qualitative mixed research design (Johnson *et al.*, 2007) conducted through a single case study (detailed in Chapter 4). This study aims to explain the reasons behind the limited FDI inflow by conducting an investigation into the FDI policies and institutional systems in Kuwait to determine their role in influencing MNCs' decision-making, when considering location in Kuwait. Piekkari *et al.* (2009) refer to the dominance in the literature of a positivistic research approach to examine these issues, but they highlight the need for an increased focus on qualitative work backed by quantitative research to obtain a fuller and more detailed picture of the complex factors at work. Another reason behind adopting a mixed qualitative method is that this particular research is concerned with investigating the interaction between the formal and informal institutional factors.

Moreover, the small size of FDI inflows is combined with poor data in a number of areas in Kuwait, which makes it difficult to obtain large samples of good quality data (Mina, 2007). This makes it difficult to obtain meaningful statistical results for FDI characteristics and behaviour in various countries, such as, Kuwait (Lind *et al.*, 2002). The quantitative data was collected through administrating a survey to MNCs in the Gulf region, and the qualitative data was, subsequently, collected through an in-depth semi-structured interviews, which was further supplemented with secondary data sources, similar to the approaches used by other studies (Bradley and Moles, 2001, Hurmerinta-Peltomaki, 2003).

1.4 Contributions of the Study

The first major contribution of the research is to develop our understanding of the affect of institutions on FDI policy, and regarding the decision to grant FDI licenses. There is a limited empirical work available regarding how FDI policy interacts with the institutions and its effect on inward FDI (Asiedu, 2006, Bénassy-Quéré *et al.*, 2007, Trevino *et al.*, 2008). This study uses institutional theory, in particular, the work of North and Ostrom, to develop a better understanding of some of the key institutional factors that affect the location choice made by MNCs, and how host countries can attract more FDI.

Although, the work of North and others in the field of New Institutional Economics (NIE) has been widely used to consider international business issues (Grosse and Trevino, 2005), the NIE approach has not been extensively used to consider the effects of inward FDI of inward investment policy and on how institutional systems work in relation to applications for licences for inward FDI. This study endeavours to go beyond the standard institutional theory in MNC strategy (Peng, 2002, Peng *et al.*, 2008, Peng and Khoury, 2009, Peng *et al.*, 2009) by providing a better understanding of how a host country's institutional system may help to attract or discourage FDI. The majority of the literature focuses on formal institutional factors, and often using cultural dimensions to consider informal factors. Hence, the role of informal institutions in influencing FDI has received limited attention in the literature, and most studies have focused on formal institutions and their impact FDI flows (Globerman and Shapiro, 2003, Li and Filer, 2007, Pajunen, 2008, Ali *et al.*, 2010). In addition, existing studies on informal institutions tend to treat such institutions as exogenous forces that simply change the benefits of using alternative formal structures (Williamson 1991).

There are many studies on obstacles from corruption and bureaucracy (Egger and Winner, 2005, Anyanwu, 2012, Helmy, 2013) these studies tend to use indices of corruption and such factors bureaucratic barriers that increase the costs of doing business. But these studies do not consider informal institutional obstacles in the sense that this term is used in new institutional economics and new institutional sociology use these terms. Others studies that use concepts new institutional economics concepts of formal and informal institutional systems (Brouthers, 2002, Brouthers and Hennart, 2007, Scott, 2008), do not consider how formal and informal institutional systems interact to forge the 'rules of the game' and the subsequently affect MNCs location decisions for FDI. These studies also do not consider how these rules of the game affect the decision by host governments to grant or refuse applications for a FDI licence.

Thus, this study considers the role of formal and informal institutional factors as they affect the motives of MNCs to engage in FDI. Hence, a central contribution of this study is to consider how formal and informal institutional systems interact in the process of applying for a FDI licence, by establishing a framework through which the informal institutions can be better understood, and attempts to provide a precise and analytically investigation about the relationship between formal and informal institutions in the context of FDI flows.

Furthermore, this study examines FDI policy and institutional systems, giving both formal and informal institutional factors equal importance. Ostrom (Polski and Ostrom, 1999, 2007, 2011) argued that previous studies overlooked the importance of informal institutional systems, because of the inherent difficulty of analysing them; therefore, suggested that policy analysis can be substantially improved, if we include both the formal and informal institutions in the analysis. This allows for a systematic analysis of the existing policies, and examines the actual outcomes of these policies. This is achieved using the 'Institutional Analysis and Development' (IAD) framework, as an interdisciplinary tool for evaluating policy effectiveness. However, the IAD approach has not been used to examine international business issues to any greater extent previously. Therefore, the research makes the unique contribution in using IAD framework to examine the institutional factors motivating decisions made, when granting or rejecting FDI licences. In other words, the major intended contribution of the study is to introduce IAD framework to the international business research field.

Other key contribution is to develop an increased understanding regarding how FDI policy and institutional systems interact in the small natural resource rich countries, who are seeking to diversify their economies by encouraging inward FDI. There is an extensive literature available regarding this subject in small economies in both the developed and developing world, but very little is available regarding the respective issues in case of small natural resource rich economies. This study, therefore, aims to makes a contribution to the area of FDI policy and institutional systems as a means to encourage inward FDI to help economies to diversify.

Finally, the study makes a contribution in the area of improving policy making regarding FDI laws and regulations in Kuwait, and by extension provides increased understanding regarding this issue for similar economies, which are seeking to diversify away from dependency on natural resources. Previous research conducted by some scholars, such as, Al-Yagout (1997) and (Al-Saied, 2003) have not closely examined the practical implications of the FDI related laws and regulations, which attract FDI into Kuwait unlike other countries in the Gulf region. Thereby, the findings of this study will provide information concerning MNCs evaluation of current FDI law and regulations in Kuwait. This kind of information is significant for assessing the functionality of the current FDI policies in Kuwait. The research also provides increased understanding regarding the importance of both formal and informal institutional factors (and their interaction) for implementing FDI policy, particularly in the area of obtaining approval for FDI licences. This knowledge is useful for both public policy makers to help them improve the efficiency of institutional systems, and for MNCs seeking approval for FDI licences.

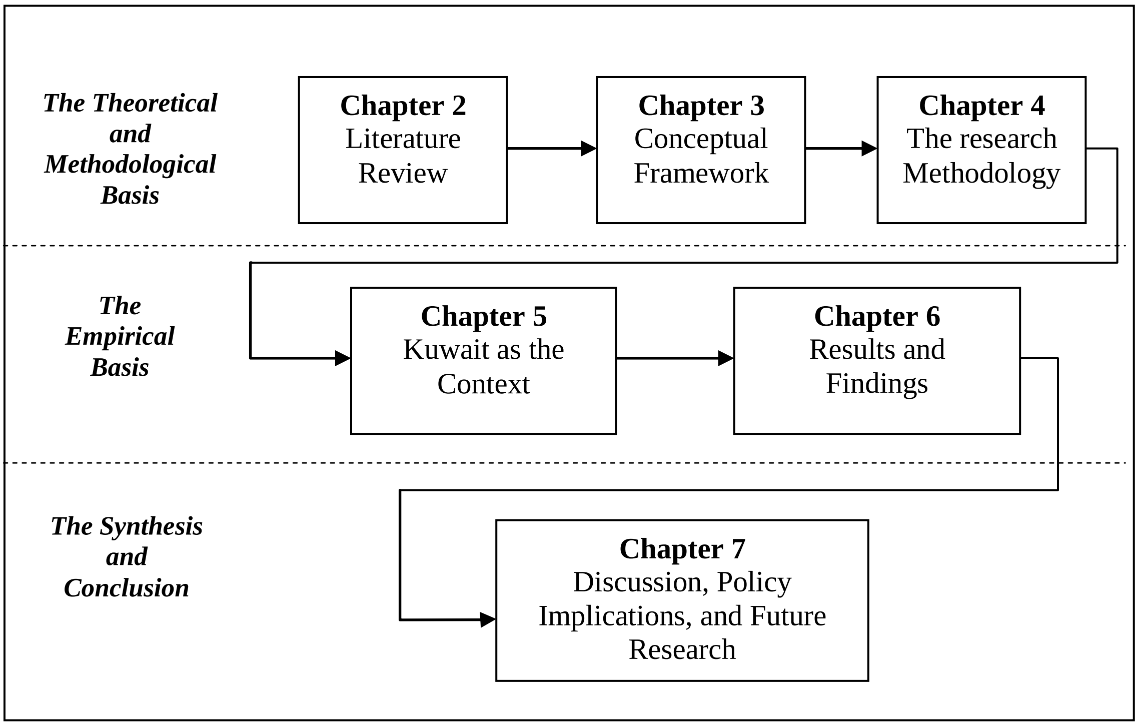
1.5 Structure of the Thesis

Chapter 2, *Literature Review*, presents a critical review of the literature regarding the main theories on the motivations of MNCs, when engaging in FDI. The respective chapter also reviews the institutional theory literature; whereby, enabling a clear identification of the knowledge gap in relation to how FDI policy and institutional systems interact, and subsequently, influence MNC's FDI decisions. The literature review also provides the basis for the construction of a conceptual framework to help to examine the key issues. The *Conceptual Framework* is developed in **Chapter 3.** The objective of the framework is to help identify the key factors that encourage or discourage a FDI into Kuwait. The conceptual framework systematically organises the investigation into how a MNC examines a potential investment location, by dividing the host country assessments into four distinct 'stages'. **Chapter 4** outlines the *Methodology* of the study. The chapter starts with justifying the philosophical paradigm; subsequently, moves on to justifying the methods used by outlining the benefits of using both qualitative and quantitative data. The chapter, then, identifies the importance of case study, the method of data collection, and finally the method of analysis is described and explained.

Chapter 5, *Kuwait in Context,* provides background information about Kuwait, and information for providing an answer to the first research question. The chapter provides a brief introduction about Kuwait, and follows it up with a description of the key characteristics of FDI policy, institutional systems, and major locational factors in Kuwait. In doing so, it reviews the geographic location, the Kuwaiti economy, and the industrial composition of Kuwait and the importance of FDI to the Kuwaiti economy. **Chapter 6** provides the *Results* for research questions 2, 3 and 4. The findings from both the survey and interviews are examined using triangulation of the three different sets of data, that is, quantitative, qualitative, and secondary data.

Chapter 7, *Recommendations and Policy Implications,* follows from the results, which are discussed in the context of the conceptual framework. The limitations of the study and future directions for research are also presented. The structure of the chapters of the thesis is illustrated in Figure 2 below.

Figure 2 the Structure of the Thesis



1.6 Summary

This chapter, functioning as a roadmap of the study, provided a brief background to the respective research. This was followed by the presentation of the research background, the problem area, the aim, and the objectives of the study, the research questions, the research methodology, and finally, it covered the conclusion chapter with its intended contributions, and an outline for remainder of the study.

CHAPTER TWO

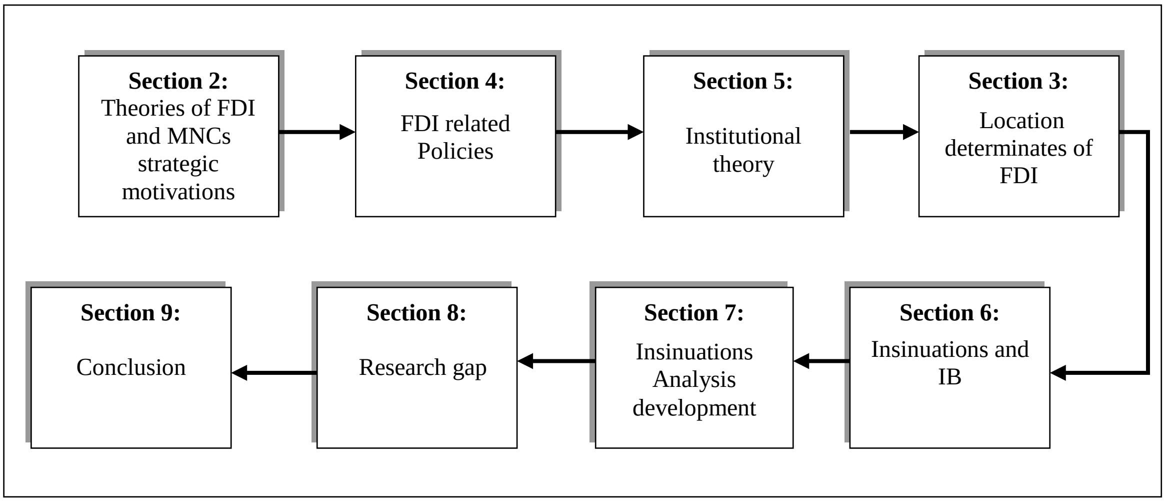
LITERATURE REVIEW

CHAPTER TWO - Literature Review

2.1 Introduction

This chapter begins with a review of the main theories explaining motivations for MNCs engaging in FDI (Section Two). Sections Three and Four discuss the locational factors, including governmental policies, which affects MNCs' FDI decisions. Section Five and Six examine the institutional theory, and explore the role of institutions in the context of IB research. Section Seven provides an overview of Insinuations Analysis and Development (IAD) framework. Finally, in Section Eight, the knowledge gap is identified. Each section ends with a summary. The structure of this chapter is presented in Figure 3 below.

Figure 3- Structure of Chapter 2



2.2 Theories of FDI and MNCs strategic motivations

The section below presents an overview of the main theories that explain MNCs' motivation in a host country in lieu of their developments over time, i.e., in the context of a historical perceptive. This, in turn, provides a review of the main strategic motives for FDI, such as, market seeking, efficiency seeking, and resource seeking strategies. In other words, this section aims to explain as to why MNCs engage in FDI.

2.2.1 Theories of FDI

There are a number of theories explaining MNCs' strategic motivation for FDI, which include Monopolistic Advantage Theory, Oligopolistic Theory, Internalisation Theory, Eclectic Paradigm, Resource Based View, and Institution Based View. The respective theories are discussed below.

- **The Monopolistic Advantage Theory**

The Monopolistic Advantage Theory or 'Industrial Organisation Theory' approach, developed by Hymer (1976), is based on market imperfections. Hymer (1960) sought to explain as to why MNCs engage in FDI, and manage to survive in foreign markets—given the additional costs of operating in foreign markets. The essence of Hymers' view is that firms engaging in FDI must have specific or monopolistic advantages over the local firms Hymer (1976). Kindleberger (1969) expanded on this view to embrace the importance of Firm Specific Advantages (FSA), which are transferable to MNCs subsidiaries. These FSAs include superior technology and innovation (Hymer, 1976; Kindleberger, 1969), vertical integration, product differentiation, and firm's size (Lall, 1980, and Horst, 1972).

The use of FSAs, as the explanation of FDI, fails to account for the possibility of exporting and/or licensing rather than acquisition of foreign assets by FDI. The FSA approach also does not explain country selection for FDI (Moosa, 2002). The important aspect of Hymer's approach was to highlight the importance of FSAs as a necessary condition for FDI.

- **The Oligopolistic Theory**

This theory suggests that oligopolistic firms respond to initial FDI by rival firms in order to seize or defend market share (Knickerbocker, 1973). In oligopolistic situations, therefore, market leaders that engage in FDI are followed by competitors. This strategy of internationalisation is also called "follow-the-leader" (Vernon, 1998). This theory indicates that in oligopolistic industries, a trend to follow each other's location decision is observed (Head and Ries, 2001), which is used as a defensive strategy (Hood and Young, 1979). The oligopolistic theory helps to provide a better understanding of why FDI is used rather than exporting and/or licensing, and also provide some insight into why FDI went to particular countries (Yu and Ito, 1988). The theory, however, does not identify the motivations for MNCs to undertake FDI. Furthermore, the theory can explain only the defensive investments, which take place because of a disturbed balance with the implication that the Oligopolistic theory can only be applied to oligopolistic markets, and loses its justification in other market structures. In this context, Agarwal (1980) argued that since the theory is based on empirical research conducted in oligopolistic structure; it, therefore, does not explain the reasons for the initial investment into foreign markets by the market leaders.

- **The Internalisation theory**

The Internalisation theory regards FDI as replacement of market transaction with internal transaction because of costs associated with market failure (Buckley and Casson, 1976). Market imperfections provide incentives to bypass markets by creating some kind of organisational system. Taxation and other fiscal policies by host governments can also favour internalisation of functions by providing incentives to replace market transactions by some kind of organisational based transactions (Fisher, 2002). The main driver of internalisation is transaction costs (Buckley, 1987). In this context, Moosa (2002) found that internalisation is particularly common in manufacturing business with high R&D costs, and large scale flows of intermediary products. The Internalisation theory can also explain variation in entry mode of FDI (Buckley, 1978; Buckley and Casson, 2002), including joint ventures decisions (Buckley and Casson, 1998). The transaction costs are difficult to be quantified; hence, proponents of this theory argue that the representation of a working model, *per se*, is important and not the concrete application of the theory. In this regard, Rugman (1980) argues that the internalisation theory lacks visible empirical content; thereby, it cannot be directly empirically tested.

- **The Eclectic Paradigm**

The Eclectic Paradigm was developed by Dunning (Dunning, 1977, 1979, 1980, 1988, 1993a) and integrates the monopolistic advantage theory (encompassed in Ownership specific advantage) with Internalisation Theory and Location Advantage Theory. The paradigm sets out a generalised framework for explaining the extent and pattern of FDI activities of companies (Dunning, 2002). According to the paradigm, MNCs consider three factors in making FDI decisions. The first factor is ownership advantages that enable MNCs to compete in the host country Dunning defines ownership advantages as *"any kind of income generating assets which make it possible for firms to engage in foreign production"* (Dunning, 1991: 123). The second factor is location advantages arising from resources and market conditions in host location. The third factor is internalisation, which refers to the advantages of controlling and coordinating ownership and location specific advantages within the MNCs rather than using market systems (Dunning, 1988). The OLI theory has been adopted by many International Business scholars to explain FDI flows (Barclay, 2000); whereby, it has been the fundamental explanation for FDI in the past twenty years (Liu, 1997). The OLI paradigm is developed to include geography and institutional factors (Dunning, 2006). The importance of institutional factors for the level and pattern of FDI has been regarded as a key requirement for improving the explanatory power of the paradigm (Peng, 2002, Peng *et al.*, 2008, Dunning and Lundan, 2008b, Peng and Khoury, 2009), as they concluded that the content and quality of institutions are becoming more important components both for the competitive advantages of firms, and the location attractions of host countries. Despite these improvements in the paradigm, it is still criticised for lacking a focus on the importance of the strategic objectives of MNCs as drivers of FDI. In response to this criticism, Dunning (2000) argued that OLI advantages may change over time. Nevertheless, Eden (2003) argues that the major challenge to the OLI paradigm is that it overlooks the strategy element. Moosa (2002) argues that the OLI paradigm does not clearly specify as to how the three factors interrelate with each other. Despite the criticism, the OLI paradigm remains one of the main frameworks used to study FDI decisions.

- **The Resource Based View**

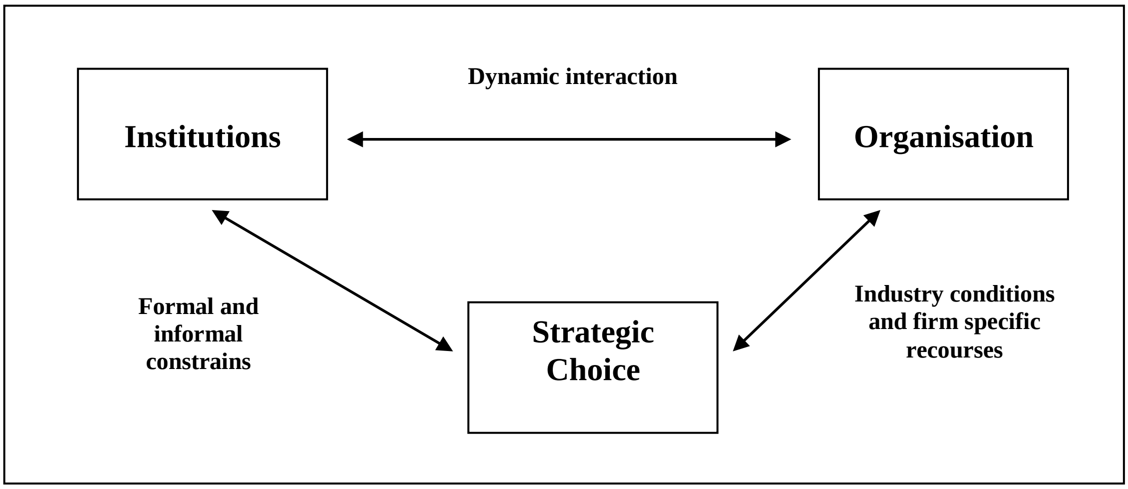
The Resource Based View (RBV) highlights the importance of resources as strategic drivers of FDI. The main focus of the RBV is on the use firm resources to gain sustainable competitive advantage (Barney, 1991, 2001). The firm resource may be anything that could be thought of as a strength or weakness of a given firm (Wernerfelt, 1984, Pitelis, 2004). In order to be the basis for sustainable competitive advantage, resources must be imperfectly imitable and non-substitutable (Moon and Lado, 2000). The resources include: physical resources, such as, technology, equipment, geographic location, and access to raw materials (Fahy, 2002); also intangible resources, such as, experience, judgment, intelligence, information and knowledge (Barney *et al.*, 2001). At the heart of the RBV is the identification of knowledge and experience as valuable, unique, and non-imitable resources that differentiate the winners from the losers in global competition (Peng and York, 2001). According to Peng and Wang (2002), RBV differs from transaction cost economics; mainly in that transaction-cost-economics focuses on the firm's utilisation of existing FSAs, while the RBV emphasizes both utilisation and development of FSAs. As a result, RBV emphasises that FDI is not motivated only by FSAs possessed by a MNC, but also by opportunities to acquire and develop future FSAs that enable MNC to develop new advantages (Meyer *et al.*, 2009). The Knowledge Based View (KBV) is closely connected to RBV, but with a focus on knowledge generation, and transfer within the MNC (Kogut and Zander, 1993) as a critical determination of MNC capacity to confer sustainable competitive advantage. Although, RBV focuses on the internal environment, it hints at the importance of interaction between the internal *and* external environment of MNCs, even though the nature of the interaction process has yet to be explicitly expounded in resource-based theories of FDI (Peng, 2001). Another limitation to the RBV is that it does not incorporate political resources (Boddewyn and Brewer, 1994, Dahan, 2005) and institutions (Boddewyn, 2003, Ibeh and Davies, 2009) as strategic drivers for FDI.

- **The Institutions Based View**

The Institutions Based View (IBV) of international business strategy has been argued to be one of the three leading perspectives in international business strategy. The other two leading strategies are industry based view, and resource based view (Peng *et al.*, 2008, Peng and Khoury, 2009). The IBV suggests that firms investing in a foreign country are 'outsiders' to the 'rules of the game', and may experience significant costs as a result of the interaction between formal and informal institutions of the host country. This makes the institutional environment extremely important, as it sets the 'rules of the games' and these rules are specific for each country (Peng, 2002).

Peng (2002; Peng *et al.*, 2008) argue that research into strategy has emphasised the importance of industry conditions (Porter, 1994), and the resources of the firm (Barney, 1991). However, since all firms are affected by institutional frameworks within which they operate, it is evident that institutions matter (Peng, 2002). Hence, an institution-based understanding of business strategy has emerged in addition to the industry and firm level conditions. As suggested by Peng (2002), the IBV of business strategy focuses on *"the dynamic interaction between institutions and organisations, and considers strategic choices as the outcome of such as interaction,"* Peng (2002: 253). The strategic choices are not only influenced by industry and firm specific factors but also by the institutional environment as presented in Figure 4.

Figure 4 - Institutions, Organisations and Strategic Choices



Source: Peng *et al.* (2009)

Both Hoskisson *et al.* (2000) and Peng (2002) recognise the institutional theory as being important in explaining the internationalisation of MNCs in emerging economies due to the relative under-development of institutions, and their impact on the MNCs' activities. Therefore, FDI strategies that work in one country may not necessarily work in another, since each country has its own institutional systems and ‘rules of the game’ (Peng *et al.*, 2008). Hence, one of the main challenges for FDI strategies, according to IBV, is learning to play the game in different countries.

The IBV has not received notable criticism until now, due to being relatively new and is yet to be subjected to significant empirical tests, and incorporated into other internal and external environment factors that drive FDI (Peng and Khoury, 2008). Meyer *et al.* (2009) argue that IBV complement resource-based view, when considering entry strategies. Other scholars argues that one of the reasons of failure of FDI of a foreign firm in a specific country is the influence of institutional environment (Lyer, 1997). The researchers in the discipline of international business have stressed the need to pay attention to the institutional context in which international business occurs (Peng and Wang, 2002). The recent research has only concentrated on how institutional arrangements directly influence the determinants of market entry strategies (Meyer *et al*, 2009).

Table 1 - Summary of the main theories of FDI

Drivers	Theoretical Base	Key Factors
Monopolistic Advantage	Firm need to possess monopolistic advantage or FSAs derived from market imperfections	- *Monopolistic advantage FSAs* - *Imperfect Markets*
Oligopolistic Behaviour	In competitive industries, market leaders who establish FDI abroad are followed by rival firms from home country	- *Competitive (oligopolistic) industries- FDI as a defensive strategy to leader's decision to engage in FDI* - *Follow the leader behaviour*
Internalisation	FDI leading to organisational forms of engaging in foreign business arise because firms have lower transactions costs when they replace market transactions with organisation based transactions	- *Transaction Costs.* - *Market imperfections and organisational alternatives to markets drive FDI.*
OLI Eclectic paradigm	Comprehensive explanation of FDI based on synthesis of key generic drivers of FDI	- *Ownership specific advantage (O- Advantages)* - *Internationalisation specific advantages (I- Advantages)* - *Location specific advantages (L – Advantage)* - *Addition of institutional and geographical factors that affect O, I and L advantages*
Resource Based View	Firm possessing and sustaining unique & intangible resources which lead to the creation and development of FSAs	- *Intangible Resources* - *Knowledge & experience of staff*
Institutions Based View	Firm who wish to engage in FDI must be aware of the formal and informal institutions of the host country and act according the rules of the game	- *Formal & informal Institutions* - *Influence of Institutions on FDI* *Rules of the game*

2.2.2 Motivations for FDI theories

This section reviews main MNCs' strategic motives for FDI, such as, market seeking, resource seeking, efficiency seeking, and resource seeking strategies. The section also endeavours to explain as to what motivates MNCs to engage in FDI.

- **Market seeking FDI**

The market seeking investment seeks access to new markets that are attractive, because of their size, growth or a combination of both. The market access is regarded as a predominant motive for investing in developed countries, because of the size of these markets. More recently, the growth potential of markets in emerging economies, such as, China has been seen as a major strategic motive for FDI (Luo and Park, 2001). According to Chakrabarti (2001), numerous studies have shown that FDI flows, market size and growth are associated positively, and posit that FDI may be a reason for the increasing flow of FDI towards large markets. Another reason for market seeking FDI is to test products and/or services in small size markets with similarities to larger markets that the MNCs intent to penetrate at a later stage (Luo, 2003). Additionally, MNC may become involved in new markets, because the stakeholders, such as, customer and suppliers have set up foreign production facilities in a new market; therefore, the MNC needs to follow them to a new foreign market (Dunning, 2009). The final reason that motivates MNC to serve a new market is purely due to the economic reasons related to transaction costs of supplying a market from a distance, and overall production costs to the MNCs, such as, the transportation costs that accrue due to geographical distance between MNC facility and the new market (Dunning, 2009).

- **Resource seeking FDI**

The resource seeking FDI is considered as a major motive for MNCs to invest abroad in order to acquire specific resources to make the MNC more profitable and competitive. Therefore, MNC would invest in a foreign country in order to acquire better quality and low cost resources. According to (Dunning and Lundan, 2008a), resource seeking MNCs can be classified into three categories: natural resource seekers, production resource seekers, and intangible resource seekers. The natural resources seekers are mainly interested in a host country due to the availability of higher quality and lower cost natural resources than the MNC's home country. Obviously, the availability of natural resources, such as, oil appears to be the dominant motive for undertaking resource-seeking FDI (Nunnenkamp and Spatz, 2004). The production seeking FDI is driven by the desire to lower production costs through the utilisation of low cost factors of production in the host country. These MNCs usually move from home countries due to high labour costs. In this context, the availability of low cost labour is a key determinant of FDI for manufacturing based MNC in emerging and developing countries (UNTCAD, 2007). Moreover, Li *et al.* (2003) from their research on FDI in China, have shown that MNCs often prefer to invest in a low cost labour industrial districts in China. The final type of resource-seeking FDI is driven by the need of a firm to acquire intangible resources, such as, technology, knowledge, and innovation.

- **Efficiency seeking FDI**

The efficiency seeking FDI has been viewed as a combination of factors necessary to attract FDI, such as, infrastructure facilities, a workforce with skill levels that allow for a timely and cost efficient production and delivery of goods to overseas markets, supported by trade policies and easy access to the markets of industrialised countries (Aggarwal, 2002). The efficiency-seeking FDI is motivated by creating new sources of competitiveness for firms and is channelled to where the cost of production is lower (Dunning, 2006b). Therefore, efficiency-seeking FDI plays an increasingly important role in both manufacturing and services sectors, and prompts host countries to attract this type of FDI. Cost considerations is particularly important for efficiency-seeking MNCs (Dunning, 1993a). The MNCs attempt to locate each activity of the production process to take advantage of cost differences in labour, technology, and other resources to create the production conditions needed to improve efficiency in production (UNTCAD, 1998). The policy makers, in a number of countries, are engaged in creating all kinds of incentives, such as, export processing zones and tax incentives policy for foreign investor in order to attract MNC efficiency seeking FDI (Giroud, 2007).

The efficiency-seeking FDI requires MNC's to locate to places with good physical infrastructure, skilled labour, and often well-developed economic clusters (Agarwal, 2002). In the absence of such assets, it appears that the economy is not fully integrated with the global economy and that the existing industrial and technological capabilities need reorientation to attract efficiency seeking FDI. As a result, several developing countries fail to attract such FDI. It is, therefore, crucial for the countries to improve the competitiveness of their own resources and capabilities. The basic feature of efficiency seeking FDI has traditionally been related to the desire of MNCs to carry out unskilled labour intensive production activities in locations that are relatively rich with unskilled labour to reduce the overall production cost (Beugelsdijk *et al.*, 2008). However, the desire to obtain efficient locations is important for all FDI. Therefore, input and other costs that accurately reflect the relative advantages of locations, good physical infrastructures and government policies that support efficient production and distribution of products, is important to attract FDI.

Now, because of the transport costs, efficiency seeking investors are influenced by cost associated with geographical proximity to the home country or to final markets (Dunning and Lundan, 2008a). The European Union accession countries, such as, Czech Republic, Estonia, Hungary, and Poland attracted more efficiency seeking FDI from developed West European countries (Bevan and Estrin, 2004). This was due to the economies of scale, and scope of coordinating operations in these geographically distant operations.

- **Strategic asset seeking FDI**

The strategic asset seeking is usually done by MNC through financial acquisition of strategic asset, in a foreign firm, to support their long term strategic objectives in order to sustain and advance their global competitiveness (Dunning and Lundan, 2008a). Dunning (2009) argues that strategic asset-seeking FDI has become the most significant change in the motives for FDI over the last two decades. The growth of strategic asset seeking FDI in recent years is verified by the increasing role of mergers and acquisitions between MNC as modalities of FDI (Tain-Jy *et al.*, 2004).

According to Dunning (2009), MNCs show interest in acquiring a firm due to the availability of knowledge assets or market share belonging to the foreign firm. Furthermore, MNCs expand their acquisition of foreign firms, because of growing needs to acquire assets in foreign locations. These can include access to foreign cultures, institutions, and different consumer demands. In addition, strategic asset seeking FDI has become economically preferable for MNC for acquiring or creating these assets outside, rather than within their home countries. Although, market-seeking motive is dominant for investing in Central and Eastern Europe, the strategic assets seeking motive is also important in the region, as it is a key driver of MNC investment strategy development (Marinov, 2000).

Table 2 - Summary of the main theories of FDI strategy

Drivers	Theoretical Base	Key Factors
Market seeking	FDI is motivated by access to large markets in a host country or nearby countries	- *Market size & growth* - *Access to key markets* - *Market structure*
Resource seeking	Resources (including natural resource) are playing an important role in motivating FDI inflow to a host country	- *Availability and quality of resources* - *Cost of resources*
Efficiency seeking	Obtaining access to good government policy and infrastructure environments that enable MNC's to have lower costs	- *Availability of good physical infrastructure* - *Access to economies of scale and scope* - *Access to good government policy environments for conducting business*
Strategic-Asset seeking	Financial acquisition by MNC of other foreign firms for strategic objectives	- *Firm Strategic Planning* - *Acquisition and control*

The theories concerning FDI, as discussed above, highlight a series of normally supplementary views regarding why FDI takes place. There are many disputes and unresolved issues related to the theories, but they point to three major drivers of FDI. One of the key drivers emerging from this theories is that the firms engaging in FDI have FSAs (ownership advantages) for which the best method to exploit them is by use of some type of organisational arrangements, as opposed to the use of markets (connecting to the internalisation issue). The competitive forces also affect FDI decisions in terms of seeking to locate in different areas of the world, and to gain competitive advantage by firms (responding to such decisions by their competitors). The use and development of resources to exploit FSAs is the third important driver of FDI connecting location advantages, because FDI can provide the means to acquire and develop resources to help to exploit FSA. It is not clear as to how these generic drivers interconnect with each other, or indeed if they need to interconnect? It may be that any one of these drivers is sufficient to explain as to why FDI takes place. In other cases, a combination of these drivers may be at work. For the purpose of this research, the usefulness of these theories is to highlight these key generic drivers, which the research approach uses to examine the MNC's view of Kuwait as a possible destination for FDI. The key issues that emerge are that is Kuwait seen as destination for FDI to exploit FSAs, to gain benefits over competitors or to react to their location decisions, and is resource acquisition or development a possible key driver for FDI in Kuwait.

2.3 Location Determinates of FDI

The location factors are introduced in this section, which show their importance in MNCs' FDI related decision-making, which are based on the location advantages offered to MNC's (Dunning, 2002). The location advantage was first used by Horst (1972) to explain the US FDI in Canada. It is also recognised by OLI paradigm for its importance as a key determinate for FDI in any potential host country (Dunning, 2000). In this study, the location advantages of the OLI paradigm (Dunning, 2006a) is highlighted, since FDI location decisions are thought to be influenced by a number of country specific factors. Hence, It is necessary to understand the importance and influence of the location factor related to the host country, as major investment decision made by MNCs has a location dimension (Dunning, 2004).

Despite the existence of enormous literature (examining the location advantage as a determinant of FDI) still the challenge concerning categorisation of the large amount of host country determinants, identified by researchers (Kostova, 1997) in International Business studies, remains in a compelling way. In fact, many researchers have attempted to group FDI determinants, for instance: Galan and Gonzalez-Benito (2001) developed ten groups for their 40 plus sub-dimensions, indicators, determinants; Bitzenis (2003) identified 10 categories for his 70 determinants. However, there is a lack of consensus regarding the general terms of FDI location determinants classification. In this study, for simplicity purposes, FDI location determinants are divided into two subcategories, which include: a) non-institutional location factors, and b) institutional location factors.

2.3.1 Location factors (Non-Institutional factors)

The non-institutional locational factors affect the costs and benefits of operating in a host location, and influence MNCs' decisions about their FDI. In locating new grounds for investment, the literature about the determinants of FDI flow circulates around the economic factors, such as, the market size and cost factors, as key motivations for MNCs to invest abroad (Buckley and Casson, 1976; Hymer, 1976; Dunning, 1977). The economic factors in the early FDI research was considered so important that it overshadowed other factors pertaining to the geographical, country risk and culture factors of the host countries, due to the fact that cost reduction and profit margin maximisation were considered as the priority (Galan *et al.*, 2007).

- **Cost factors**

The cost factors-encompassing labour costs, transportation costs and cost of raw materials-are traditional economic determinants of FDI. The notion suggests that the countries that possess low-cost labour, transportation, and raw materials attract large amounts of FDI inflows, because these cost factors have a significant influence on the choice of investment location for the MNCs (Wheeler and Mody, 1992; Buckley and Casson, 1998); particularly for resource-seeking and efficiency-seeking MNCs. In this study, labour, transportation, raw materials, and infrastructure costs (e.g., energy, water, and electricity) are being reviewed.

The evidence supports that cheap labour attracts MNCs, which has always been argued to be a major component of total production cost and of the productivity of firms. The labour cost is, thus, often included in the empirical literature for labour-intensive manufacturing and production investments; where a higher wage would deter FDI

(Wheeler and Mody, 1992, Cheng and Kwan, 2000, Tahir and Larimo, 2004). The examples include countries like China and India; where, due to the low cost of labour, they have managed to attract labour intensive production from high wages countries.

Another important cost factor is transportation costs (Buckley and Casson, 1998). The relationship between FDI and transportation costs is likely to depend on whether the plant in the host country will serve the local market or the MNC's home and other markets. The MNCs in an industry with high transport costs would prefer to be located within the markets that they are serving (Cole and Elliott, 2005). Thus, if the MNC's market is the host country market, high transport costs will not be a discouraging factor; whereas, if the aim is to target the home and other markets, high transport costs will be a discouraging factor. Recent studies confirm that MNCs are attracted to regions with lower transportation cost associated to production, such as railways, roads and ports (Loree and Guisinger, 1995).

The cost of raw materials is becoming an important cost factor, since many developed countries lack the access to raw materials. Hence, resource seeking MNCs' motive for these developed countries would be to invest in a location with access to low cost raw materials (Hennart and Park, 1994). For instance, petroleum MNC would seek locations that possess large quantities of oil and gas reserves, but at low cost. Next is the infrastructure cost, which MNCs pay close attention to, when choosing a location for their investments. Hence, a country, interested in attracting FDI, should pay careful attention to the development of its infrastructure (Campos and Kinoshita, 2007). The cost infrastructure elements, such as, energy, water, and electricity are significant for MNCs; particularly for efficiency-seeking MNCs in the manufacturing sector.

- **Market factors**

The traditional market factors, such as, size of host market (Tahir and Larimo, 2004), Growing growth in host markets (Zhou *et al.*, 2002), and level of competition in host markets are still dominant factors for MNCs during the process of choosing a location (UNCTAD, 2011). The market size generally remains the most dynamic determinant for locating FDI, as MNCs pay more attention to the market size of a potential host country. The evidence shows that the world’s 10 largest economies accounted for 47 % of all FDI inflows in 2010 (UNCTAD, 2011). The rationale for considering market size factors is straight forward, as large size market offers increased opportunities for investors to reach cost effectiveness and to materialise economies of scale through local production Wheeler & Mody (1992). The literature concerning markets has provided supporting evidence that market size is key factor in attracting FDI inflows (Kok and Ersoy, 2009).

Subsequently, market growth has become an important factor for MNCs, when choosing a location for their investments. Naturally, for developing and transitional economies, more important than market size is market growth potential, as it would offer foreign investors a high potential of returns on their investment (Pistoresi, 2000; Botric and Skuflic, 2005). Moreover, a fast growing economy provides more profit making opportunities than those economies that are growing slowly or are stagnant. A rapid economic growth in the host economy leads to a high level of aggregate demand for product and stimulates greater demand for FDI inflows. Thus, the higher the economic growth rates, the more FDI that is attracted to the host country (Kang and Jiang, 2012).

The level of competition in host markets is yet another significant factor for MNCs (Tatoglu and Glaister, 1998), when examining the new market characteristics**.** MNCs tend to avoid the competition with big competitors from the same industry (Robock and Simmonds, (1989), when trying to avoid collision (Hennart and Park, 1994). For example, a location would not be considered by a MNC, if entering it would be considered as invading a competitor’s home territory (Karnani and Wernerfelt, 1985). In the same context, MNCs would not consider a new market, if the new market been penetrated by strategic alliance to avoid collisions with strategic alliance (Tseng, 2005).

- **Infrastructural factors**

The role of infrastructure in attracting FDI has lately received increasing interest from researchers. Wheeler and Mody (1992) were the first to point out the vital importance of infrastructure for FDI inflows. Fung *et al.* (2005) define infrastructure as: *" airports, roadways, communications installations, highways, electricity transmissions and railroads."* (Fung *et al.*, 2005: 9). The general hypothesis is that host countries that possess efficient physical infrastructures would improve the investment climate for FDI, since MNC would consider the availability of efficient physical infrastructural as contribution to their overall cost efficiency. Hence, more FDI is likely to occur in countries with good physical infrastructure (such as, bridges, ports, highways and etcetera); particularly, for the efficiency-seeking MNCs aiming to enhance their competitive position. Cheng and Kwan (2000) find support for good infrastructure as a determinant of FDI, since the countries with improved infrastructure were able to attract more investments. Asiedu (2006) confirms the positive impact of infrastructure in attracting inward FDI. More specifically, efficient infrastructure In developing economies has a significant attractiveness for FDI inflows (Khadaroo and Seetanah, 2011).

- **Geographical Factors**

The geographical location of a new country for FDI is exceptionally important to MNC during the location assessment process (Mudambi, 2007). According to Zhou *et al.* (2002) and Cheng (2008), only a few locations possess unique geographical conditions that would match specific needs of a MNC in regards to its strategic motivations for FDI, contributing to further reduction of the transposition costs. For example, cities with seashore had a competitive advantage of establishing ports and other facilities over its cost than other cities that did not fall on the seaside. A recent study by Zhou *et al.* (2002) has examined 2,933 Japanese MNC's in 27 regions in China and found that geographical location offers advantage, because the Japanese MNC's in China were attracted to open coastal cities and build their special economic zones along the cost of those cities.

This, subsequently, explains the reasons behind landlocked countries receiving less FDI than coastal countries Kang and Jiang (2012). Hence, one of the logics behind choosing a certain location for investment in a country, or a country itself for that matter, would be outstanding geographical conditions as it would lead to a reduction of the transposition costs as well as to obtain access to regional markets (Zhou *et al.*, 2002, Cheng, 2008). Arising from the business environment and linked with a particular geographical location, these advantages are linked to location define the degree of attractiveness of a host economy to the MNC (Kang Kang and Jiang, (2012). This further leads to the conclusion that many non-coastal countries tend to be much poorer than coastal once in attracting FDI (Gallup *et al.*, (1999), due to limited geographic locational advantages (Buckley and Ghauri, 2004).

- **Location Culture and Social Factors**

More recently, empirical evidence of studies that pointed towards the important role of culture and social factors in a potential host country (Kogut and Singh, 1988, Shane,

1994) concluded that culture and social factors did have an influence on the process of assessing a new location for FDI by MNCs. Such evidence supports the important role of host country's culture on an inward FDI by means of critically scrutinising the foreign personnel performance in an organisation (Hofstede, 1980, Erramilli, 1991), as well as the management style at the location (Nikolaidis, 1992). Hofstede's study (1980), which encompassed cultural dimensions of a foreign firm in a host country, such as, power distance, uncertainty avoidance, individualism collectivism, and masculinity-femininity is reinforced by Schuler and Rogovsky (1998), who have suggested that national culture and social factors should be considered when examining the location, even if these cultural and social factors are seemingly insignificant (Kessapidou and Varsakelis, 2002, Sathe and Handley-Schachler, 2006).

Recently, new dimensions of culture and social factors have been investigated; whereby, religion has been argued to be an influential factor. Hergueux (2012) investigated the effect of religion on FDI allocation, and concluded that a common religion may favour FDI, but the presence of many religious-orientations would be clearly preferred.

- **Country risk factors**

The foreign investment transactions typically involve risks arising from a mixture of economic structures, policies, institutions, geography, and monetary policies. The country risk measures the spill-over effects caused by crises in the region or with location trading partners (Meldrum, 2000), and assists in avoiding location undervaluation; particularly, in the developing economies (Busse and Hefeker, 2007). Hence, increasingly MNCs are paying more attention to risks associated with a potential host for FDI (Luo, 2009). Perhaps one contributing factor for placing an emphasis on country risk, when assessing FDI strategy, has been the increasing number of debt rescheduling which occurred during the early 1980s with two leading publications, 'Euro-money' and 'Institutional Investor' publishing 'country risk rating' based on a country's credit worthiness (Cosset and Roy, 1991).

The country risks are classified into four main categories, which include: 1) economic risk, 2) location risk, 3) sovereign risk and 4) political risk (White and Fan, 2006). In many cases, there exists an overlapping tendency, since country risk arises from political, economic, and financial risk factors. Hence, political risk is a division of country risk arising from political risk factors (Moosa, 2002). For instance, political risk is defined as a risk, when a sovereign host government unexpectedly changes the institutions' environment under which businesses operate (Butler and Joaquin, 1998) and exposes a MNC to financial risks, in that it may change the cash flows transactions via arbitrary regulations (i.e., blockage of fund transfer); which, consequently, leads to unexpected potential decreases in the future cash flow arising from FDI (Grosse and Trevino, 2005). Hence, political risk is considered as a key location assessment variable for FDI, because MNC's use political risk indicators to develop an idea about the political environment in a country (Wafo, 1998). Therefore, MNCs may avoid investing in countries with unstable or unpredictable governments (Moosa, 2002).

2.3.2 Location factors (Institutional factors)

The institutional factors, such as, corruption, protection of intellectual property, legal system, and bureaucracy are a mixture of formal and informal institutional factors that affect the rules of the game. These rules of the game affect the costs-benefits ratio of doing business in potential host countries, influencing MNCs' FDI decision. The literature and empirical studies examining Institutional location factors is quite extant, covering an array of topics, such as, property rights, corruption, intellectual property rights, bureaucracy, and the judicial system (Peng and Zhou, 2005, Grosse and Trevino, 2005, Pajunen, 2008, Ali *et al.*, 2010, Demurger *et al.*, 2002). Hence, when examining and studying institutional factors, MNCs look at various indicators, such as, property rights, intellectual property rights, corruption, bureaucracy, and the judicial system.

- **Corruption**

Corruption is one of the important institutional factors and measures the quality of host country's institutional environment and is considered as an aspect of bad governance; whereby, having effects on economic activities. Corruption has also been introduced as one of the factors among the location determinants for FDI. Corruption has been defined as the abuse of public office for private gain - *"the use of a public position for private gain, is understood to be a combination of motivations, such as low civil sector wages, and opportunity, which is influenced partly by the type of economic activity, and partly by the level of discretion given to public officials,"* (Dunning and Lundan, 2008a:310). There has been an increasing interest among International Business scholars regarding the issue of whether corruption impedes flows of FDI. Corruption gives rise to transaction costs, increasing uncertainty, as foreign investors have to bear extra costs in the form of bribes in order to get licenses or governmental permits to conduct business leading to a decrease in the expected profitability of a MNC's investment. The MNCs view it as an indirect tax on profits (Bardhan, 1997); hence, altering a potential MNCs entry mode between FDI and other entry modes (Kendall and Zhou, 2010).

Many empirical studies find that corruption, in the host country, is negatively associated with FDI, because it increases the cost of operating abroad, uncertainty and risk involved Grosse and Trevino, (2005). Also, Wei (2000) found a negative relationship between corruption in the host country and FDI inflow. Additional studies conducted by Habib and Zurawicki (2002), Kwok and Tadesse (2006) have arrived at the similar results. However, the empirical studies on the relationship between corruption and FDI have not reached a firm conclusion that a perceived high level of corruption in the host country deters FDI. However, opposing views by a number of researchers argue that corruption can have a positive impact on investment by facilitating transactions in countries with excessive regulation, such as, the case of China or Nigeria (Leff, 1989; Wheeler and Mody, 1992; Henisz, 2000). Likewise, Egger and Winner (2005) had also posited that corruption is a stimulus for FDI, and positively associated with FDI flow to low income economies.

- **Private Property Protection**

MNCs consider property rights protection (e.g., physical and intangible assets) in host countries to be favourable, if the property law provides satisfactory protection against government expropriation. North defines property rights as - "*the rights individuals appropriate over their own labor and the goods and services they possess. Appropriation is a function of legal rules, organizational forms, enforcement, and norms of behavior – that is, the institutional framework*" (1990: 33). Property protection refers to a government's provided guarantees to protect MNCs' projects from government expropriation (Tallman, 1988). Hence, MNCs do pay attention to the robustness of property rights protection policy; particularly, in politically high-risk locations (i.e., developing and leas developing countries) with the concern of the securing for their properties and assets in a potential host country (Morisset and Neso, 2002).

The property rights are expected to increase FDI inflows by effectively allowing MNC security of ownership and use of their assets, by protecting a firm's assets from government expropriation. Knack and Keefer (1995) evaluated the effects of property rights protection on economic growth, and found that property rights strongly influence rates of economic growth and the convergence in per capita income between high and low income countries, insinuating that property rights protection positively affects FDI inflows. Other studies focused on FDI and property rights have suggested a positive relationship between property rights and FDI flow. For instance, Li *et al.* (2003) suggest that property rights in developing and least developed countries are important to growth and FDI inflows. Furthermore, empirical literature has reached overall finding pointing that property rights generally increase FDI inflows (Pierpont and Krueger, 2007).

- **Intellectual Property Protection**

The Intellectual Property Rights (IPR) has its purpose in encouraging inventors to disclose and share their inventions with the public; thereby, promoting the progress of science and technology (Yang, 2008).

Generally, IPR positively impacts FDI, and strong IPR reduces the risks of imitation and leads to larger demand for protected products (Primo Braga and Fink, 1998); thereby, positively affecting the FDI by enabling MNCs to compete effectively with local firms that possess ownership advantages (Javorcik, 2004). For example, developing countries require FDI for establishment of industrial sectors and IPR would certainly help in garnering more FDI; especially, in some critical areas of technology like pharmaceuticals(Tripathy *et al.,* 2011). IPR influences the location for MNCs' investments, which further suggests that stronger IPR in some host countries can be a locational advantage that positively affects MNCs decisions (Primo Braga and Fink, 1998). A weak IPR will be a less attractive location for foreign firms (Maskus, 2004), while strong IPR will encourage FDI in high technology sectors, such as, pharmaceuticals, where such rights play an important role (Yang, 2008). In this context, Maskus (1998) stresses that MNCs make complex decision regarding the selection of a future location and the entry mode, option varies from export to particular country or region to license a technology to potential local partners, or undertake FDI depending on the strength of the IPR. Hence, the relationship between host country's IPR policy, FDI in that country, and the strength of IPR positively affected FDI decisions only for more developed countries. According to Maskus - *"Intellectual property rights clearly play an important role in these processes, though its importance varies by industry and market structure"* (Maskus, 1998: 110).

Such view implies that MNCs in high technology sectors enter through FDI in order to protect their technology. However, other studies have shown that strong IPR negatively influences FDI by providing rights holders with increased market power (Javorcik, 2004), because stronger IPR allows the practice of higher prices by foreign firms, as it reduces competition among firms.

- **Legal System**

The working of the legal system, the justice and the judicial independence in a society form a notable institutional factor, which has a direct impact on a MNCs activities (Pajunen, 2008). However, the perception of FDI inflows has received a little consideration. The legal system around the world can be classified according to whether its origins are primarily in pure common law based on the English system, a civil law, or other classifications include countries with customary or religious laws (Islamic Shariha), or a mixture of two or more systems (Chan-Lee and Ahn, 2001). However, Globerman and Shapiro (2003) suggested that countries that adopt a legal system that mixes common law with customary or religious law are less likely to receive FDI. Several studies have argued that the legal system can play a key role in attracting foreign investments development (Globerman and Shapiro, 2003, Kobeissi, 2005). A legal environment that protects investors can be significant in MNCs decision making (LaPorta *et al*., 1999). Campos and Kinoshita (2003) suggest that countries with better legal systems attract more FDI. Although, the evidence is relatively small, it seems to support the view that a legal system has a positive influence on FDI inflows.

In this section, the location factors and their importance to MNCs' FDI decision-making were introduced. The locational attributes as factors were used to explain as to why MNCs may favour one host country for their investments over another by means of focusing on a number of such factors having an influence on FDI inflow into a country; both positively and negatively. The factors discussed were chosen, since they have been empirically tested and conceptualised in the past (Galan and Gonzalez-Benito, 2001, Bitzenis, 2003). Other factors may influence FDI, but they were not considered because they have yet to be empirically tested.

In regards to FDI Theories, the Eclectic Paradigm Theory and the Institutional Approach theory were discussed; whereby, highlighting their focus on economic efficiency and institutional factors as determinant for MNCs' location choice. The literature on location factors affecting MNCs' FDI choice are generally focused on individual host countries, which implies that the general rules are not applicable across the board. Hence, the location factors need to be investigated from scratch for each targeted country under investigation. This demands and necessitates an individually based conceptual formwork to be tailored for each country based on its location factors. Thus, the location factors discussed above will be used as a basis for a conceptual framework will be constructed, which is subsequently utilised as a tool to provide a guidance regarding assessing the attractiveness of Kuwait as a host country to MNCs in the Gulf region in a systematic fashion.

The MNCs are increasingly seeking locations, which offer them the best economic and institutional facilities for their investments. From the existing literature (Dunning, 1998, Blonigen, 2005, Cantwell, 2009), by identifying specific knowledge gap(s) in the context, and the case of Kuwait (explored in chapter four), this particular research assesses the level of attractiveness of the location factors in Kuwait as a potential host country to MNCs. Subsequently, the study will contribute to a better understanding regarding as to *why* many MNCs in the Gulf region are not considering investing in Kuwait.

2.4 FDI related policies

The FDI policies play an important role in attracting MNCs to a location. The FDI policies are generally geared towards the removal of restrictions on the operations of foreign MNCs in a host country, while attempting to reduce cost factor conditions in order to strengthen country’s investment climate and competitiveness in attracting MNCs (Gastanaga *et al.*, 1998, Globerman and Shapiro, 1999). The host countries can also utilise such policies to attract inward FDI by promoting FDI inflows through measures that enhance a country’s image, offer incentives (Enderwick, 2005), as well as increasing the contribution of MNCs to the local economy and development (Oman, 2000). The policies of host country government are critical for MNCs in deciding upon FDI into the host country (Dunning and Lundan, 2008a, Lall, 2000). The existence of limited studies-conducted in regards to FDI policy and published in academic journals- are advisory in nature and aimed to provide general guidelines to the policy makers in the developing countries like China (Wei, 2005), India (Banga, 2003), and the least developing countries of Africa (Lall and Mbula, 2005). The respective studies seem to suggest that FDI policies vary from one country to another (Dunning, 1998). Hence, FDI policies are not the same for all host countries, and what would seem to be successful policy for a host country might not work for another (Amerighi and De Feo, 2008). Subsequently, it is suggested that FDI policies must be developed based on each host country's locational competitive advantage(s).

Since there are numerous policies about FDI and a few policies could overlap, it was best to consider them separately for convenience. Thereby, this study deals only with those directly related to inward FDI, therefore the discussion here focuses on policies attract foreign investors and policies promote host country economic attractiveness.

2.4.1 Policies related to attracting foreign investors

This type of policy is concerned with attracting inward FDI. The governments in developing countries and economies in transition use a range of policies to attract FDI, increase benefits from it, and address concerns about it.

- **FDI Investment Promotion Policy**

The MNCs planning to enter into emerging markets face initial transaction costs prior to business operations in information gathering (e.g., market structure, institution settings) as well as costs associated with complying with government procedures Kachwamba (2011). To reduce such costs, as part of a country's investment attraction policy, the governments take initiatives by creating a robust and flexible Investment Promotion Agencies (IPA) Te Velde (2002), as these agencies do in fact help to attract inward FDI to a host country. However, an effective IPA in attracting FDI is only possible, when the concept of promotion policy has been adopted by the host country's government (Morisset, 2003). Wells and Wint (2000) and Morisset (2003) further posit that host counties can increase their chances to attract FDI through Investment Promotion Agencies (IPA) by disseminating information; hence, reducing transactions costs (Morisset and Neso, 2002).

The IPAs are, therefore, an essential element in attracting inward FDI, since their role entails providing information to potential investors about investment opportunities as one of their responsibilities Wint (1993). Also, providing and educating foreign investors with adequate and sufficient information about FDI regulations, FDI policy formulation, investment approvals, granting of incentives, image building activities, investment promotion activities, and investment service activities as other duties carried out by them (Young *et al.*, 1994, Morisset and Andrews-Johnson, 2004). The empirical evidence clearly demonstrate that IPA does, in fact, make a difference in terms of attracting inward FDI and points out to a positive co-relation between effective IPA activates and higher FDI inflow (Morisset, 2003, Cass, 2007, Lim, 2008). Such evidence has, in turn, resulted in making an investment promotion a key policy for governments in developing and economies in transition, since there exists a high level of competition between locations to become host countries for MNCs FDI (Wheeler and Mody, 1992, Kobrin, 2005, Harding and Javorcik, 2011).

- **Privatisation Policy**

The privatisation policy is about the ownership transference of public property and goods to the private sector under certain rules and conditions (Kogut and Chang, 1991). Transferring the ownership of state owned enterprises and services to foreign MNCs (Mellahi *et al.*, 2003) is one of the obvious factors for MNCs to consider investing in a location. Which suggests that the absence of privatisation programme in a host country can be discouraging MNC from investing in a particular location (Norbäck and Persson, 2004, Amerighi and De Feo, 2008).

During the last decade, there has been a move towards privatisation of state owned enterprises and services, creating obvious opportunities for foreign investors (Sader, 1995). Privatisation of state-owned enterprises is considered as one of the fundamental elements of institutional reforms driving the development of economies, particularly transitional economies (Frydman, *et al*. 1998). In studies conducted about privatisation programs, Devlin and Cominetti (1994) and Hartenek (1995) have concluded that privatisation has provided MNCs more opportunities to invest in host countries, as it eliminated institutional barriers that constrain FDI. The privatisation programs tend to indicate a government’s willingness to allow the private sector to play a larger role in the economy, thus supporting the entry and growth of foreign MNCs as well as domestic firms. Such indications receive support by other studies, which confirm that privatisation attracts foreign investors (Sinn *et al.*, 1997, Norbäck and Persson, 2004, Amerighi and De Feo, 2008). Subsequently, governments began to adopt privatisation policies in order to attract inflow FDI (Dunning and Narula, 1996).

- **Free Trade Zones Policy**

As well as privatisation schemes there are specialised trade zones like Free Trade Zones (FTZ), Foreign-trade Zones, and Export Processing Zones (EPZ). The respective zones are also among key policies in attracting manufacturing and trade oriented MNCs to a host country (Hanson, 2001, Zhou *et al.*, 2002). These specialised trade zones provide certain privileges to the investors, such as, expedited customs formalities, freedom of import duties and export taxes and exemption of minimum standards restrictions (Rajasekaran, 2002).

- **The investment intensives policies**

The investment intensives policies focus on investment and other incentives (tax holidays and lower taxes for foreign MNCs); financial incentives (grants and preferential loans to MNCs); and measures (market preferences, and sometimes even monopoly rights) in order to establish a competitive investment environment to attract inward FDI (Brewer and Young, 1997).

The effectiveness of incentives is still questionable, though. The investment incentives have been discussed extensively and criticised generally as expensive tool for the attraction of inward FDI (Young, 2004). However, investment incentives may still be required to attract FDI; particularly, into lagging regions (De Backer and Sleuwaegen, 2005). Hence, it is recommended that if host country's government decided to investment incentives as a tool to attract inward FDI, there should be transparent system for investment incentives allocation to foreign MNCs (Tavares and Young (2005). Table 3 below provides a summary for most common investment incentives policies that are being used worldwide.

Table 3 Common types of investment incentives offered by governments

Type of investment incentives	Patterns of investment incentives
Fiscal incentives	Tax holidays. Investment and reinvestment allowance. Exemption from export duties. Reduction in social security contributions.
Financial incentives	Subsidised loans. Loan guarantees. Government insurers at preferential rates. Guaranteed export credits.
Other incentives	Exemption from national Labour employment. Granting of monopoly rights Preferential government contracts. Protection from import competition.

Source: UNCTAD (WIR, 2012)

2.4.2 Policies related to promoting host country economic attractiveness

These policies are concerned with business facilitation, and are regarded as an important tool used by governments to attract MNCs (UNCTAD, 1998; 2012), as the determinants of FDI include not only economic factors, but also business facilitation.

- **Taxation Policy**

The taxation policy is of special interest to MNCs, due to its capability to affect the cash flow of an investment project. The empirical studies in that regard point to a negative impact of a high taxation rate on FDI, as high taxation tend to discourage new FDI inflows (Bénassy-Quéré *et al.*, 2005). Similarly, Hines (1996, 1999) concludes that taxation has a significant influence on the location of FDI and MNC's avoid locations with high tax rates. Hence, taxation policy of a host country is an important element for increasing FDI inflow (Haufler, 2001). For the validity of such assertions, one could refer to a number of poor African countries, which rely on tax holidays and import duty exemptions in order to attract inward FDI.

However, taxation for MNC is a very complicated issue, since it does not only depend on the way that the MNCs perceive the tax regime (e.g., whether the tax is regarded as income tax, or withholding tax or indirect tax, i.e., Value Added Tax or taxation on foreign exchange gains) (Moosa, 2002). There are a number of measures available that governments can take in adjusting tax rates with one possible desired outcome of influencing the location decision of MNCs positively towards their country (Eden, 2009). The example of these tax instruments include: 'Tax Holidays' and 'Tax Allowances Policy', 'Tax Exemptions Policy' and the 'Credit System Policy' (De Mooij and Ederveen, 2003). The 'Tax Exemption Policy', under the exemption system or territorial taxation, allows the foreign income, which is taxed in the host country, to be exempted from taxation in the home country. Hence, profits are only taxed in the country where the subsidiary is located. In conclusion, it is argued that governments with high corporate tax rates should implement a number of policies to reduce their taxation to MNCs to more competitive levels, when seriously considering to attract inward FDI flow (Buettner and Ruf, 2007).

- **Exchange Rate Policy**

Since the MNCs may accumulate losses due to unstable exchange rates (Trevino *et al.*, 2002), the exchange rate policy of a prospect host nation, has also gained attention by

MNCs due to the effect of exchange rates volatility on FDI project revenues (Kiyota and Urata, 2004). Thus, host countries aiming to attract FDI inflow are to develop monetary policies to minimise exchange rate volatility. Exchange rates can influence both the total amount of FDI and the allocation of this investment spending across a range of countries (Goldberg and Klein, 1998). The MNCs may gain or lose from unstable exchange rate in the host country. They may gain due to larger purchasing power in host countries, if the host country enjoys a strong currency, or benefit from lower production costs. This, subsequently, leads to an increase in exports with the effect of attracting resource-seeking and efficiency-seeking FDI (Banga, 2006) due to the weak currency of the host country.

Several studies regarding the effects of the exchange rate on FDI show mixed findings. For example, while (Cushman, 1985, 1988, Dewenter, 1995, Goldberg and Kolstad, 1995) present positive impacts of exchange rate volatility on FDI; others, e.g., (Urata and Kawai, 2000, Benassy-Quere *et al.*, 2001, Kiyota and Urata, 2004) argue that a high exchange rate volatility discourage FDI flow. The host countries, aiming to attract FDI inflow, should develop monetary policies toward exchange stability as opposed to ‘exchange rate volatility’ induced by a free floating policy, which is detrimental to FDI inflows (Benassy-Quere *et al.*, 2001).

- **Cost of Capital Policy**

The ‘Cost of Capital Policy’ relies on using a discount rate to calculate the net present value of a project (Auerbach, 1990). For MNCs, cost of capital is seen as an expense. Therefore, if the cost of capital for borrowing is high, then, MNCs would not borrow from local financial institutions, which may result in less FDI (Barrell and Pain, 1996). The impact of cost of capital on FDI inflows is found to be ambiguous in nature. For example, it can be argued that higher lending rates may have a positive impact on FDI inflows, in that the higher the cost of capital in the host country, the more capital is brought in by the foreign firms (Banga, 2003). It can also be argued that the host country’s cost of capital directly impacts domestic consumption with the effect that the lower the interest rates, the higher the domestic consumption, which results in higher FDI inflows (Guisinger *et al.*, 1985). Furthermore, (Moosa, 2002) points to the evidence that a number of MNCs have been forced to refuse projects, since they would not be feasible for the MNCs operating in a host country with low cost of capital. Hence, high cost of capital in a host country is perceived by MNCs as a deterrent to choose that country for FDI.

- **Trade Liberalisation Policy**

A research conducted by Amiti and Wakelin (2003) suggests that the liberalization of trade is likely to lead to higher FDI flow, because excessive trade restrictions usually vex trade and other MNCs (Dee and Gali, 2005). Therefore, host country's government seeks to liberalise trade by removing the unnecessary tariffs and by joining international trade agreements, such as, GATT, WTO, and BIT (Bagwell and Staiger, 2005). The purpose is to reduce protectionism and encourage countries to adopt open market model, which treats foreign MNCs in a non-discriminatory way (Büthe and Milner, 2008a). There are a number of empirical studies indicating that host countries, which are signatories of more BIT (particularly, the developed countries) receive more FDI inflows (Neumayer and Spess, 2005, Büthe and Milner, 2008b). According to a number of studies (Konan and Maskus, 2006, Wacziarg and Welch, 2008), countries-which liberalised their trade system-experienced annual growth of investment witnessing a higher level of FDI (Amiti and Wakelin, 2003).

- **Tariffs Policy**

Tariff is known as a duty or tax levied upon goods transported from one custom area to another either for the purpose of protectionism or to generate revenue (WTO, 2008). Therefore, Tariffs raise the prices of imported commodities—making them generally less competitive within the market of the importing country. Hence, tariffs function as a barrier in order to protect the domestic industry (Feenstra, 2003). Subsequently, tariffs further provide protection to new domestic industries from foreign competition, and defend inefficient domestic industries from foreign competition. The reason as to why governments often impose tariffs.

Tariffs are considered as a trade barriers imposed on imports (Hennart and Park, 1994), with associated costs to the economy, which cannot be neglected. The World Bank estimates that if all barriers to trade, such as, tariffs were eliminated, the global economy would expand by 830 billion dollars by 2015 (World Bank, 2008). According to (Büthe and Milner, 2008a), free trade can be achieved by countries, among other ways, through joining the 'General Agreement on Tariffs and Trade' (GATT). The reasons being: it seeks to end protectionism, and enhance country's attractiveness as a destination for FDI. The reason behind that is many MNCs also need to access the global market for inputs and outputs. Hence, joining GATT means making a commitment to many other countries to pursue a liberal trade policy by the way of reducing tariffs (Bagwell and Staiger, 2005).

It appears that nearly all countries promote policies for inward investment to become a more attractive location for MNCs; subsequently, encouraging FDI. The respective FDI policies aim at the removal of existing restrictions on foreign MNCs. The policies also aim to reduce the cost factor conditions as a way to strengthen the country's investment climate and its competitiveness. Although, there are numerous country and country specific FDI policies, in this section the focus has been on those FDI policies that are directly related to inward FDI. The inward FDI oriented policies promote host country's economic attractiveness. The FDI policies discussed above will be used as yet another important part for constructing the conceptual framework. The choice of these FDI policies will be used to assess the level of Kuwaiti FDI polices attractiveness. This will, subsequently, help in a better understanding of why many MNCs in the Gulf region do not consider investing in Kuwait and favour other GCC countries, instead.

2.5 Institutional theory

The Institutional Theory suggests that institutions provide 'rules of the game' (North, 1990), which further structure interactions in societies. The respective theory also posits that organisational action is bound by these rules. Given the importance of institutions in the context of FDI, it then makes this particular theory a necessary element to be included, when constructing the conceptual formwork for this study. The institutions are of utmost significance; especially, for studies conducted within social sciences—particularly, in the fields of physiology, sociology, and economics. The result has been that scholars within each of these fields have established their own explanation of the institutions, giving them different meanings and definitions. As (Aoki, 2001) points out: "*which definition of an institution to adopt is not an issue of right or wrong, it depends on the purpose of the analysis.*"

There are many definitions offered in terms of defining what institutions are. One of the recurring questions in International Business studies is as to how and why institutions matter for I International Business Activity (Henisz and Swaminathan, 2008). The lack of a precise definition of institutions renders it difficult to understand how they influence MNCs' decisions in choosing a host country, since their nature, make up and essence is not yet clear in the literature. This is mainly because terms, such as, ‘institutional theory’, ‘institutions’ and ‘institutional environment’ refer to a wide range of institutional approaches that has been used in International Business studies in the past. In addition, there are a set of further challenges in conducting institutional analysis, which are discussed below.

- **Institutions have multiple definitions**

Of course, one of the challenges in analysing institutions is its definition. There exists a level of disagreement amongst scholars as to what exactly is an institution. An “institution” may be anything from an organisational entity, such as, a business firm, a political party, to the rules, norms, and believes adopted by individuals within organisations. A few examples will make a case in point rather clear. Hodgson (1988: 4) defines institutions as *"Institutions are the kinds of structures that matter most in the social realm: they make up the stuff of social life."* North (1990: 3) defines them as *“Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.”* Others, such as, Scott (2008: 49) defines institutions as *"Institutions are comprised of regulative, normative, and cultural cognitive elements that, together with associated activities and resources, provide stability and meaning to social life."*

- **Institutions are invisible**

One of the most difficult problems to overcome in the study of institutions is how to recognise and measure them (Ostrom, 2007), since institutions are basically shared concepts that exist in the minds of the participants rather than a written form or physical location. Unlike physical structures, which are visible to researchers, rules are invisible structures that can be deeply buried under the regularities of observed behaviour, causing researchers to face the problems of learning how to recognise the presence of institutions (Ostrom, 2007).

- **Institutions are complicated**

As well as the apparent theoretical inconsistency within institutionalism, there are also important empirical problems, when we attempt to utilise institution in social science. The measurement of institutions and variations in their characteristics brings the greatest challenge to the use of institution theories, in a more systematic manner (Ostrom, 2011). Even if institutions make sense as an explanatory variable, the actual problems arise, when attempting to specify as to what exactly it is about institution that matters, and how institution uses their influence on the dependent variables (e.g., policy). Hence, even though economists have used game theory extensively to explain institutional analysis, as an analytical framework, it is still problematic and suffers from inadequacies, since institutions are dynamic and not always on the equilibrium or static (Ostrom, 2007).

This study adopts (Hotho and Pedersen, 2012) approach of classifying institutional approaches (sociological institutionalism, political institutionalism and economic institutionalism) dominant in institutional research. Therefore, it starts with the sociological institutionalism.

2.5.1 Sociological institutionalism

The first institutional approach is sociological institutionalism (DiMaggio and Powell, 1983; Powell and DiMaggio, 1991). Organisational institutionalism, which is rooted in sociology and organisation theory, focuses on organisational forms and organisational practices (DiMaggio and Powell, 1991). The focus of old organisational institutionalism was to explain the distinctiveness or ‘character’ of individual organisations (Powell and DiMaggio, 1983). The old organisational institutionalism views institutionalisation as a neutral adaptive mechanism of organisations (Selznick, 1996) that promotes stability by creating “*orderly, stable, socially integrating patterns out of unstable, loosely organized, or narrowly technical activities*” (Broom and Selznick, 1955: 238).

However, in new organisational institutionalism, institutional theory emphasises on the influence of the systems surrounding organisations that shape social and organisational behaviour (Scott, 1995). Likewise, (Morgan and Kristensen 2006) argued that “*institutions are taken for granted ways of acting, which derive from shared regulative, cognitive and normative frames.*” Yet, the most influential conception of new organisational institutionalism was based on the recent work by Scott (2008), who defines institutions as "*Institutions are composed of cultural-cognitive, normative and regulative elements that, together with associated activities and resources. They provide stability and meaning to social life*" (2008: 48). Scott (2008) divided institutions into three pillars, which include: the regulative, the normative and the cultural-cognitive pillar, each representing different theoretical views and each influencing organisations to conform in different ways, as it presented in figure 4 below.

Table 4 - Three pillars of institutions

	Regulative	*Normative*	*Cognitive*
Basis of Compliance	Expedience	Social Obligation	Taken-for-Grantedness Shared Understanding
Basis of Order	Regulative Rules	Bindings Expectations	Constitutive Schema
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules, Laws, Sanctions	Certification Accreditation	Common Beliefs Shared Logics of Action
Basis of Legitimacy	Legally Sanctioned	Morally Governed	Comprehensible Recognisable Culturally Supported

Source: Scott (2008: 51)

The regulative pillar for organisations consists of laws, regulations, rules and government policies in a particular national environment, which promotes certain types of behaviour and restricts others—the legally enforced and conscious aspect of institutions. In this view, organisational behaviour is constrained and regulated by processes of "*rule-setting, monitoring, and sanctioning activities*" (Scott, 2008: 52).

In this pillar of institutions, rules might be carried out by force, or by inducements or rewards for compliance. Scott describes the regulative pillar as "*a stable system of rules, either formal or informal, backed by surveillance and sanctioning power*" (2008: 54). The organisations abide by it, because it serves their interests.

The normative pillar sets up objectives or goals to be strived for, as well as how these should be achieved (Scott, 2008), and emphasises the role of values and norms in creating expectations and obligations. It focuses on "*normative rules that introduce a prescriptive, evaluative, and obligatory dimension into social life*" (Scott, 2008: 54). The normative pillar consists of social norms, values, beliefs, and assumptions about human nature and human behaviour that are socially shared and carried by individuals.

The cultural cognitive pillar reflects the cognitive structures and social knowledge shared by the individuals in a given country or region. The cognitive elements of institutions are the rules that constitute the nature of reality and the frames through which meaning is made. The pillar draws on the idea that social actors act the way they do because they attach meanings to their actions. Meanings are socially created through communication and interaction. The cultural cognitive pillar emphasises templates for particular types of actors and scripts for action over roles and obligations. It is based upon shared conceptions, such as, "*symbols, words, signs, gestures which have their effect by shaping the meanings we attribute to objects and activities.*" (Scott, 2008: 57). Culture and cognition extend Weber's (1990) emphasis on human meaning making by elaborating on the types of scripts and belief systems that are employed on a cultural level in legitimating institutionalised social practices (cited in Scott, 2008).

2.5.2 Political institutionalism

The second institutional approach is 'political institutionalism', which has its origins in political science and comparative political economy; which, subsequently, has its origins in the sociology of work and comparative political economy (Whitley, 2005, Morgan *et al.*, 2006).

The past decade has seen a major reassertion of institutional theory in political science. March and Olsen (1984) was the beginning of new approach in political science against the 'rational choice approach' and historical institutionalism approach. Keohane (1998) shows as to how rational choice institutionalism evolved out of the realist critique that it could not explain the inputs into decision-making; including power and norms. One distinctive feature of rational choice institutionalism listed by (Hall and Taylor, 1996) is that relevant actors are assumed to *"have a fixed set of preferences or tastes... behave entirely instrumentally" (*1996: 945). Actors are also seen as engaging in strategic—calculating interaction with others—which, in turn, determines political outcomes. However, since individuals act to maximise the attainment of their own preferences, these political outcomes are likely to be collectively suboptimal (Shepsle, 2006). The historical institutionalism, in contrast to the rational choice theory, represents a 'cultural approach'. According to the 'cultural approach', the behaviour of individual actors is not strategic but bounded by their worldviews, rather than being the result of institutions: "*provide moral or cognitive templates for interpretation and action*" (Hall and Taylor, 1996 :939). The distinctive feature of historical institutionalism is its ability to develop explanatory arguments about important outcomes. It takes time seriously, specifying sequences, tracing transformations and processes of varying scale and temporality (Pierson and Skocpol, 2002).

However, the development of modem political science and public policy tends to neglect the fact that politics and policy-making take place in the context of institutions. The study of politics was, until the 1970s, dominated by a focus on constitutions, legislatures, executives, and political thought. The emergence of the policy approach marked a departure from this traditional concentration on institutions in favour of exploring the political system as a whole, or the policy process. However, the impact of institutions cannot be ignored in understanding the process of policy formulation or how policy problems are defined (Schlager, 2007). March and Olsen (1984) suggested that the 1970s academic political science developed a tendency to neglect the study of institutions. Policy analysis often ignored the role of institutions in political economic behaviour (Parsons, 1995), because of the inherent difficulty of analysing institutions (Ostrom *et al.*, 1994). Theoretically, institutions are highly abstract and frequently invisible elements of the policy process (Scharpf, 2000). The majority of policy situations are governed by institutional arrangements, which are specific to the demands of a particular time, place and people (Aligica and Boettke, 2011).

To advance institutional analysis, there is a need for conceptual and analytical frameworks that integrates diverse lines of institutional analysis and accommodates the factors, forces, and considerations that each highlight. Hence, the 'Institutional Analysis and Development' (IAD) framework, which is used as a diagnostic instrument for policy process (Bushouse, 2011), can provide a coherent basis for policy analysts (McGinnis, 2011). The IAD framework is best viewed as a systematic method for organising policy analysis activities that are compatible with a wide variety of more specialised analysis techniques used in the social sciences (Ostrom, 2011). It does not replace other techniques, but provides a means to synthesise the work of multiple participants, including those who are directly involved in the policy situation, and have an interest in policy outcomes. The IAD framework helps the policy analysts to better understand complex social situations and break them down into manageable sets of practical activities (Polski and Ostrom, 1999).

2.5.3 Economic institutionalism

The second institutional approach is economic institutionalism. The economic institutionalism is known as 'institutional economics',' which is based on the incorporating the theory of insinuations into economics. Until recently, this was the only meaning given to institutional economics. However, in recent years, the term 'New Institutional Economics' has become well-established referring to the tradition of the transactions cost approach (Rutherford, 1996). Hence, when examining institutional economics, it is common to distinguish the Old from the New.

- **Old Institutional Economics**

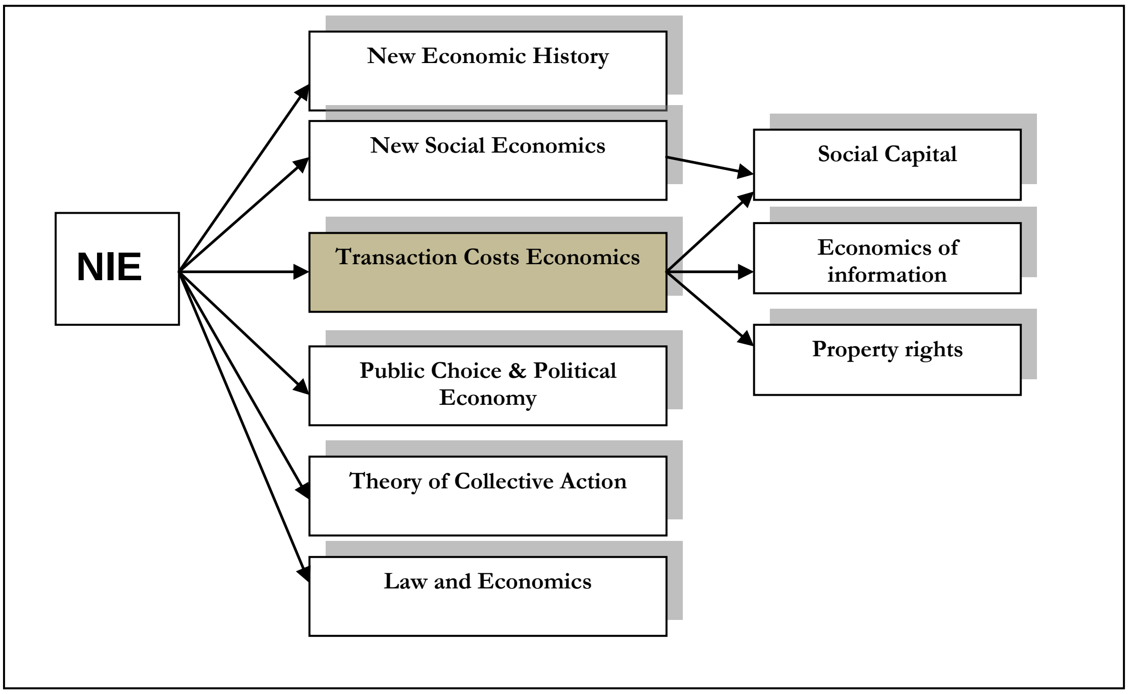
The Old Institutional Economics (OIE) was developed by Veblen (1919) and Commons (1931). The old institutionalism was based on Veblen's definition for institution, which reads: *"settled habits of thought common to the generality of men"* (Veblen, 1919: 239). Likewise, Commons defined institutions as a *"collective action in control, liberation and expansion of individual action. Its forms are unorganized custom and organized going concerns"* (Commons, 1931 :648). This definition highlights the nature of institutions within the OIE. The OIE promoted an alternative conception of human agency and the early institutionalism considered 'habit' as the basis of human action and belief. Hodgson (1998 :168) defined 'habit' as a largely non deliberative and self-actuating propensity to engage in a previously adopted pattern of behaviour; a form of self-sustaining, being habits of thought or technology. In the old institutionalism, the concept of 'habit' is central, as it is regarded as crucial to the formation and sustenance of institutions. According to Hodgson (1998), habits are a part of the cognitive abilities, which are learned within the institutional structures. Hence, institutions are seen as a crucial part of the cognitive processes through which sense data are perceived and made meaningful by agents. There is also an insistence that the perception of information is not possible without prior habits of thought to give it meaning. Without habits, agents cannot make use of the data received, and habits are acquired through involvement in institutions (Hodgson, 1998).

- **New Institutional Economics**

The New Institutional Economics (NIE) abandons the standard neoclassical assumptions that individuals have perfect information, unbounded rationality, and that transaction are costless and instantaneous (Coase, 1992). The NIE studies institutions in terms of how institutions interact with organisational arrangements, emerge, operate, and shape the different arrangements that support production and exchange, and how arrangements act in turn to change the rules of the game. North (1991) defines 'institutions' as "*humanly devised constraints that shape and guide human interactions. They reduce uncertainty in everyday life by providing a structure to human interaction and behaviour*" (North, 1990: 3). According to North (1994), the main function of institutions in a society is to reduce uncertainty by giving a stable structure to human interaction. The uncertainty comes from incomplete information about the behaviour of other individuals in the process of human interaction. The NIE instead assumes that individuals have incomplete information and limited mental capacity; thereby, they face uncertainty about unforeseen events, outcomes, and consequently incur transaction costs to acquire information (Menard and Shirley, 2008). Another important feature of NIE is the effectiveness of adjusting institutional constraints in response to economic, political, social, and technological change. This has been termed the 'adaptive efficiency' of institutional systems (North, 1990). The 'adaptive efficiency' of institutions is important factor for the transaction and uncertainty costs in conditions of rapid economic, political, social and technological change (El Said and McDonald, 2002).

North (1990) stresses that in new institutional economics institutions consist of both formal and informal constraints. Formal constraints are the rules devised by human beings to facilitate exchange, including political and judicial rules, economic rules, and contracts. Meanwhile, informal constraints are the norms, conventions, and code of ethics for societies to evolve over time. These constraints are more pervasive than formal rules North (1990), and socially transmit information as a part of the culture. They do not change immediately in reaction to changes in the formal rules, creating tension between changed formal rules, and persisting informal rules with implications for the economic outcomes (North, 1990). The literature provides a wide variety of definitions for the NIE, illustrating the difficulty of defining this field. As a result of the expansion of economics into other social sciences, NIE is by definition, a multidisciplinary field of study. Figure 5 provides a description of these fields.

Figure 5- Branches of the New Institutional Economics



Source: Kherallah and Kirsten (2002: 114)

In studying institutions and their interactions with specific arrangements, new institutionalists have become increasingly concerned with mental models and other aspects of cognition that determine how humans interpret reality, which, in turn, shape the institutional environment they build (North, 1990; Williamson, 2000). Therefore, the purpose of the NIE is both to explain the determinants of institutions, their evolution over time, and to evaluate their impact on economic performance, efficiency, and distribution (Nabli and Nugent, 1989).

Since the objective of NIE is analysing institutions across levels and time, it is important to define Williamson (2000) analytical framework depicting interconnected levels of economic institutions. Williamson (1998, 2000) proposed that this could be best pictured by four inter-connected levels of analysis. Each level has a different time horizon that is broadly captured on a logarithmic scale as shown in table 5 below.

Table 5- Levels of Economic Institutions

Level	Institutional Levels	Time
Level 1: Embeddedness "spirit of the game"	Embedded, Informal Institutions. Customs, traditions, norms	100 to 1,000 years
Level 2: Formal rules "rules of the game"	Formal rules of the game (property rights)Political, legal, bureaucracy	10 to 100 years
Level 3: Plays of the game	Governance –Institutional Arrangements Play of the game (contracts). Modes of organization –aligning governance structures with transactions	1 to 1 00 years
Level 4: Resource allocation "play execution"	Resource Allocation & Employment Prices, quantities, incentive alignment	continues

Source: Adapted from Williamson 2000

This particular research is concerned with Level 3. The third level is governance, which is comprised of institutional arrangements that define the 'plays of the game' and economic institutions (Williamson, 1998). It is at this level that transaction cost economics operates, and decisions are made about second order economising, getting 'governance structures markets, hybrids, firms, bureaus-right' (Williamson, 1998: 29).

- **Transaction Cost Economics**

The key argument of NIE is that an institution is transaction cost minimising arrangement that may change, and evolve with changes in the nature and sources of transaction costs (Menard and Shirley, 2008). Thus, Transaction Costs (TC) approach is frequently considers being the core approach of NIE. Therefore, in the TC perspectives the aim of institutions is to reduce transaction costs in order to allow individuals or organisations to grab economic opportunities. Transaction cost has been defined as the costs of running the economic system (Arrow, 1969). The term transaction has been defined by Williamson's as "*when a good or service is transferred across a technological separable interface. One stage of activity terminates and another begins*" (Williamson, 1985 : 1). TC Refers to the work that individuals or organisations have to put in terms of effort, time, and expenses in order to obtain relevant information for the negotiation and enforcement of contracts (Williamson, 1985). According to Williamson (2008), TC is concerned with the examination of the comparative costs of planning, adapting and monitoring task completion under alternative governance structures. TC includes the costs of information, negotiation, monitoring, coordination, and enforcement of contracts (e.g., costs of doing business). Ostrom (1993) argued that TC could be classified into three different categories: coordination costs, strategic costs and information costs. Coordination costs refer to the time, effort, and activities that the parties have to involve themselves in to sign a contract. The second type of TC is strategic costs, which refers to the costs related with problems of moral hazard, adverse selection, and corruption. The third type of TC is information costs, which refer to costs derived from the problems of gathering information. Thus, Transaction Costs (TC) approach is frequently considered as being the core approach of NIE. Therefore, in the TC perspectives the aim of institutions is to reduce transaction costs in order to allow individuals or organisations to grab economic opportunities.

On the contrary, to the neoclassical economics (which is mainly concerned with price and output, and describes the firm as a production function) TC is concerned with the allocation of economic activity across different types of organisation (e.g., markets and firms). TC employs discrete structural analysis, describing the firm as a governance structure. Williamson (2008) defined Transaction Cost Economics (TCE) as "*an effort to better understand complex organisation by selectively understand joining law, economics and organisation theory"* (Williamson, 2008: 41).

Hence, TCE identifies different governance modes for transactions. The costs of organising transactions differ depending on the characteristics of the transaction in question (Williamson, 1985). These characteristics include: uncertainty, the frequency of the particular transaction, and the degree to which durable, transaction specific investments are required to realise the least cost supply Williamson (1979, 1985). TCE has focused on the "contract" as its unit of analysis (Williamson, 2000). TCE can offer advice on how to form external or internal contracting relationships (Williamson, 1998).

For example, if firm needs to get information, it needs to locate their buyers (customers) or the sellers (suppliers). The firm, then, needs to negotiate with both of them over price, terms, and conditions. Hence, the firm needs to agree on contracts (costs), and needs to monitor them to make sure that they are being carried out (costs). During the respective process, MNC is involved in trying to reduce uncertainty, and increase control over the transactions.

Williamson (1988, 2005) argued that there comes a time in a firm's life, when the costs of buying and selling, with outside firms, involves high transaction costs, which might best be reduced by buying a supplier and placing it within an organisational hierarchy of other departments. Hence, arguing that the core of the theory is that lower transaction costs mean more certainty, more control, more capacity to monitor the opportunism, which will bring higher efficiency in the firm (Williamson, 1988, 2005).

TCE has been criticised for the assumption of opportunism as it assumes opportunistic actors, but is unable to - *"give refutable prediction about the implications of a deviance from opportunism"* (Heide and John, 1992:32). Furthermore, TCE has been criticised for ignoring possible problems related to opportunism within organisations, as it supposes that firms can always limit internal opportunism. According to (Gulbrandsen and Haugland, 2000), TCE has little to offer in low asset specificity situations other than an exclusive advantage for the market as it assumes that when asset specificity is low. It will always be efficient to use the market due to weaker incentives and higher transaction costs for a hierarchical solution (Wiggins, 1991).

This section reviewed institutional theories in the context of IB study within the management discipline—drawn upon two key disciplines of organisational institutionalism (from sociology), and institutional economics (from economics). Organisational institutionalism focuses on the processes through which a society's collective actions and values shape the development and maintenance of the society's institutions (DiMaggio and Powell, 1991, Tolbert and Zucker, 1999). The research on institutional economics complements the respective approach, which emphasises the influence of the institutions on important outcomes, such as, investment behaviour, and transaction cost (North, 1993, Williamson, 2000).

The concept of institutions generally encompasses a wide range of elements, which include customs and beliefs, religious and other norms, the legislature, judiciary, bureaucracy, government structures, and market mechanisms. However, most of these elements are difficult to measure, and are ultimately interlinked (Williamson, 2000). Overall, institutions are important, because they are intentional constructs that structure information and form incentives to act or not to act in a particular situation. Hence, it makes institutions very complex; which, perhaps, explains the reasons as to why previous studies have overlooked the importance of institutions.

The purpose of choosing NIE, among other institutional theory approaches, is due to NIE's ability to explain the determinants of institutions and their impact on economic performance and efficiency (Nabli and Nugent, 1989). The transaction cost economics is, especially, relevant for FDI analysis in developing countries (such as, Kuwait), and further contribute to explaining the choice of MNCs for the potential host country. Therefore, if the transaction costs for MNCs to invest in Kuwait are higher than the benefits, then, it is assumed that MNCs would drop Kuwait as an investment location and search for an alternative location.

2.6 Institutions in international business

Many scholars have realised that institutions matter, since the decisions made by MNCs about their choice of new location for FDI is subject to the host country's institutional settings (Globerman and Shapiro, 2002). Therefore, international business studies cannot focus *only* on Industry Based View (Porter, 1980), and Resource Based View (Barney, 1991) without considering the influence of institutions on MNCs' decisions and strategies. The Institution Base View (Peng, 2002, 2003, Peng *et al.*, 2008) integrates institutions theory in MNCs' decisions and strategies, and views institutions as an influential factor in these strategies. The respective view focuses on the dynamic interaction between institutions and MNCs, considering strategic choices as the outcome of such an interaction (Peng *et al.*, 2009).

Although, institutions play a prominent role in the location-decisions of foreign investors (Bevan and Estrin, 2004), research on inward FDI has typically emphasised the market (e.g., labour costs, market size, and growth,) rather than other institutional factors to explain this phenomenon (Trevino *et al.*, 2002). The recent studies (Mudambi and Navarra, 2002, Disdier and Mayer, 2004, Rodrik *et al.*, 2004, Dunning, 2006a) have shown that these economic factors may provide only a partial explanation, and that we should pay more attention to the influence of institutions in order to understand as to how MNCs choose their new locations. Along with this strand of research, some studies (Globerman and Shapiro, 2002, Bénassy-Quéré *et al.*, 2005) have also been aiming at analysing the relationship(s) between national institutional systems, and a country's ability to attract FDI. The subsequent results have shown that the quality of institutions and of the regulatory system operating in the host country has a significant impact over attracting inward FDI. A summary of how these three different institutionalism approaches influence international business follows now.

- **Institution based view (IBV)**

The Institution based view (IBV) of international business strategy has been argued to be one of the three leading perspectives in international business strategy. The other two leading strategies are industry based view and resource based view (Peng *et al.*, 2008, Peng and Khoury, 2009). The IBV suggests that firms investing in a foreign country are 'outsiders' to the 'rules of the game', and may experience significant costs as a result of the interaction between formal and informal institutions of the host country. This renders the institutional environment extremely important, as it sets the 'rules of the games' and these rules are specific for each country (Peng, 2002).

The IBV has not received notable criticism until now, because it is relatively new and is yet to be subjected to significant empirical tests, and subsequently incorporated into other internal and external environment factors that drive FDI (Peng and Khoury, 2008). Meyer argue that IBV complement resource-based view, when considering entry strategies (Meyer *et al.*, 2009). While others argues that one of the reasons of failure of FDI of a foreign firm in a specific country is the influence of institutional environment (Lyer, 1997). The researchers have stressed upon the need to pay attention to the institutional context in which international business occurs (Peng and Wang, 2002). The recent research has only concentrated on how institutional arrangements directly influence the determinants of market entry strategies (Meyer *et al*, 2009).

- **Institutional and OLI paradigm**

OLI paradigm had been criticised, because it failed to take account of as to why particular countries attracted FDI more than others, and particularly, what were the possible influences of institutions on the FDI flow. In recent studies, Dunning (2005, 2006) has underlined that this institutional infrastructure should be central to any study of the determinants of international business activity. Drawing from the work of North

(1990), the most recent study by Dunning & Lundan (2008) has further extended the OLI paradigm by incorporating institutional analysis into the framework. Thereby, bridging both the macro and micro levels of analysis encompassing both formal and informal institutions; subsequently, advancing our understanding of contemporary MNCs. They suggest that the design and implementation of incentive structures and enforcement mechanisms, which originate from specific external institutional arrangement, affect all three parts of the OLI paradigm.

Dunning and Lundan (2008) incorporate institutional factors, following North (1994), into the OLI paradigm to explain activities by MNCs. The logic in combining institutional theory with an explanation of MNC activity is to explain better the behaviour of firms. For instance, in the ownership advantages (O), institutions were added to outline the institutional infrastructure of a company, such as, corporate culture, and changes at the workplace. The location-specific advantages (L) refer to institutions in a country that is subject to investments, particularly, the incentive structure of institutions—a major determinant of MNC operations and institutions. Finally, the internalisation advantage (I) is already fairly institutional in its nature. It consists of a kind of cost-benefit analysis in determining whether to exploit ownership advantages (O) by exporting or pursuing FDI (Dunning and Lundan, 2008). Table 6 below presents some examples of different kinds of institutional assets.

Table 6 - Examples of formal and informal institutions affecting the OLI configuration of firms

Institutions	**O** **Organisational/governance**	**L** **Social capital**	**I** **Relational**
Formal	Laws, regulations, conventions, Discipline of economic markets	Laws, regulations, conventions Discipline of political markets	Contracts (both inter- and intra-firm)
Informal	Codes, norms Country/corporate culture Moral ecology of individuals	Religion, social mores, traditions Civil society	Covenants, codes, trust-based relations (both inter- and intra-firm) Institution-building through networks/ clusters of firms

Source: (Dunning and Lundan, 2008b: 583)

2.7 Institutional Analysis and Development (IAD)

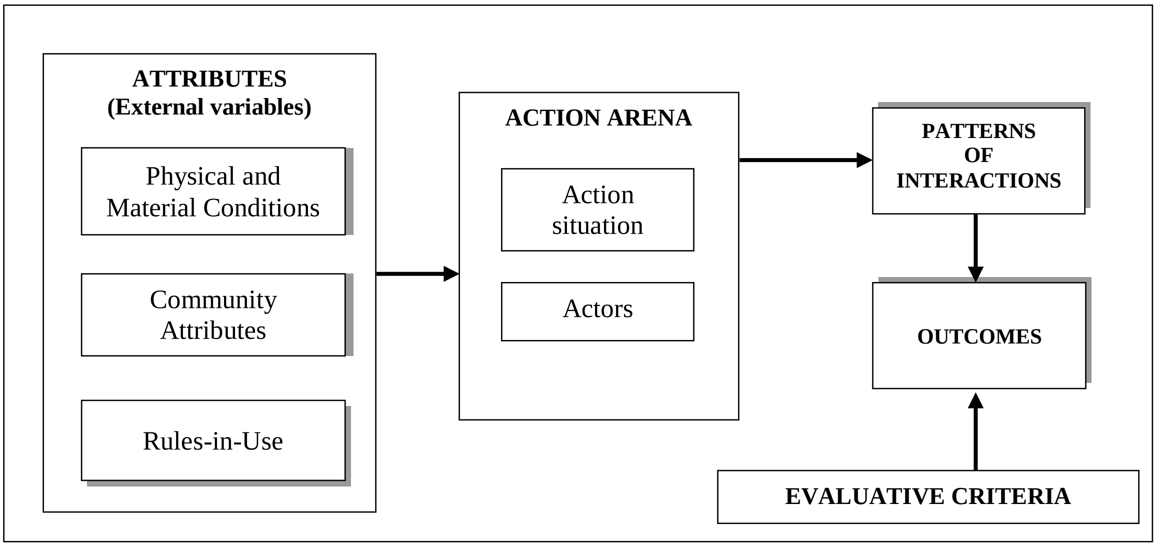
The Institutional Analysis and Development (IAD) framework developed by Ostrom *et al.* (1994) clearly specifies different elements of the system description. The central concept of IAD being the 'action arena', in which individuals interact, exchange goods and services, engage in appropriation, and make decisions. The action arena is described by the participants (who have a set of resources, preferences, information and selection criteria for action), and the action situation (the actual activity that is to be understood). What happens in the action arena leads to a pattern of interactions and outcomes that can be judged based on evaluative criteria. The action arena itself is influenced by attributes of the physical world, the attributes of the community, and the set of rules that the individuals use to guide and govern their behaviour. Although, physical world and community influence the action arena, it is the rules of the game that actually define it.

According to Ostrom (2005), the term 'action arena' refers to a complex conceptual unit containing one set of variables called an action situation and a second set of variables called an actor. One needs both components (the situation and the actors in the situation) to diagnose, explain and predict actions and results. The term 'action situation' is used to refer to an analytic concept that enables an analyst to isolate the immediate structure affecting a process of interest for the purpose of explaining regularities in human actions and results and potentially to reform them. A common set of variables is used to describe the structure of an action situation. These are:

(1) the set of participants.
(2) the specific positions to be filled by participants'.
(3) the set of allowable actions and their linkage to outcomes.
(4) the potential outcomes that are linked to individual sequences of actions.
(5) the level of control each participant has over choice.
(6) the information available to participants about the structure of the action situation.
(7) the costs and benefits, which serve as incentives and deterrents, assigned to actions and outcomes (Ostrom, 2005 :15).

The IAD framework is a multi-tier conceptual map, as shown in Figure 7 below.

Figure 6 -Institutional Analysis and Development Framework



Source: (Ostrom, 2007: 27)

<u>External variables</u>

The external variables are the physical and material conditions, the attributes of the community and the rules-in-use. The Physical and material conditions of the world are defined as the *"attributes of states of the world which are acted upon by actors; such as infrastructure, property right of specific types of land, and factors like climate"* (Ostrom *et al.*, 1994: 44). The attributes of the physical world refer to the physical and material conditions, which often influence policy action situations (Ostrom, 2005). Therefore, in order to understand how physical and material conditions influence the policy process, it is important to identify what is meant by physical and material conditions in the context of FDI. The physical and material conditions in this study are identified as those physical resources that are related to providing and producing goods and services, which attract foreign MNCs. The IAD framework identifies four types of goods or services, they are: public goods, toll goods, privet goods, and common pool resources (Ostrom *et al.*, 1994). The attributes of the community within which the actors are embedded are *"the structure of the more general community within which the decision-making process is placed, such as knowledge networks and dependency relations. Also, attributes like 'generally accepted norms of behaviour, the degree to which preferences in a community are distributed homogeneously or resource distributions belong to the domain of community attributes"* (Ostrom *et al.*, 1994: 45).

The attributes of the community is another key variable, which affects and influences the interaction between the actors in action situations (Ostrom, 2005) with several attributes of the community influencing the outcomes of an action situation. These include: demographic attributes, such as, education levels, size of the community and employment levels, social attributes, such as, the level of trust within the community, their size (Olson, 1965; Agrawal and Goyal, 2001), and heterogeneity of aspirations or norms within the community (Hong and Page, 2004). Hence, in this context, the investigation of attributes of community will mainly focus on whether the values and norms of the community affect the strategies of making decisions regarding a specific policy (Libecap, 2008). However, as it has been noted, investigating community and cultural factors in policy research is extremely difficult (Ostrom 2005). Therefore, in policy research it is recommended to simplify community and cultural factors analysis (Schlager, 2007) using previously well-established frameworks to analyse the community and cultural factors (Thomson, 1997).

The rules are defined as *"statements which determine which actions are required, prohibited or permitted and they state sanctions which happen when rules are not followed. Rules are created by humans and can be the target of an attempt to solve a problem in the hope a new outcome will emerge"* (Ostrom *et al.*, 1994: 38). The rules-in-use are defined as the *"shared understandings that refer to enforced prescriptions about what actions (or states of the world) are required, prohibited, or permitted,"* (Ostrom, 1994: 39). They refer to all kinds of formal and informal prescriptions, e.g., legal documents issued by central governments as formal; while informal rules-in-use allow provincial authorities to interpret these documents with relative freedom and collective rules-in-use orally shared within a community. The rules-in-use are classified into seven types, each of which relates to the components of the internal structure of an action situation. These rules are boundary, position, choice, payoff, information, scope and aggregation rule (Crawford and Ostrom, 2005).

The framework is used to analyse sets of rules existing at different levels. Three vertical levels of rules analysis, proposed by Ostrom *et al.* (1994) and Kiser and Ostrom (1982, 2000) affect the actions taken and outcomes obtained in any setting. These levels are operational rules, collective rules, and constitutional rules. The operational rules are the set of rules that affect every day decisions in action settings. The actions are made by individuals operating at this level, and are based on the set of institutional arrangements within which they operate (Ostrom, 1994). Furthermore, collective rules typically determine what the basic operational rules are, and set the rules about who is eligible to participate at the operational level. The collective level decisions are made by legislative authorities in order to determine, enforce, or alter actions authorised within institutional arrangements Bushouse (2011). Finally, a constitutional rule is the top level, determining frameworks for lower level rules creation. At this level, rules are set to guide future collective level decisions that will authorise future operational-level actions. The sets of attributes mentioned above observe interplay to create constraints for participants in an action situation. The participants behave according to these constraints, which also structure the situations they face. The participants' behaviours are combined into the patterns of interaction that determine the dynamics of an institutional setting (Ostrom *et al.,* 1994).

Evaluative criteria

The institutional approach to the study of policy process involves interpretations. It does not suggest that the outcomes can be easily 'read off' from institutional context. The patterns of interaction and outcomes are evaluated—based on certain evaluation criteria. The outcomes that are achieved eventually provide feedback regarding the actors, and the situations over time. When the outcomes are productive for those involved, they may increase their commitment to follow the rules and norms that have evolved over time in order to continue to receive positive outcomes (Ostrom, 2011). Hence, when outcomes are perceived by those involved as of lower value than other outcomes that might be obtained, some actors will begin to raise questions about changing the structure of the situations through various changes in the exogenous variables or the structure of the situations themselves (Ostrom *et al.*, 1994).

The evaluative criteria are an important element of the framework, as they enable the analyst to determine the performance of the institutional arrangement. The list of criteria depends on the particular interests and objectives of the analyst, but it usually includes efficiency, accountability, equity, adaptability, and sustainability (Ostrom, 1999). A core assumption of the institutional analyst is that institutional change can affect the criteria. Thus, one can increase accountability by crafting new or revising old institutions.

The criteria may differ from one research to another, depending on the research objectives, and it is importance. Therefore, depending on the particular action situation chosen, and the nature of the impacts and how they are evaluated, the analysis may lead to insights about how current institutional arrangements restrict or enable desirable outcomes McGinnis (2011). The IAD framework evaluates outcomes of the policy process, in order to investigate the influence of host country's institutions on the FDI licensing process. Ostrom (2007, 2009) emphasised that policy analysts may use the IAD framework general evaluation criteria, or may choose appropriate evaluative criteria established prior to the analysis. The IAD framework general evaluation criteria are: economic efficiency, equity through fiscal equivalence, redistribution equity, accountability, conformance to values of local actors, and sustainability (Ostrom, 2005).

Some critics have stressed that IAD is focused on local rules and overlooks the underlying socioeconomic historical change, and of distant political forces (Robbins, 2004). Some scholars, such as, Muldavin (1996) have argued that capitalist economies are responsible for the appropriation of communal capital away from locals. This, consequently, leads to land degradation and community disempowerment issues, which cannot be resolved by rule crafting within the community (Muldavin, 1996).

Hence, the IAD framework, as a diagnostic tool, facilitates a better understanding of complex social situations for policy analysts by breaking the phenomenon down into a set of manageable practical activities (Polski and Ostrom, 1999). In this case, the IAD framework focused on four reasons:

- Its capability to focus on both formal and informal institutions as influential factors on FDI licensing policy process implementation, including the diagnosis and analysis of institutions in the policy process.

- Its ability to define and link key factors that affect decisions and outcomes in a collective action arena, in a simple and systematic way.

- Its capability to improve the understanding of the relationship between formal and informal institutions, which allows the assessment of whether formal institutions support or substitute the contributions of the informal institutions.

- Its potential to link decisions made about FDI policies by higher governance levels, which is an essential feature to analyse the impact of centrally designed policies on MNCs' decisions.

The IAD does not replace other methods of analysis, rather complements them, as it synthesises the work of multiple participants, including those who are directly involved in the policymaking, and takes an interest in the policy outcomes. However, IAD framework offers a strong and well-tested method of analysis for the analysis of FDI licensing process by identifying key factors that affect participants' involved in the FDI licensing decisions process. In chapter 3, *Conceptual Framework*, the application of IAD-in the context of FDI licensing policy processes in Kuwait-will be discussed in detail.

2.8 Critical discussion (Knowledge Gap)

From the literature reviewed (so far), it may be gathered that there are dire risks involved for MNCs, when they formulate their FDI strategy without considering the country's institutional system (Lee and Peng, 2008), or lacking an adequate understating of how formal and informal institutions work in these countries (Peng et al., 2008).

(Bénassy-Quéré *et al.*, 2007) posit that institutions can be an important determinant for an inward FDI, as institutions play a prominent role in the location decisions of foreign MNCs (Bevan *et al.*, 2004); however, their influence on FDI into host country has not been adequately investigated. Instead, the research on inward FDI has typically emphasised the location factors, such as, market size, geographic, and cost factors, (Mudambi and Navarra, 2002, Disdier and Mayer, 2004, Rodrik *et al.*, 2004, Dunning, 2006a), which only provide a partial explanation. Therefore, future research should pay more attention to the influence of institutions in order to develop a better understanding about how MNCs choose their new locations (Trevino *et al.*, 2002).

In this context, Peng (2008) argues that institution can help MNCs in emerging economies to enhance their competitiveness. The MNCs need to know more about the potential host country's 'rules of the game', which may be different from the familiar rules at their home country. However, the studies (Zenger *et al.*, 2002) concerned with analysing the formal and informal institutions lack a combined evaluation of both the formal and informal institutions. For example, some studies examines the impact of formal institutions on inward FDI flow (Pajunen, 2008, Ali *et al.*, 2010); whereas, others examine the impact of informal institutions on inward FDI flow (Seyoum, 2012, Holmes *et al.*, 2013), but separately. This consequently has resulted in a limited knowledge about the influence of both formal and informal institutions (i.e., rules of the game) on inward FDI flow.

The respective empirical studies generally reaches a common conclusion, i.e., *“institutions have significant role in determining FDI inflow"* (Ali *et al.*, 2010 :215). However, none of these studies explains the effects of institutions on inward FDI flow. This, in turn, has resulted in knowledge gap regarding the influence of institutions on the attractiveness of a host country. This knowledge gap is amplified by the fact that empirical measurements of institutional influence on FDI generally suffers from low reliability, as researchers measured institutions using data from proxies, such as, the World Competitiveness Report indicators (Boyd *et al.*, 2005).

Furthermore, there is a limited theoretical and empirical research which applies an institutional theory in developing countries (Meyer, 2001), particularity for those countries that suffer from the Dutch disease. Although, some argue that institutional theory is the most applicable paradigm for explaining organisational behaviour in these settings (Shenkar and Von Glinow, 1994); however, the theory still leaves a knowledge. Hence, sufficient justification and evidence demonstrates the existing knowledge gap in this area. This, subsequently, calls for an investigation into the influence of institutions system, taking the case of institutional influence in Kuwait on inward FDI inflow.

2.9 Conclusion

This chapter covered the extant available literature on the MNCs' decision making processes, and the factors that influences these decisions regarding choosing a location for FDI.

The chapter started by considering the traditional theories of FDI determinants and continued with the theories of the motives for MNCs to engage in FDI and highlighted the role of traditional and institutional location determinants for FDI policies. A critical discussion has also been provided regarding theories with intent to indentify the knowledge gap. Based on the review of the respective theories, it was then argued and justified that the NIE would be the most suitable theory underpinning this study, which would further facilitate the investigation into the articulated research questions. Subsequently, it would also help to lay the ground for constructing a conceptual framework, which will be presented in the next chapter, which in turn, determining the methodology for this study.

CHAPTER THREE

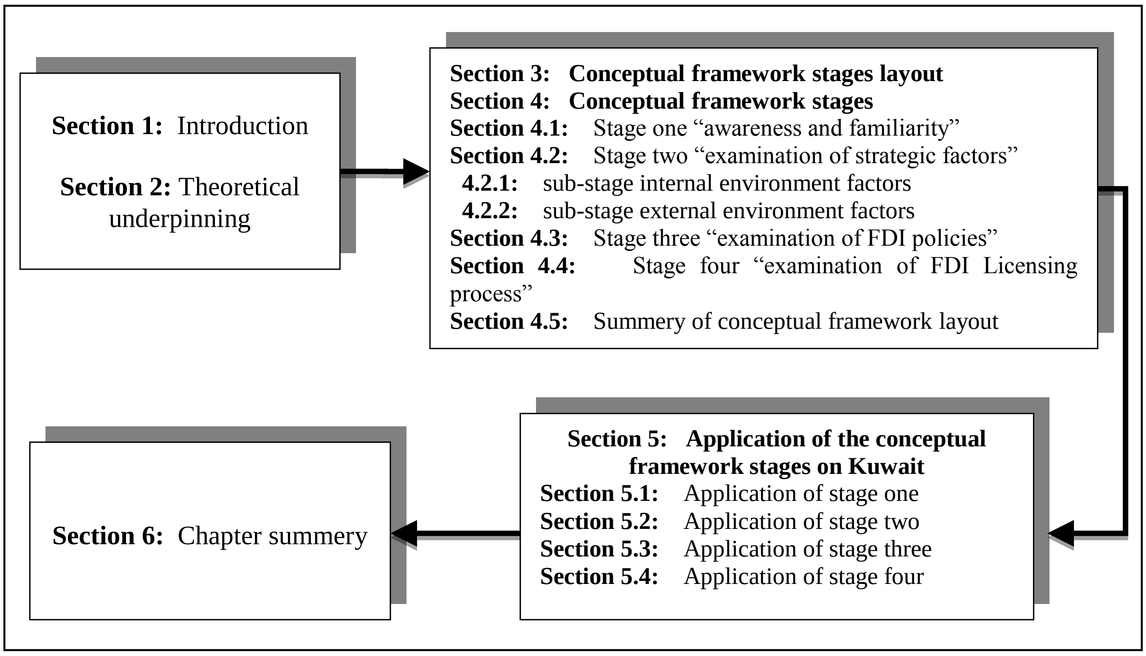
CONCEPTUAL FRAMEWORK

CHAPTER THREE: Conceptual Framework

3.1 Introduction

The conceptual framework is used as a guide for an inquiry into a subject by constructing a category of intellectual scaffolding, which would then provide a coherent structure (Schlager, 2007). The objective of this conceptual framework is to contribute to the research objectives articulated to understand the major relationships between MNCs strategies, FDI policies, and institutional systems, which influence FDI inflows into Kuwait. Based on the existing literature, the conceptual framework systematically organises the investigation about how MNCs examine a potential investment location Wengraf (2001), by dividing the host country's assessments into four distinct stages. Systematically done, this is based on the existing literature, which provides theories on MNCs' behaviour in regards to their decision-making process, when considering locations for their FDI projects. This chapter is divided into three main parts. The first section is about theoretical underpinning, which provides an overview of the theoretical assumptions for the motivations of MNCs in undertaking FDI under the auspices of 'Institutional Theory', in particular, the 'New Institutional Economics' (NIE). The second part discusses and explains the layout of the stages involved in the conceptual framework. The third part explains the stages involved in the application of the conceptual framework onto Kuwait. The overall schema of the respective chapter is depicted in Figure 8 below.

Figure 8 – Structure of Chapter Three



3.2 The Theoretical Underpinning

The overarching theoretical foundation for the conceptual framework is based on Institutional Theory, in particular, the NIE (North, 1990(Hennart and Park, 1994, Buckley and Casson, 1998, Agarwal and Ramaswami, 1992, Rugman and Verbeke, 1998, Dunning, 2001). The reason behind choosing the NIE approach, as the overarching theoretical foundation, is because the NIE's ability to link institutional theory to transaction cost (Williamson, 1998, 2000). The transaction cost approach focuses on how the characteristics of a transaction affect the costs of economic activities—for this particular study, it is the cost of doing business and engaged in FDI for MNCs. The NIE, operating at macro and micro levels, covers both the institutional environment, or the *rules of the game* (macro), and the *arrangements of the institutions of governance* (micro) (Williamson, 2005). In this study, the NIE is primarily used to examine the macro level, since this level affects the behaviour and performance of economic actors, that is, the MNCs, and the government.

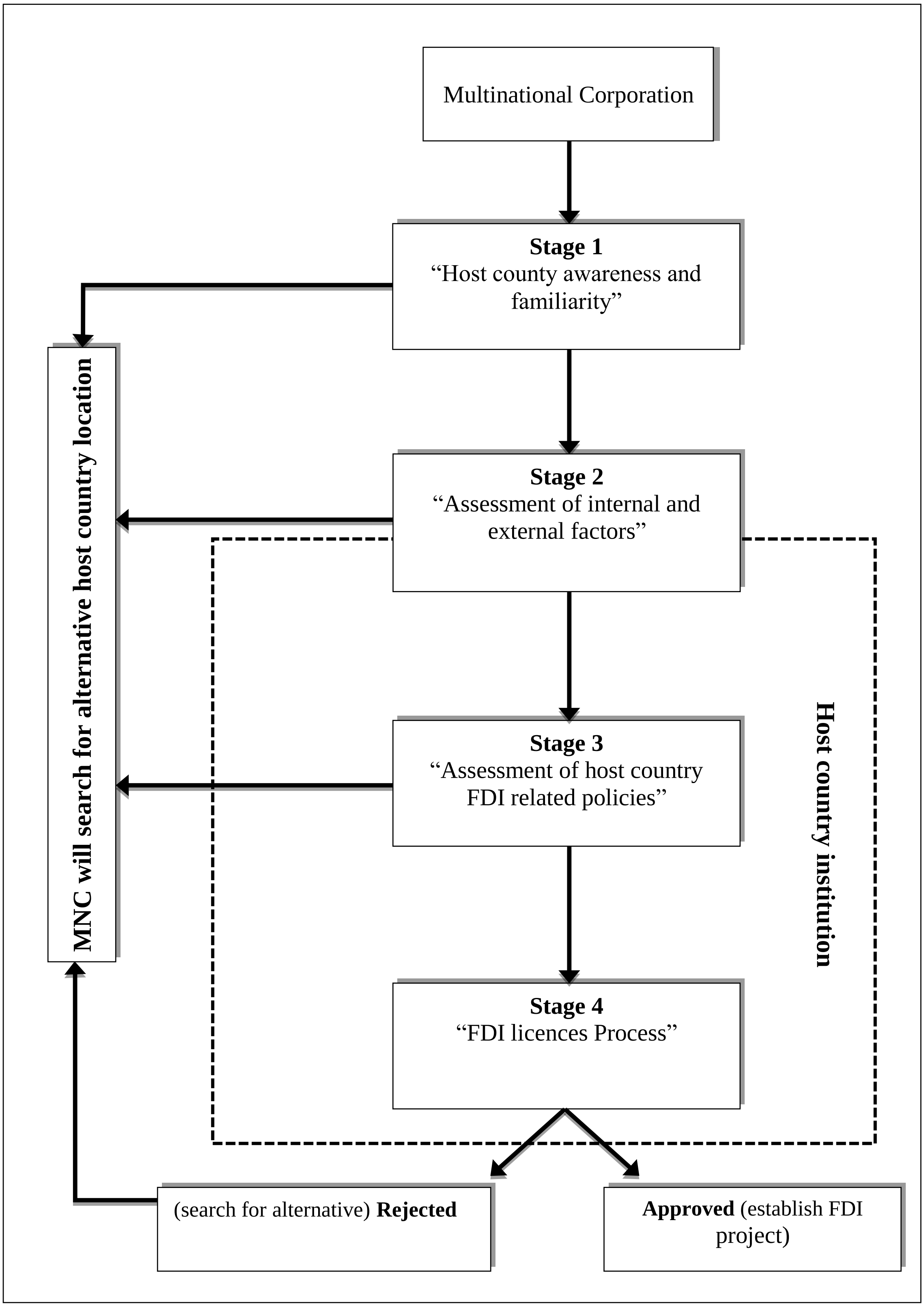
According to Meyer (2001), the transaction cost is an important element for MNCs during their search process for new FDI locations. The high level of uncertainty concerning specific investment locations (e.g., location advantages, rules and regulations, policies and other information) might increase the transaction cost (Williamson, 1998, 2005). Subsequently, resulting in a search for alternative locations with lower degree of uncertainty (Menard and Shirley, 2008). Moreover, the transaction cost can play a significant role in cutting down the costs and uncertainty, by focusing on how institutions can play such important role in the context of FDI.

3.3 Conceptual Framework - Stages

The conceptual framework used in this study consists of four stages, which are organised in a progressive order: 1) location consideration (covering aspects, such as, location awareness and familiarity of a MNC about a particular location), 2) examination of strategic factors, 3) examination of FDI related policies, and 4) examination of FDI licences process.

If, at any stage, MNCs find the result of their assessment unsatisfactory, the MNC would then drop the location from its list of potential locations and search for an alternative investment location (see figure 9 below), which results in the host country losing the investment opportunity.

Figure 9 – Framework simulating MNC decision process when assessing a host country



Source: Adopted from Guisinger et al. 1985, Hood and Truijens 1993, and the author reflections

As illustrated in the figure above, the last stage of the conceptual framework postulates that if a MNC finds the assessment of the first three stages to be positive, then it would proceed to apply for a FDI permit in the potential host country. In such a case, the only reason that a FDI would not take place would be either that the FDI application is rejected by the government or that the MNC would withdraw the application voluntarily. The following sections explain the four different stages in the conceptual framework designed for this study.

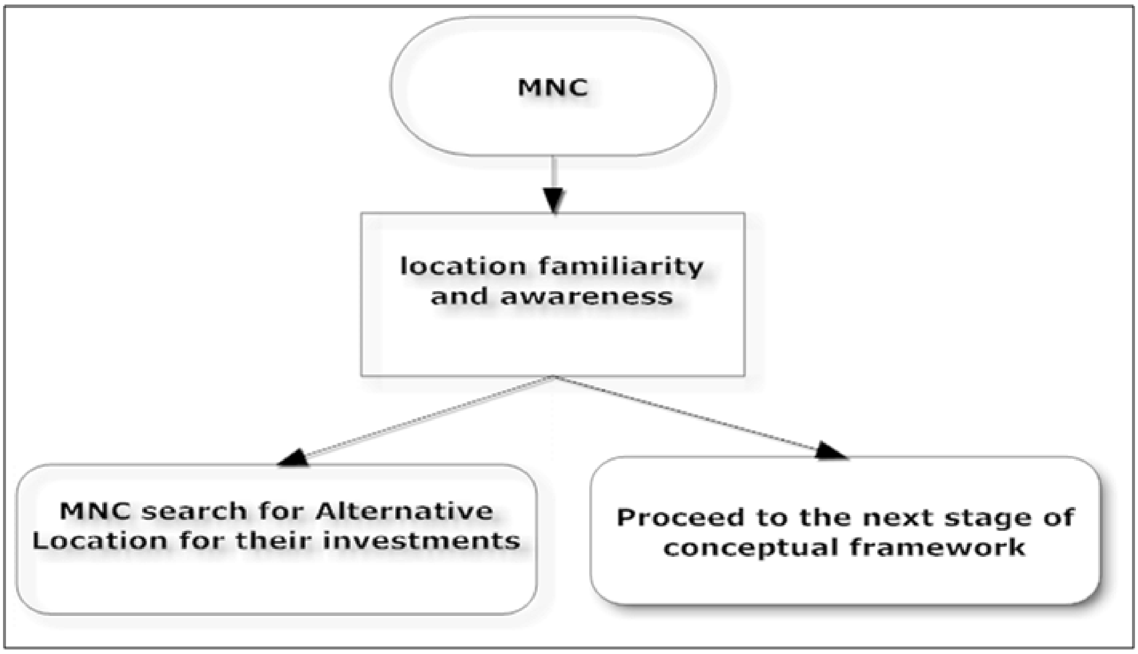
3.3.1 Stage one: MNCs' location consideration

This stage identifies familiarity and awareness as a factor for MNCs in choosing a host country. It also examines the level of awareness of MNC, because of its exposure to appropriate information regarding investment opportunities, FDI regulations, and FDI policies of a location.

The *'Familiarity'* in the Marriam-Websterdictionary (2006) is defined as *"having or showing realization, perception, or knowledge."* For the purpose of this study, it refers to the MNCs' knowledge about the existence of a certain host country as a potential location for FDI. The '*Awareness'* is defined as a *"close acquaintance with something"* (Marriam-Webster, 2006). Here, it refers to MNCs' exposure to appropriate information regarding investment opportunities, including information about FDI regulations and policies. At this stage, it is postulated that familiarity with and awareness of a host country, and incentives that it offers to FDI projects, could be an important component in determining the level of inward FDI.

From a MNC's point of view, location familiarity and awareness is crucial during the initial search process, since decision-makers rarely engage in comprehensive location searches and prefer to consider a location which already is known to them (Eisenhardt, 1989). One of the reasons is that MNCs are generally exposed to a certain degree of uncertainty resulting from a lack of knowledge and awareness is the transaction costs (Williamson, 1985), when entering a foreign location. *"Most companies consider only a small range of potential investment locations. Many other countries are not even on their map"* (IFC, 1997: 19). This general rule is valid in cases where even limited familiarity and awareness of a potential location at the MNC exists (Cass, 2007). Consequently, if the condition of both location familiarity and awareness for a FDI destination is not satisfactory, MNCs are then prone to search for alternative locations (See figure 10 below).

Figure 10 Flow chart of stage one process



However, if both location familiarity and awareness (about a potential host country for FDI) were sufficient, the MNC would then move to the next stage of the conceptual framework for additional assessment criteria. The lack of familiarity and awareness about a potential host country would result in the MNC to search for alternative locations. Hence, based on this conclusion, the following proposition is then formulated:

"A host country is suffering from low inward FDI because a number of MNCs have never considered this country as FDI destination due to unfamiliarity and unawareness with the country as investment location"

3.3.2 Stage two: MNCs' Examination of strategic factors

Stage two focuses on MNCs' strategic assessments of the internal and external environment.

The understanding of MNCs internal environment and the host country’s location advantages must be presented in a systematic manner in order to avoid overlapping of MNCs' strategies and host country location advantages. Therefore, this stage of the conceptual framework adopts the particular IBV as the theoretical foundation (Peng, 2002, 2003, Peng *et al.*, 2008). This adoption was made mainly because IBV treats institutions as independent variables, focuses on the dynamic interaction between institutions and MNCs, and considers the strategic choice as the outcome of this interactions (Peng, 2003, Peng *et al.*, 2009). Hence, IBV highlights institution's role in shaping MNCs' behaviour, strengthening this stage's argumentation in regards to the influence of institutions over MNCs decisions and their strategies (Meyer and Peng 2005; Peng 2002; Peng *et al* 2008).

In order to better present MNCs' strategic assessments, when evaluating a new location, IBV component is modified to suite this study, as illustrated in figure 11 below.

Figure 11 - IBV components renamed for this research

IBV strategy tripod	**IBV relevance in this thesis**
Firm specific resources and capabilities	MNC internal environmental factors
Industry based competition	MNC external environment factors (Non-Institutional location factors)
Institutional condition and transition	MNC external environment factors (Institutional location factors)

Source: adopted from (Peng, 2003, Peng *et al.*, 2009)

A. MNCs' examination of internal environment factors

MNCs' internal environment factors refer to a set of FDI motives of a MNC. MNCs' assessment of a potential location is generally based on how closely their FDI motives match what the new location can offer. For example, petroleum MNCs would generally search for a location, which possesses plenty of oil and gas reservoirs. A list of these internal environment motives or factors was first compiled by Behrman (1972) and later on extended by Dunning (1993b). These motives or factors are market-seeking strategy, nature resource seeking strategy, efficiency seeking strategy and strategic asset seeking strategy (Dunning, 1977, 1993).

Other possible factors need to be taken into account when examining the factors that deter MNCs from considering a location for investment. These 'other' factors are: countering competition (Robock and Simmonds, 1989), and avoidance of collusion with a competitor (Hennart and Park, 1994). In such cases, a location would not be considered, if it is believed to be of a competitor's home country (Wernerfelt, 1984, Karnani and Wernerfelt, 1985), as MNCs would avoid collision with a stronger competitor (Tseng, 2005). Similarly, Kogut and Chang (1991) assert that a MNC would not consider a location, if the location has been penetrated by a strategic alliance, sister company, or subsidiary. Besides the internal factors influencing the choice of a location for a MNC's FDI, there are external factors that are equally important.

B. Examination of MNCs' external environment factors

External environment factors refer to a host country's location factors. In this study, external environment factors are divided into two subcategories: a) non-institutional location factors, and b) institutional location factors. However, it is crucial to recall the discussion from the literature review chapter about the location factors. The fact is that there is a huge FDI literature available covering a large amount of location determinants that have been identified by researchers in IB studies, but the literature has yet to agree on the general terms for the classification of FDI location determinants.

1) MNC's external environment factors (Non-institutional location factors)

The non-institutional location factors refer to a certain favourable conditions, which provide the location with advantages in receiving FDI. The non-institutional location factors affect the costs and benefits of operating in a host location, therefore, influence MNCs' decisions. These favourable conditions are usually in the realm of economic, technological and infrastructural activities (Dunning, 1989), and generally lead to lower cost factors and higher profit margins (Galan *et al.*, 2007). The cost factors comprise of elements, such as, labour costs (Wheeler and Mody, 1992, Cheng and Kwan, 2000, Tahir and Larimo, 2004), transportation costs (Hennart and Park, 1994, Buckley and Casson, 1998, Buckley *et al.*, 2007), and cost of raw materials (Dunning, 2008).

Parallel to the cost factors, as part of favourable conditions, are the market factors, entailing the size of the market in a location relating to the potential demand for a MNC's products and services (Agarwal and Ramaswami, 1992, Agarwal, 2002, Pajunen, 2008). The third set of favourable location factors are the infrastructure and technological factors, such as, roads, ports, airports, rail-roads, IT infrastructure

(Krugman, 1991, Zhou *et al.*, 2002), availability of skilled labour (Buckley and Casson, 1998, Agarwal, 2002, Dunning and Lundan, 2008a) as well as easy access to raw material from reliable local suppliers (Dunning, 1988, Johanson and Vahlne, 1990, Eckel, 2003).

There is also the geography of a location, which MNCs generally take into consideration during the location assessment process (Mudambi, 2007, Meyer *et al.*, 2009). The MNCs, identifying a future foreign location for their investment, would also conduct risk assessment. In recent years, location risk, such as, country risk, sovereign risk, and political risk has been given more attention by MNCs (Luo, 2009). This is particularly true in case of the developing countries (Busse and Hefeker, 2007). The last location factors include: the local culture, and social factors (Kogut and Singh, 1988, Shane, 1994).

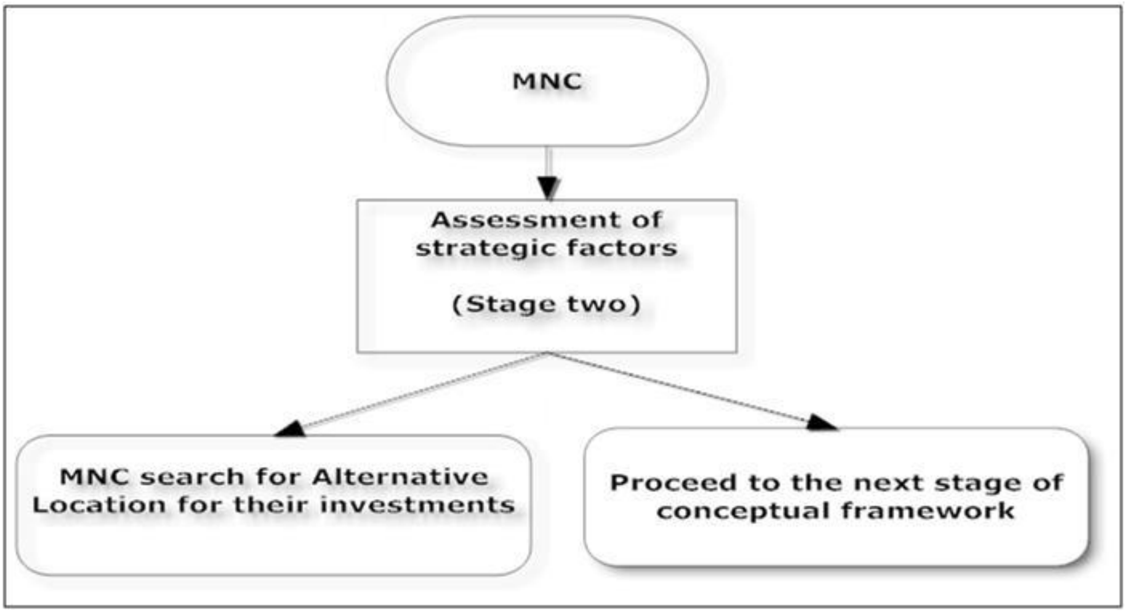
2) MNCs' external environment factors (Institutional location factors)

The institutional factors, such as, protection of intellectual property, legal system, bureaucracy and corruption (Peng and Zhou, 2005, Grosse and Trevino, 2005, Pajunen, 2008, Ali *et al.*, 2010, Demurger *et al.*, 2002) are a mixture of formal and informal institutional factors that affect the rules of the game (Stiglitz, 2000). The effectiveness of such factors are indicative of a host country's institutional health (Tallman, 1988). The respective rules of the game affect the costs and benefits of doing business in a host country, and consequently influence MNCs' FDI decision(s). Therefore, if the rules of the game were thought to lead to higher transaction costs relative to its benefits, this would deter MNCs from choosing that location.

The MNCs pay a particular attention to these factors in the developing countries, as suggested by the recent studies. For instance, weak intellectual property protection and corruption, which increases uncertainty and results in higher costs (Cuervo-Cazurra, 2006), would deter MNCs to conduct FDI (Glass and Saggi, 2002).

When a MNC examines a new location for potential FDI, the decisions made are based on strategic assessments of its internal environmental factors (the motives of a MNC for FDI) matching them with a location’s specific advantages on one hand; and an assessment of the external environmental factors of both non-institutional and institutional location factors, on the other. Once a MNC is satisfied with the outcome of these two sets of assessments, it would then move to the examination of FDI policies (the next stage of the conceptual framework, see figure 12 - Flowchart of the stage two).

Figure 12 - Flow chart of stage two processes



Based on the arguments provided above, the following proposition is then articulated:

"Perceived problems with institutional factors exert a negative influence on MNC's wiliness to locate in any new location"

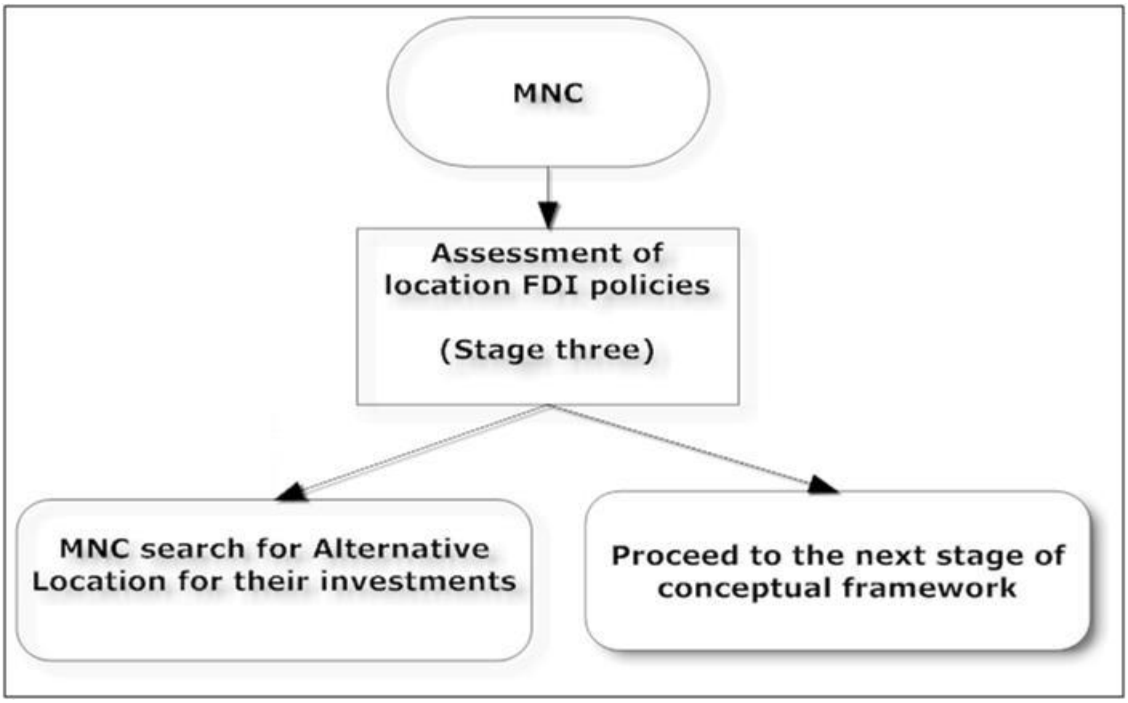
3.3.3 Stage Three: MNCs' Examination of FDI Policies

This stage of the conceptual framework, as the final stage of MNCs location assessments, focuses on their examination of a host country's attractiveness for FDI policies. This plays an important influencing role for MNCs' decisions regarding whether to opt for FDI or not (Dunning and Narula, 1996, Moosa, 2002, Dunning and Lundan, 2008a).

The FDI policies are designed to strengthen a country's investment climate and competitiveness in attracting MNCs (Jensen, 2006) play a vital role in attracting MNCs to a location. The respective policies are generally geared towards the removal of restrictions on the operations of foreign MNCs in a host country in tandem with reducing cost factors for them (Gastanaga *et al.*, 1998, Globerman and Shapiro, 1999).

These policies are designed to strengthen a country's investment climate and competitiveness in attracting MNCs (Jensen, 2006), which are based on the location advantages, and competitiveness parameters (Oman, 2000, Enderwick, 2005). There is a huge existing literature available, which covers a large amount of FDI related policies. However, in this study, the focus will be on policies that result in attracting foreign investors, and promoting host country's economic attractiveness.

Figure 13 - Flow chart of stage three process



Based on the above, the following proposition for stage three is articulated:

"A host country receives low inward FDI because many MNC's considering investment in this host country are dissuaded by government policy obstacles connected to FDI policies"

3.3.4 Stage four: MNCs' examination of FDI licensing process

This final stage of the conceptual framework investigates the role of a host country's institutions on the FDI licensing process. While the majority of countries seek to attract inward FDI have simplified their FDI licensing process (e.g., license approval), others have put a complex procedure in place toward FDI licensing process (Emery *et al.*, 2000a). The poor performance of some countries for inward FDI flows is largely attributed to the scope of government intervention (Kobeissi, 2005). This is exerted through country's institutions by creating significant entry barriers in the form of excessive entry approval procedures, and bureaucratic process in order to limit, or reject foreign MNC to conduct business in that country (Morisset and Neso, 2002). This is mainly due to concerns about potential negative effects of MNCs, such as, crowding out local products and firms with harmful socio-cultural effects, suppressing domestic entrepreneurial development, and strong influence on economic affairs and decision making, with possible negative effects on industrial development (WIR, 2003). As an example, it takes 60 days to register a business in West Asian countries compared to just about two weeks in OECD countries (Habib and Zurawicki, 2002). Morisset and Neso assert that - *"barriers to entry are a substitute for the government's unwillingness or inability to regulate enterprise operations"* (Morisset and Neso, 2002:102).

It is widely recognised that institutions have a critical role in the performance of organisations. While recent studies have focused on formal institutions and their impact FDI flows (Li and Filer, 2007, Pajunen, 2008, Ali *et al.*, 2010), the role of informal institutions in influencing FDI has received limited attention in the literature. There has been indications that informal institutions can be both performance enhancing, or performance damaging in attracting FDI (Zenger *et al.*, 2002). The informal institutions are normally a part of the culture and norms of a society (Lauth, 2004), and rooted in the beliefs of individuals in small "face-to-face communities" (Raiser, 2001).

The high rejection rate of FDI applications is linked to the host country' institutional environment (Kostova, 1997, 1999), interfering and influencing the process of FDI license decision.

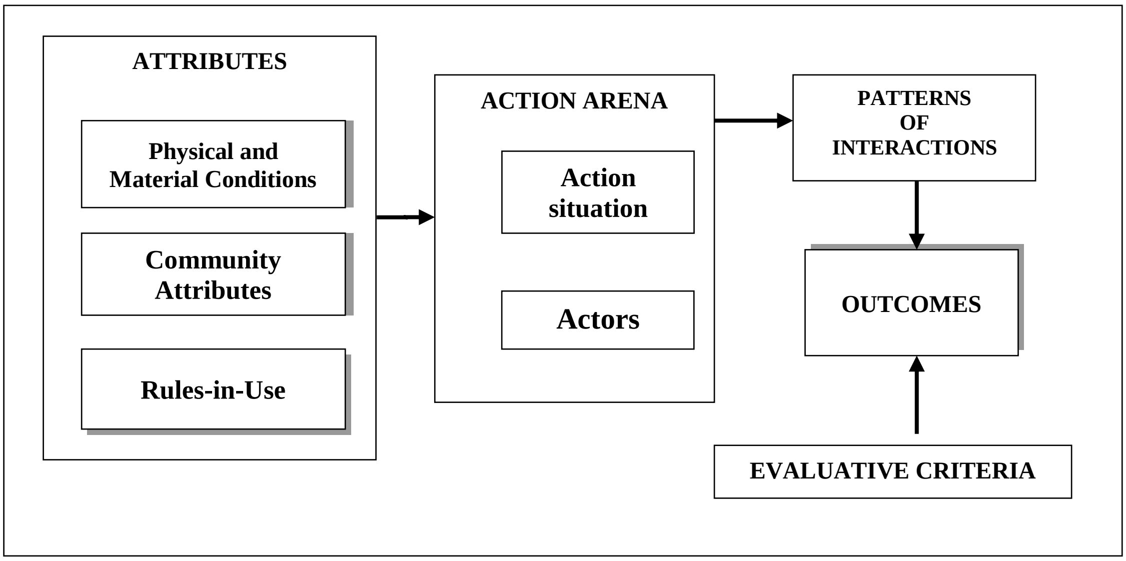
The Institutional Analysis and Development (IAD) Framework

Due to the complexity of this type of investigation, there is a need for a systematic approach to enable the analysis of possible influence of both formal and informal institutions on the FDI licensing policy. Proposed by Bushouse (2011), the Institutional Analysis and Development (IAD) framework is a systematic approach that considers both formal and informal institutions, when diagnosis and analysis policy process is used.

The IAD framework is best viewed as a systematic approach for organising policy analysis activities that are compatible with a wide variety of more specialised analysis techniques used in the social sciences (Ostrom, 2011). The IAD has been used by political science scholars as a tool for policy analysis, to evaluate policy effectiveness, initiating policy reforms as well as designing new policies (Kiser and Ostrom, 1982; E. Ostrom *et al.,* 1994; E. Ostrom, 1999). It has been used in a range of disciplines in both physical and social sciences (Oakerson and Walker 1997), with the exception of the field of international business, making this approach as one of the unique contributions to this study.

The IAD does not replace other methods of analysis rather complement them, as it synthesises the work of multiple participants, including those who are directly involved in the policymaking, and takes an interest in the policy outcomes. The IAD framework incorporates a number of theories, which explains individual behaviour within the institutional context. It focuses on five main components: 1) the decision maker, 2) the community affected by the decisions made, 3) the goods and services available to individuals whom seek to produce, provide or consume, 4) the institutional arrangements guiding individual decisions, and 5) the decision in the context in which individuals make choices (Ostrom, 2005). Figure 14 below presents the original Institutional Analysis and Development Framework.

Figure 14 - Institutional Analysis and Development Framework



Source: Ostrom (1994, 2005)

The IAD framework, as a diagnostic tool, facilitates a better understanding of complex social situations for policy analysts by breaking the phenomenon down into manageable sets of practical activities (Polski and Ostrom, 1999). The IAD framework was selected as the core analytical framework for several reasons, which have been discussed in chapter two.

- **Enriching the IAD framework**

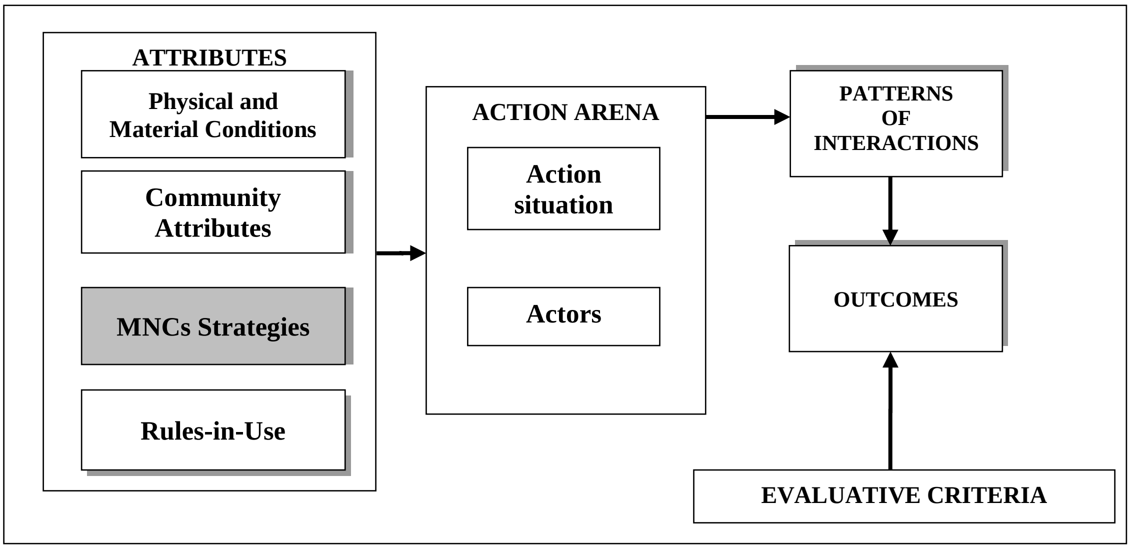
Within the action arena of the IAD framework, both participants and action situation interact as they are affected by exogenous variables (physical and material conditions as well as attributes of the community and rules-in-use), producing outcomes. The criterion is used to judge the performance of the policy process by examining the outcomes. Based on the IAD framework components, an additional exogenous variable was added to the original IAD framework, labelled 'MNCs strategies', referring to the entry mode choice accessible to MNCs. This particular variable can have an influence on the action situation, as the choice of entry mode is particularly important to MNCs' decisions of entry mode by moderating the costs of alternative entry mode.

Such additional variable is important as formal rules can allow MNCs' range of entry modes choices, informal rules and the 'rule of the game' can also affects these choices (Meyer *et al.*, 2009). This means that a trade-off between the optimal entry mode in lieu of the additional transaction costs imposed by the informal institutions on MNCs have to considered. For example, if a host country increases restrictions on foreign MNCs entry mode of FDI institutions (both formal and informal), this will increase the MNC's need for a local agent, forcing the MNC into a joint venture in order to gain access to the market through their local partner (Peng, 2006).

Under the additional variable of MNCs strategies in the examination of the role of the MNCs' strategies starts with considering alternative FDI entry mode within the action arena. The MNCs' strategic context is then examined under a dynamic perspective of FDI entry options and distributed among decision makers with the view of understanding the economic interests that drive participants' decisions within a particular set of rules-in-use. In the next step, the examination of rules can inform the analyst about the way the current set of rules-in-use affect the power distribution among the actors, and whether the institutional change can lead to outcomes that are more favourable. MNCs' strategies are linked to the rules-in-use not only because they affect institutions, but also because it’s essential for this study to understand why a MNC decide to choose other entry modes like licensing (Shane 1994) or strategic alliance

(Harzing 2002) over FDI. The examination of rules in use informs the analyst as to whether or not MNC's decision is dependent on the restrictions placed on the entry mode. This in turn would explain why some countries receive lower FDI inflow than others, despite their competitiveness and locational advantages, providing the rationale for the additional exogenous variable (MNCs strategies) to the IAD framework for this particular study (See figure 15, below).

Figure 15 - Revised IAD Framework adopted for this study



Source: adopted from Ostrom (1994, 2005)

This revision of the IAD framework paves the way to further examine whether MNCs strategies do affect the decision making process on regulating the entry choice available for MNCs.

Based on the above reasoning, the implication of the revised IAD framework for this study is the proposition that a host country's institutions' (both formal an informal) interference does indeed influence the process of issuing FDI licensing approvals. With a protectionist agenda, then, it would lead to limiting and reducing inward FDI flow, resulting in the articulation of the following proposition:

"A host country receives low inward FDI because of institutional shortcomings affecting FDI entry approval."

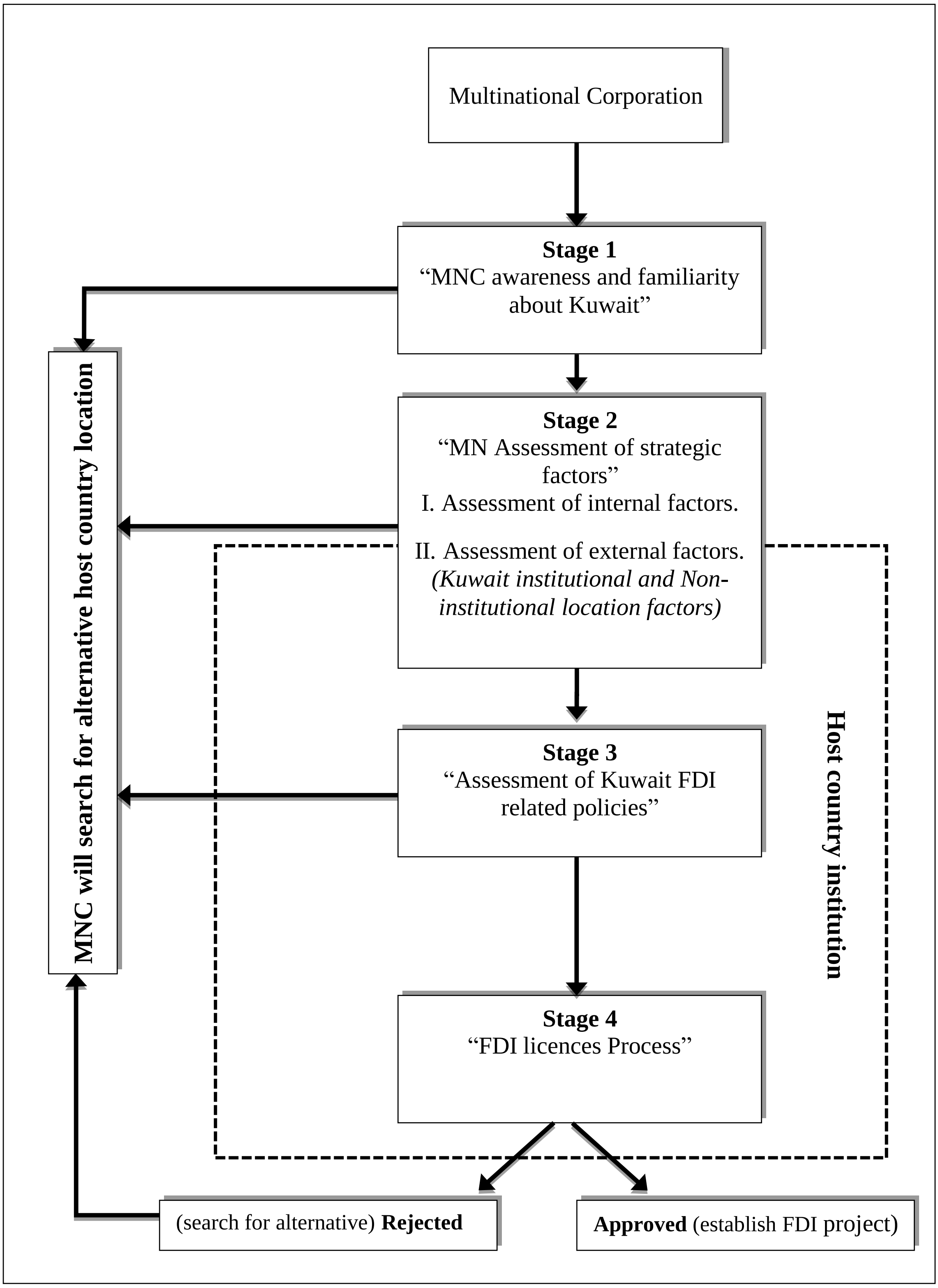
3.4 Application of the Conceptual Framework (The Case of Kuwait)

The main purpose of applying the conceptual framework to the case of Kuwait, as a guide, is to achieve the research objective of understanding and explaining the MNCs' main strategies for FDI entry mode on one hand, and FDI policies of a host country on the other hand. These two factors confluence the FDI inflows into Kuwait, through identifying the nature of any potential obstacle, which may impair FDI inflow into Kuwait.

Table 7 - The conceptual framework stages linked to research questions

Research question	Designated stage in the conceptual framework
1. What are the key characteristics of Kuwait's FDI policy, institutional systems, and MNC location factors that influence FDI decisions?	*No conceptual framework stage is assigned to this question*
2. A What is the knowledge level of MNCs in the Gulf region of Kuwait as investment location and how does this relate to nationality, Industry, and size of investments in the Gulf region?	*Stage One* *An examination of MNCs consideration of Kuwait as a FDI location.*
2. B What are the major factors that MNCs find attractive/unattractive in Kuwait and how does this relate to nationality, industry, and size of investments in the Gulf region? **2. C** What are the Kuwaiti location factors that are attractive/unattractive for MNCs and how does this relate to nationality, industry, and size of investments in the Gulf region? **2 .D** What are the Kuwaiti institutional factors that are attractive/unattractive for MNCs and how does this relate to nationality, industry, and size of investments in the Gulf region?	*Stage Two* *Assessments based on MNC external environment factors (Institutional location factors in Kuwait)*
2. E What are the Kuwaiti FDI policies and that are attractive/unattractive for MNCs and how does this relate nationality, industry, and size of investments in the Gulf region?	*Stage Three* *MNCs Examination of Kuwait's FDI related policies.*
3. Are there institutional obstacles to obtaining approval for FDI in Kuwait and if there are do these related to key strategic objectives and characteristics of MNCs?	*Stage four* *Examination of FDI licences process in Kuwait*
4. Can institutional changes to Kuwait's FDI policy and institutional systems be identified, which may improve FDI inflows to Kuwait?	*No conceptual framework stage is assigned to this question*

Figure 16 – Framework simulating MNC decision process when assessing Kuwait



Source: the Author

Although, progressive in approach, if at any stage a MNC decides against Kuwait due to a particular reason linked to that specific stage, then the MNC will drop Kuwait from its potential locations list and search for an alternative investment location. This subsequently results in Kuwait losing the investment opportunity. The following sections cover the four different stages in the conceptual framework with application to the Kuwait.

3.4.1 Stage One: An examination of MNCs consideration of Kuwait as a FDI location.

This stage focuses on MNCs' familiarity and awareness about Kuwait as a host country, and proposes that a lack of familiarity and limited awareness of Kuwait is a factor for the low inflow of FDI into Kuwait. Hence, in this section the level of available and accessible information to MNCs about Kuwait including FDI policy, investment opportunities and the Kuwaiti government incentives are examined.

According to (Wells and Wint, 2000, Morisset, 2003), there is a clear link between MNCs level of familiarity and awareness of any location. In this case, Kuwait, as a location, needs to establish adequate level of familiarity and awareness between MNCs in the Gulf region. The performance of promotional activities in Kuwait is conducted by the KFIB. Therefore, it is argued that if the KFIB is not effective in providing MNCs with proper information, causing in a low inward FDI. Based on the preceding argument, the following proposition is articulated, as a stage one proposition:

"Kuwait is suffering from low inward FDI because a number of MNCs have never considered Kuwait as FDI destination due to unfamiliarity and unawareness with Kuwait as investment location"

Therefore, if MNCs familiarity and awareness about Kuwait (as an investment location) is not robust, then MNCs will search for an alternative location for their investments. However, if familiarity and awareness about Kuwait among a MNC is adequate, the MNC will then progress to the next stage, that is, assessing strategic factors—the next phase in the conceptual framework.

3.4.2 Stage Two: MNC Examination of strategic factors

At this stage, it is maintained that when MNCs examine Kuwait, the decisions are based on strategic assessments of both industry-based competition and Kuwait's location factors assessments. Hence, if a MNC is satisfied with the assessments outcome based on these factors, then it would move forward to (MNCs' examination of Kuwait's FDI related policies) the next stage of the conceptual framework. However, if an MNC were not satisfied with the assessments' outcome on the industry based competition, then it would drop this host country from its potential location list and search for alternative locations.

A. <u>MNC examination of internal environment factors</u>

The MNCs’ internal environment factors refer to a set of motives of a MNC for FDI. Hence, MNCs' assessment are generally based on how closely their FDI motives match what the new location can offer in terms of specific advantages (See section for these motives from the Literature Review Chapter). For example, market seeking MNCs would be only primarily motivated by the market characteristics of Kuwait, such as, market size, and would consider Kuwait only, if the Kuwaiti market suits their criteria. Likewise, efficiency seeking MNCs would primarily be motivated to invest in Kuwait if Kuwait can provide efficiency factor, such as, skilled labour or low manufacturing cost.

There are other factors that can deter MNCs from considering a location for investment. The *other* factors are countering competition (Robock and Simmonds, 1989), (1989), and avoidance of collusion competitor (Hennart and Park, 1994). In case like this, Kuwait would not be considered, if it’s believed to be of a competitor’s home country (Wernerfelt, 1984, Karnani and Wernerfelt, 1985). In this case, the MNC would avoid collision with a stronger competitor, or even a strategic ally for that matter (Tseng, 2005). Besides the internal factors, influencing the choice of a location for a MNC’s FDI, there are external factors that are of equal importance.

B. <u>Examination of MNCs' external environment factors</u>

The external environment factors, as part of the second stage in the conceptual framework, are divided into two subcategories: a) non-institutional location factors, and b) institutional location factors. It is crucial to recall the discussion from the Literature Review Chapter about the location factors. However, the literature has not yet agreed on the general terms of FDI determinants classification. Hence, at this stage of the conceptual framework, the FDI determinants are divided into two subcategories: a) non-institutional location factors, and b) institutional location factors.

I. MNC external environment factors (Non-institutional location factors)

The Non-institutional location factors refer to favourable conditions offered by Kuwait, providing the country with specific advantages attracting FDI. These favourable conditions include:

i. cost factors (such as, labour costs, transportation and cost of raw materials)
ii. market factors (entailing the size of the market in Kuwait
iii. existing demand for an MNCs' products and services)
iv. the infrastructure and technological factors (the infrastructures in Kuwait, availability of skilled labour
v. Good access raw material from reliable local suppliers in Kuwait), and geographical factors.

Finally, MNCs would also examine the location risk factors, consisting of country risk, sovereign risk, and political risk in Kuwait.

In this study, six non-institutional factors may positively or negatively influence the FDI inflow into a country. Although, there may exist other non-institutional factors, the factors mentioned in this study are supported by empirical evidence (Galan and Gonzalez-Benito, 2001, Galan *et al.*, 2007, Dunning, 2009). However, this list of non-institutional location factors is in no way comprehensive, as there are a numerous non-institutional location factors that in different circumstances play a role in attracting MNCs attention to a host country. Nor are the categories intended to be mutually exclusive. Table 8 below provides summery of the key non-institutional location factors considered in this study.

Table 8- Key Non-institutional location factors of Kuwait been used in this study

Non-Institutional location factors	**Components of the Non-Institutional location factors**
Cost factors	- Transportation and logistics costs in Kuwait - Cost of raw materials, energy and water in Kuwait
Market factors	- Size of Kuwaiti market - Growing demand in the Kuwaiti market
Efficiency factors	- Infrastructures in Kuwait - Skilled Labour in Kuwait - Technologically advanced (e.g. IT, Telecommunications)
Geographical factor	- Geographical location of Kuwait
Social and cultural amenities	- Standard of living in Kuwait - Public services in Kuwait - Cultural affinity
Location Risk factor	- Country risk of Kuwait - Political risk in Kuwait

Source: Dunning 2006 and Galan el al 2007

II. MNCs' external environment factors (Institutional location factors)

When MNCs examine institutional factors in Kuwait, they look at various indicators, such as, property rights, intellectual property rights, corruption, bureaucracy and the legal system in Kuwait; that is, a mixture of formal and informal institutional factors in Kuwait that affect the rules of the game (North, 1990). These rules of the game affect the foreign MNCs' costs and benefits of doing business in Kuwait, and consequently, influence their decision in whether or not to invest in Kuwait. Therefore, if the rules of the game in Kuwait are thought to lead to high transaction costs relative to benefits (Meyer, (2001). This will deter MNCs from undertaking FDI, as they would face higher risk of poor performance in Kuwait.

This study considered five institutional factors that influence FDI. Although, there may be other institutional location factors, following factors have been found to be most prominent in empirical tests (Grosse and Trevino, 2005, Bénassy-Quéré *et al.*, 2007, Pajunen, 2008, Ali *et al.*, 2010). Table 9 below provides a summary of the key Institutional location factors that been used in this study.

Table 9 - Key Institutional location factors of Kuwait been used in this study

Institutional location factors	Components of the Institutional location factors
Corruption	Anti-corruption laws in Kuwait (e.g. anti- money laundry and bribery laws).
Private Property Protection	Property protection in Kuwait and Kuwaiti laws against expropriation
Labour regulations	Labour regulation in Kuwait
Intellectual Property Protection	Intellectual property protection laws and regulation in Kuwait.
Bureaucracy	Lengthy and complicated procedures for business in Kuwait
Legal System	Kuwaiti judicial system independence

Source: adopted from Grosse & Trevion (2005), Pajuene (2008), and Ali *et al.* (2012)

In summary, when a MNC examines Kuwait as a new location for potential FDI, it bases its decisions on their strategic assessments of its own internal environmental factors (the motives of a MNC for FDI) matching them specific advantages that the country possesses. The MNC also assesses the external environmental factors of both non-institutional and institutional location factors. Once a MNC is satisfied with the outcome of these two set of assessments, the MNC would then move to the examination of FDI policies (the next stage of the conceptual framework). Thus, the proposition (at stage two) is as follows:

"Perceived problems with institutional factors exert a negative influence on MNC's wiliness to locate in any new location."

However, if a MNC remains unconvinced with the viability of the non-institutional and institutional location factors of Kuwait, it would drop the pursuit of the FDI and search for alternative locations.

3.4.3 Stage three: MNCs Examination of Kuwait's FDI related policies.

This stage of the conceptual framework focuses on MNCs' examination of Kuwait FDI policies in line with the conceptual framework and the literature. It argues that the attractiveness of Kuwaiti FDI policies is a significant factor in influencing MNCs' decisions, when evaluating Kuwait as a potential FDI destination. Thus, this stage represents the final step for the MNCs, before a definite decision is made regarding whether or not to opt for Kuwait as a host country for FDI. In this study, several FDI related policies in Kuwait seem to have a significant impact on attracting FDI inflow; with especial attention paid to the FDI policies, which remove restrictions on the operations of foreign MNCs in Kuwait, have been considered. Conceptualised in the context of Kuwait, the proposition for the stage three is formulated as follows:

"Kuwait receives low inward FDI because many MNC's considering investment are dissuaded by obstacles arsing from government FDI policies."

Therefore, if a MNC is attracted and encouraged by Kuwaiti FDI related policies, then it would move on to the next stage of the conceptual framework. Otherwise, it would drop Kuwait from their potential location list and search for alternative locations.

3.4.4 Stage four: Examination of FDI licences process in Kuwait

Stage four of the conceptual framework represents the last stage and proposes that only after satisfactory outcome of comprehensive assessments (outlined in the previous three stages), the MNCs will choose Kuwait for their FDI, embarking on the process of obtaining an FDI license.

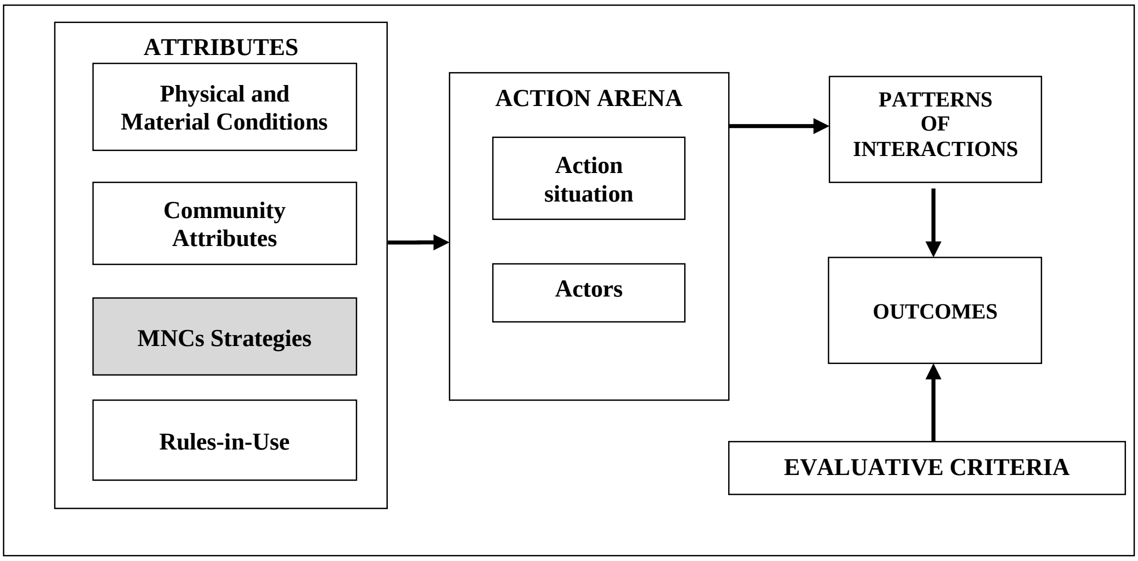
This stage aims to investigate as to whether the high rejection rate of FDI license application in Kuwait was due to the successful policy implementation, or due to unidentified influence on the policy implementation processes, which might be linked to the country's institutions. It has been argued that formal and/or informal institutions in Kuwait have an influence on the FDI licensing process outcomes. It further suggests that the institutions system may restrict inward FDI by establishing entry barriers in the form of excessive entry approval procedures and bureaucratic process in order to limit or reject foreign FDI licence applications, resulting in a low inward FDI flows.

This stage aims to explain how people protect their own interests in economic exchanges in societies that lack fair and transparent public rules (Coglianese *et al.*, 2008), and use private means to protect their own interests. Hence, it could be postulated that in Kuwait local firms have stronger relations (connections) than the foreign MNC and will use their relations opportunistically to put the foreign MNCs at disadvantage (Li and Filer, 2007) by influencing their contacts to reject MNCs FDI licences in order to avoid competition. Hence, this stage argues that when the host country cannot make and enforce rules objectively and transparently, FDI inflow tends to decrease.

Using a revised and adjusted IAD framework, as the diagnostic instrument for policy process in Kuwait, this study targets the FDI licensing process at KFIB (the key actors within the action situation and dynamic of their interaction between them). It guides the policy analysis as suggested by Polski and Ostrom (1999) to evaluate policy outcomes, i.e. the FDI licensing policy outcomes in Kuwait, depicted in figure 17 below.

The next step is to conduct an analysis of the FDI licences process in order to understand the incentive structure of FDI licensing policy in Kuwait. This is usually done by isolating a specific FDI policy (such as, the taxation policy), specifying its objectives in order to examine which exogenous factors are manipulating its action arena.

Figure 17 - Revised IAD Framework adopted for this study and applied to Kuwait



The analysis will evaluate the policy outcomes, searching for any linkage between them and the external variables by focusing on a particular class of outcomes. Subsequently, this will enable the analyses to identify relevant patterns of interaction with external variables. Therefore, as suggested by Polski and Ostrom (1999), the policy analysis of the FDI licensing policy in Kuwait will consist of examining the following steps extensively:

- Define the Policy Analysis Objective
- Analyse MNC strategies.
- Analyse Physical and Material Conditions
- Analyse Community Attributes
- Analyse Rules-in-Use
- Analyse Outcomes
- Evaluating outcomes

Based on the above rationale, this stage of the conceptual framework postulates that Kuwaiti institutions would interfere and influence the process of issuing entry approvals (e.g., FDI licence) to limit and reduce foreign MNCs existence with a protectionist agenda. This functions as a potentially important contributing factor in the low inward FDI flow to Kuwait. Subsequently, the following proposition is articulated:

"Kuwait receives low inward FDI because of institutional shortcomings affecting FDI entry approval."

Should the analysis of this stage be consistent with evidence that the KFIB is limiting foreign MNCs from entering Kuwaiti market, by rejecting their FDI license applications, then, it would be reasonable to conclude that Kuwait is receiving low FDI inward flow, because its institutions are manipulating the process of issuing entry approvals.

Table 10 below, provide a detail summary of the study propositions linked to the conceptual framework stages in its general stages, and to the application case of Kuwait.

Table 10 - Summary of the study propositions linked to the conceptual framework stages and the case of Kuwait

Research question	Designated stage in the conceptual framework	Formulated propositions of linked to conceptual framework stages	Propositions of linked to the case of Kuwait
2. a What is the knowledge level of MNCs in the Gulf region of Kuwait as investment location and how does this relate to nationality, Industry, and size of investments in the Gulf region?	**Stage One** An examination of MNCs consideration of Kuwait as a FDI location.	"A host country is suffering from low inward FDI because a number of MNCs have never considered this country as FDI destination due to unfamiliarity and unawareness with the country as investment location"	"Kuwait is suffering from low inward FDI because a number of MNCs have never considered Kuwait as FDI destination due to unfamiliarity and unawareness with Kuwait as investment location"
2. b What are the major factors that MNCs find What are the major factors that MNCs find attractive / unattractive in Kuwait and how does this relate to nationality, industry, and size of investments in the Gulf region?	**Stage Two** Assessments based on MNC internal environment factors		
2. c Which What are the Kuwaiti location factors that are attractive / unattractive for MNCs and how does this relate to nationality, industry, and size of investments in the Gulf region?	**Stage Two** Assessments based on MNC external environment factors (Non-Institutional location factors in Kuwait)	"Perceived problems with institutional factors exert a negative influence on MNC's wiliness to locate in any new location"	"Perceived problems with institutional factors exert a negative influence on MNC's wiliness to locate in Kuwait"
2. d What are the Kuwaiti institutional factors that are attractive / unattractive for MNCs and how does this relate to nationality, industry, and size of investments in the Gulf region?	**Stage Two** Assessments based on MNC external environment factors (Institutional location factors in Kuwait)		
2. e What are the Kuwaiti FDI policies and that are attractive / unattractive for MNCs and how does this relate nationality, industry, and size of investments in the Gulf region?	**Stage Three** MNCs Examination of Kuwait's FDI related policies.	"A host country receives low inward FDI because many MNC's considering investment in this host country are dissuaded by government policy obstacles connected to FDI policies"	"Kuwait receives low inward FDI because many MNC's considering investment are dissuaded by obstacles arsing from government FDI policies."
3. Are there institutional obstacles to obtaining approval for FDI in Kuwait and if there are, do these related to key strategic objectives and characteristics of MNCs?	**Stage four** Examination of FDI licences process in Kuwait	"A host country receives low inward FDI because of institutional shortcomings affecting FDI entry approval."	"Kuwait receives low inward FDI because of institutional shortcomings affecting FDI entry approval."

3.5 Conclusion

This chapter presented a conceptual framework for this study, with the research objective as a departure point, providing a framework that guides the method of inquiry for the fieldwork and the analysis of the collected data.

For a clearer understanding of this conceptual framework, the chapter was divided into two parts. Part one presented the four stages of the conceptual framework, in sequential order, starting with MNCs' location awareness and familiarity, followed by an examination of the strategic factors, examination of FDI related policies, and finally the examination of FDI Licences Process. It was further proposed that if, at any stage, a MNC decides against a host country due to a particular reason linked to that specific stage, the MNC would drop this country from its potential locations list and search for an alternative investment location. Consequently, this would result in a potential host country losing inward flow of FDI and its subsequent benefits.

CHAPTER FOUR

METHODOLOGY

CHAPTER FOUR: Methodology

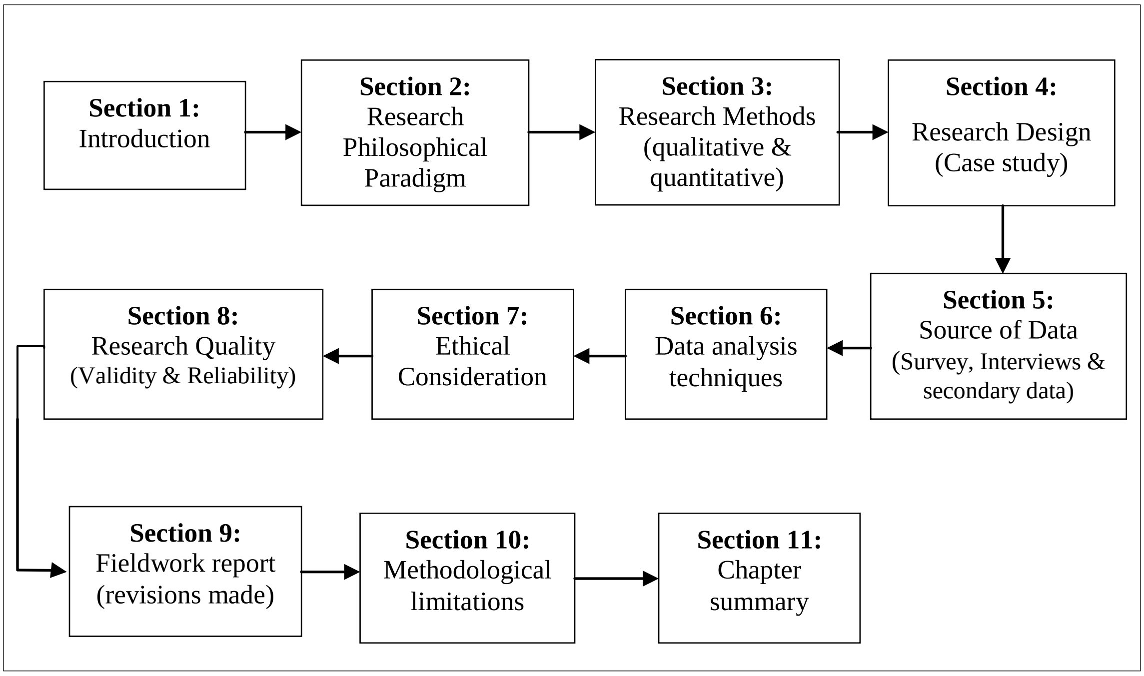
4.1 Introduction

Methodology can be described as a socially approved system of principles and standards regulating an investigation into matters of intellect, comprising a set of rules and standards, which adheres to logical laws of a phenomenon, using a coherent and orderly trajectory (Spirkin, 1984).

Hence, this chapter aims to provide an outline and justification for the research methodology underpinning this study. The chapter commences with an overview of the main philosophical paradigm used in management research. Subsequently, an appropriate research design is suggested for the data collection and analysis underpinned in a justified philosophical paradigm.

This chapter is divided into ten different sections, which include 1) introduction, 2) philosophical paradigm, 3) research methods, 4) research design, 5) source of data, 6) data analysis method, 7) ethical consideration, 8) research quality, 9) Fieldwork report—revisions made, and 10) limitations. Finally, it concludes with providing a review of the respective chapter. The Figure 18 (below) depicts the schema of the chapter.

Figure 18 - Structure of the Chapter



4.2 Philosophical Paradigm

Guba and Lincoln (1994) identify three major philosophical research paradigms: positivism, constructivism and realism. The respective elements correspond to the reality (ontology), the relationship between reality, and the researcher (epistemology); which, in turn, determines the research methodology (Christie *et al.*, 2000). In this section, these three major philosophical paradigms, with their applicability and relevance to this study in the context of international business, are reviewed. This further provides justification for the selection of critical realism approach for this study.

4.2.1 Positivism

Positivism assumes that phenomena can be accurately defined and measured (normally quantitatively). It provides a single, and unbiased view of reality (Carson *et al.*, 2001). Positivist researchers view the world with a 'one-way mirror', and the researcher as an unbiased observer (Anderson 1986; Healy & Perry 2000). Accordingly, positivists attempt to detach themselves from the world they study. However, the researchers belonging to the other two paradigms Constructivism Critical Realism postulate that they are participants in real world activities by default and that this can help to better understand the investigations (Creswell, 2003). The principal data collection techniques associated with positivism includes controlled experiments and large scale testing of hypotheses. The latter involves using data not based on perceptions or attitudes, but upon observable data about phenomena that can be accurately defined and measured (Christie *et al.*, 2000). Hence, as Healy & Perry (1997) suggest, positivism is not suitable, when the research involves humans and their real life experiences, as they tend to isolate the social world by reducing the role of human being to the research phenomena (Robson, 2002). The assertion that positivism is normally not suitable, when investigating phenomena, is because the views and perceptions of people exert strong influence on the outcomes of the phenomena being investigated. It is based on the rationale that positivism normally only considers observable and directly measurable factors, such as, profit, growth, and ownership modes. The Positivists hold that science rests on certain specific empirical results that are not linked to a particular social position of the phenomena. Hence, overlooking other important generative mechanisms associated with social phenomena being concept-dependent (Sayer, 2000). The positivist approach to social science is purely empiricist, that is, it focuses on sense data in understanding a social phenomenon, claiming that knowledge is purely an objective analysis of facts, independent of consciousness (Bryman and Bell, 2007). Since, this study is about peoples' attitudes and agendas motivating their behaviour—that is, studying the behaviours of policy makers and individuals' power within institutions (both formal and informal)—the positivistic paradigm would not be a suitable philosophical paradigm for this particular study.

Furthermore, recognising that FDI policies and institutions are complex, usually extending over a continuous period of time, is yet another unsuitability aspect of the positivism for this type of studies (Bénassy-Quéré *et al.*, 2007). Finally, the positivist paradigm strongly advocates the use of pure quantitative data approach (Creswell, 1994, Bryman and Bell, 2007). However, this study is dominated by the qualitative data.

4.2.2 Constructivism

The constructivist paradigm assumes relativist ontology, a subjectivist epistemology and a naturalistic set of methodological procedures (Denzin and Lincoln, 2003). It suggests that truth is a particular belief-system held in a particular context; an approach, which is interested in investigating the values underpinning the findings (Schmidt, 1997). It further advocates an interaction between the researcher and the participant and requires the researcher to be a 'passionate participant' during the fieldwork (Guba and Lincoln, 1994), with the implication that it tends to exclude external realities, such as, the economic factors (Bryman and Bell, (2007).

The constructivism paradigm holds that truth is a construction, referring to a particular belief-system, and held in a particular context (Guba and Lincoln, 1994). Thus, constructivism enquires about the ideologies and values, which lie behind a finding. Subsequently, the paradigm is rendered suitable for social science research concerning religion and theological belief, but rarely appropriate for International Business research. Once again, this approach excludes concerns about real cost-effectiveness, and technological dimensions of business (Perry *et al.*, 1999).

Since the institutional factors and policies, with regard to FDI, are being investigated during the course of this particular study; hence, constructivism would fail to address important dimensions, such as, the economy, laws and geography, making it unsuitable as the philosophical paradigm for this particular study.

4.2.3 Critical Realism

Critical realism holds that an actual social phenomenon can be ascertained (Heal and Perry, 2000), since there is a real world; that is, that objects exist independently of our perception of them and that the world exists independently of our knowledge of it. In other words, knowledge can only be produced in terms of available descriptions or discourses (Sayer, 2000). Critical Realism is different to 'scientific realism' (or naive empiricism) in that it seeks to recognise the reality of the natural order and the events and discourses of the social world (Carlsson, 2005). Hence, it imperfectly embraces elements from both positivism and constructivism. Thus, studies underpinned in critical realism are mainly descriptive and explanatory in their nature.

4.2.4 Justification for Critical Realism as the Philosophical Paradigm in this study

In contrast to other main qualitative paradigms (such as, constructivism) critical realism asserts that perception is not a reality, but a perception for realists is a window to reality from which a picture of reality can be triangulated with other perceptions (Perry *et al.* 1997). The critical realist ontological position is that the real world is composed of a number of structures (generative mechanisms) that produces events, known to us through our experiences. Thus, the real world is ontologically stratified (Carlsson, 2003).

According to (Ackroyd, 2004), critical realism has received much attention in business and management studies; it has been applied and refined in various fields including economics, marketing, and organisational studies. However, critical realism has been overlooked by International Business studies previously. In recent times, critical realism has received increasing attention in International Business research due to the multidisciplinary nature of International Business research. This particular paradigm not only allows for the description of a multidisciplinary object of study, but also complex phenomena (Morais, 2012). Furthermore, attention to critical realism in International Business studies tend to be characterised by complexity, which is due to cultural, linguistic and institutional heterogeneity (Sharpe, 2004). Hence, the following arguments are put forward for choosing critical realism for this study:

a. The approach provides the ability to analyse and examine the complex interactions between the perceptions and views of actors and economic objectives that underpin the development and implementation of FDI policy in Kuwait. Understanding the mechanism that give rise to a particular form of behaviour makes critical realist research philosophy particularly suitable for International Business phenomena due to cultural, linguistic and institutional heterogeneity (Sharpe, 2004). Furthermore, it is appropriate for policy related studies (Fleetwood, 2000). Moreover, it assists in arriving at an understanding, which can explain why and in what circumstances FDI policies are likely to be ineffective in attracting inward FDI (Pawson and Tilly, (1997).

b. Critical realism used as a prism helps to *see* the world in an objective way can help to identify the *unseen* factors causing low FDI flows to Kuwait. The factors are related to values and beliefs held by the human actors. The respective factors cannot be understood without reference to the objectives and agendas of these actors defining and shaping their activities (Guba & Lincoln, 1994).

c. Critical realist perspective accommodates a range of empirical research methods depending on the nature of inquiry (Fleetwood and Ackroyd, 2004). It renders the study interpretive, creative, and does not prioritise a particular kind of data (e.g. qualitative or quantitative). In the case of this study, using both quantities and qualitative along with secondary data encourages the researcher to be creative and to take advantage of critical realism's research practices to use quantitative method and supplement it with qualitative method in order to better understand the causes of FDI casual mechanisms in Kuwait.

d. The key characteristics of critical realism explain the ‘object’ through examination of other phenomena that are suspected to have an impact (Sayer, 1992). This suggests that it is an appropriate philosophical underpinning for many areas of International Business research design, in general; however, especially for this particular research, since this study investigates an array of various influences by multiple players.

e. Critical realism holds that theory is used to construct conceptual frameworks; hence, it is an important part of adequate research design (Groff, 2004). It facilitates the conceptualisation of the factors driving the outcomes, which are to be examined as a necessary endeavour to fulfil the research objectives, and to answer the research questions. This requires the use of theory to enable the construction of a conceptual framework that incorporates the key factors: their relationships and interconnections that lead to the outcomes examined in the research. Thus, the use of conceptual framework in this study is underpinned by the characteristics of the critical realism paradigm, as it provides an understanding of the factors that drive MNCs to undertake FDI. It also provides a framework to analyse how the institutional framework in Kuwait interacts with the motivations in attracting FDI to Kuwait and in the granting of permissions to undertake such investments.

Finally, it is worth mentioning that the use of critical realism, as the research philosophy, calls for a deductive approach; whereby, using the conceptual framework as a guide for the research.

Table 11- Comparison of the four categories of scientific paradigms and their elements

	Positivism	**Constructivism**	**Realism**
Ontology	Reality is real and apprehensible	Multiple, local and specific constructed realities	Reality is real but only imperfectly and probabilistically apprehensible
Epistemology	Objectivist findings true	Subjectivist: created findings	Modified objectivist: findings probably true
Common methodologies	Experiments/surveys verification of hypotheses, chiefly quantitative methods	Dialectical: researcher is a 'passionate participant 'within the world being investigated	Case Studies/convergent interviewing, triangulation, interpretation of research issues by qualitative and by some quantitative methods.

Source: Adopted from Healy and Perry (2000)

4.3 Research Method

This study investigates the complex relationships and interactions between institutions, MNCs' strategies, and FDI policies in Kuwait. The aim is to discover the underlying ‘causal tendencies’ (Bhaskar, 1979) that may lead to low FDI inflow in this context. To achieve this goal, an in-depth understanding of the interaction between actors (MNCs and government officials), and the objectives of Kuwaiti FDI laws and policies is needed. Hence, the key here would be to find out about the nature of these dynamics in the interactions and the attitudes of the parties involved through conversations. This, in turn, would reveal the way these individuals (i.e., Kuwaiti FDI lawmakers, policy implementers and senior executives at MNCs) construct their realities. In other words, attaining data that would reveal not only the process, but also the *how* and *why* of these dynamics (Creswell, 2003). Such rich data, which has to do with the way individuals construct their reality and behave accordingly, cannot be adequately obtained through conducting large scale quantitative studies using a reduced number of broadly measured variables (Scharpf, 2000). Even, if an attempt were made to deploy a pure quantitative research approach, the small size and the poor quality of the data (about FDI inflows into Kuwait) would mean that it is impossible to obtain large samples of good quality data (Mina, 2007). Subsequently, it makes it difficult to obtain meaningful statistical results for FDI characteristics and behaviours. Hence, rending the statistical results meaningless and misleading (Lind *et al.*, 2002).

Support for such reasoning can be found amongst many scholars (Stake, 1995, Ritchie and Spencer, 2002, Murphy and Dingwall, 2003), who posit that aspects of policy-research favours qualitative methods. This is so, especially, when the research objective is to investigate policy-process (Guess and Farnham, 2011), and policy-performance within the context of institutions (Polski and Ostrom, 1999) rather than measuring FDI policies' indictors individually (Scharpf, 1994). This cannot be easily achieved through advance mathematical techniques (Fleetwood and Ackroyd, 2004). This study uses quantitative methods by means of collecting data through a survey of MNCs using this data to assess the perceptions and views of MNCs about Kuwait as a location for FDI. The data is then coupled with interviews together with secondary data to further extend and develop the information gathered in the survey in a manner similar to that used by Birkinshaw (2004) and Eckhardt (2004).

In this study, the mixed method approach was selected for several reasons. Firstly, mixed methods approach combines the strengths of the quantitative and qualitative research methodologies, overcoming some of the weaknesses arising when the research depends solely on a single methodological approach (Flick, 2006). Hence, the researcher is able to use the strengths of an additional method to overcome the weaknesses in another method. Such as when important issues are not explored in depth in the quantitative approach and/or when measurement and frequencies of the occurrence of a phenomenon are not a focus on key issues that affect the outcomes and process to be examined.

Secondly, mixed methods is appropriate to improve the understanding of the phenomenon under investigation (Teddlie & Tashakori, 2009). In this research mixed methods improves understanding of the low level of inward FDI flow into Kuwait, in the context of institutional system in Kuwait and its influence on FDI policy performance. In addition the method permits effective consideration of problems arising from institutional systems used in making decisions to grant FDI licences, by measuring the *level* of inward FDI flow under the quantitative methods and then explore the *reasons* through interviews which falls under the auspices of the qualitative approach. Hence, the mixed methods approach can provide a broader answer to the research questions in a holistic fashion (Creswell, 2003).

Thirdly, the holistic way of looking at a phenomenon leads to a mixed methods since the objective of mixed methods is to use the results of one method to elaborate on the results of the primary method used for the investigation (Swanson, 2005). In the current study, the quantitative method is used to develop understanding of MNC's opinions when assessing Kuwait as potential location for their investments in the Gulf region. Qualitative methods are used to elaborate and enhance the understanding of the quantitative findings, by providing additional insight and understanding of why MNCs in the region might be attracted are deterred from investing in Kuwait.

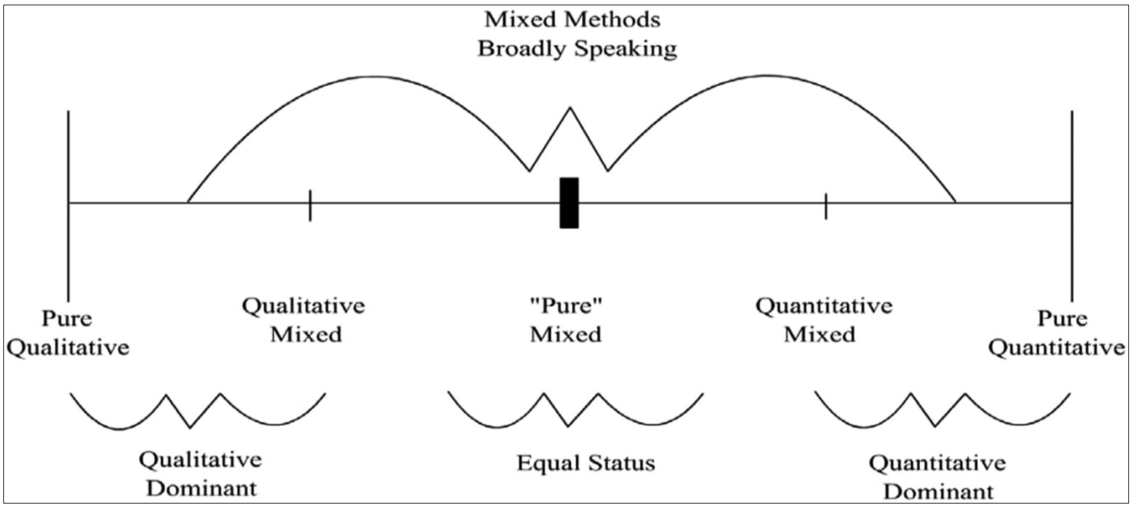
Fourthly, the use of mixed methods fits the multi-disciplinary nature of the International Business research area. According to (Hurmerinta-Peltomaki, 2003, Hurmerinta-Peltomäki and Nummela, 2006)as a relatively new field, International Business studies typically requires some kind of *pre-understanding* before a more extensive study is carried out.

Fifthly, the use of the mixed methods approach in International Business studies increases the validity of the findings, due to 'complementarities' (Saunders et al, 2009), that provide a stronger evidence for a conclusion through convergence and corroboration of findings by using data triangulation (Denzin, 2009) by using survey, interviews and secondary data).

The drawback however in using the mixed methods, even though it facilitates the acquiring of rich empirical data as well as providing a more comprehensive understanding of the phenomenon under investigation is that it imposes considerable requirements on researchers such as the demands for different kinds of data and their allocation (Bryman & Bell, 2008). This in turn means there is a need for the acquisition of high methodological skills by researchers (Hurmerinta and Nummela, 2012).

Although, this study uses both qualitative and quantitative methods, it does not fall within the definition of pure mixed-methods research. The mixed-methods approach requires a certain criteria to be met, as outlined by Hurmerinta-Peltomäki and Nummela (2006), such as: 1) the order of using quantitative and quantitative methods, 2) the role of using quantitative and quantitative methods, and 3) the purpose of using quantitative and quantitative methods (Creswell and Plano, 2007). Hence, in this study, the quantitative method was used first using surveys, which was followed by the qualitative method through interviews. Hence, the data was not collected simultaneously; also, the qualitative method has played a larger role than the quantitative method in the process. The rationale behind this course of action was that the data obtained through surveys had only one function, that is, to establishing the *phenomenon* (the low FDI inflow into Kuwait). On the other hand, the qualitative method made it possible to collect data associated with individuals' sentiments and past experiences, as a basis for the way they see and construct the world and would *explain* a particular phenomenon with further support from secondary data (Mina, 2007, Hussein, 2009). This study, therefore, falls within the grey area of mixed-method (Creswell, 2003, Creswell and Plano, 2007) using an approach called 'qualitative-dominant', or 'qualitative mixed' approach (Johnson *et al.*, 2007). Figure 19 (below) depicts the major research paradigms, including sub-types of mixed methods research-position of qualitative mixed within these paradigms.

Figure 19 Graph of major subtypes of mixed methods research



Source: Johnson *et al.* (2007: 124)

4.4 Research Design

Research design - "*deals with a logical problem and not a logistical problem*" (Yin, 1989: 29). Bryman and Bell (2007) state that *"a research design provides a framework for the collection and analysis of the data"* (Bryman and Bell, 2007: 40). In social science, a research design provides a structure for data collection and analysis, and ensures that the evidence obtained enables the researcher to answer the research question(s) as accurately as possible. The accuracy is achieved by identifying the nature of the needed evidence; either to test a theory, evaluating a phenomenon or describing a phenomenon accurately. Depending on the nature of the study and the method chosen, there are a number of different research designs available to social scientists. In this study, the Case Study research design chosen is justified as follows.

4.4.1 Case Study

While many countries in the Gulf region are actively seeking FDI to diversify and develop their economies, Kuwait seem be less successful in this endeavour. The fact is evident in its overall low ranking in comparison to other countries, such as, Saudi Arabia, Bahrain, Qatar, United Arab Emirates, and Oman. There exists quite a robust FDI incentive scheme for MNCs; yet, a limited number of FDI projects in Kuwait. Thereby, it is suggested that FDI policies may not be the reason for the low level of FDI inflow into Kuwait. Hence, this study explores other potential factors, such as, the influence of institutional environment on FDI policy enactment (Peng, 2003, Peng *et al.*, 2008, Dunning and Lundan, 2008a) through conducting a broad investigation into the role of institutional environment on FDI policies in Kuwait, using a case study approach.

For achieving this objective, the case study research design has been opted. A case study is a *"systematic enquiry into an event or a set of related events which aims to describe and explain the phenomenon of interest,"* (Stake, 1995: 5). It is *"an enquiry that investigates a contemporary phenomenon within its real life context,"* Yin (2003: 9). There are a number of advantages associated with using a case study. For instance, it enhances the researcher’s understanding of the research phenomenon (Aharoni, 2012), engaging him or her more closely with the phenomenon under investigation (Ghauri and Gronberg, 2005). The case study approach is well established in social sciences (Stake, 1995). It is also widely used in business and management studies (Yin, 2009). Many scholars (Piekkari *et al.*, 2009) have utilised the case study research design to investigate ways to attract foreign investors from developed countries to developing countries.

- **The use of Case study in this study**

In this study, we explore the level of FDI inflow into Kuwait in the context of a multi-dimensional and complex context of formal and informal institutions. Surveys and semi-structured interviews provide the data to with operationalise these units of analysis. The process facilitates further questions for the surveys and the semi-structured interviews protocol, which is derived from the conceptual framework as well as the literature review and the secondary data by following the footsteps of (Piekkari *et al.*, 2009). It further builds upon their use of a single case study as a research design within IB focusing on FDI flow. The justifications regarding using a Case Study Approach are as follows:

a) A case study approach provides a holistic, and in-depth insight into the phenomena (Feagin *et al.*, 1991). In this study, it is the effect of institutions—both formal and informal—on the level of FDI inflow into Kuwait, whilst taking into account a number of factors outlined in the conceptual framework.

b) The topic of FDI policies in the context of Gulf countries, particularly in the case of Kuwait, is barely explored, mainly due to its complexity. Such complexity, entailing the influence of formal and informal institution on the FDI inflow into Kuwait, can be addressed using a case study as a research design. The case study approach makes it possible to understand and explain complex phenomena (Yin, 2011). The case study has the ability of breaking down various stages of the conceptual framework, and their corresponding proposition into smaller and simpler generative mechanisms of FDI in Kuwait.

c) The case study has the ability to handle both qualitative and quantitative methods through the use of multiple sources of data, such as, surveys, interviews and archive records as secondary data (Yin, 2009). It further allows the researcher to achieve triangulation from the multiple sources of data, in order to enhance the trustworthiness of the study (Sinkovics *et al.*, 2008).

- **Elements of case study design**

The existing literature provides some suggestions as to how to design a case study. Yin (2009) suggests that a case study needs to have five components: 1) research questions,

2) propositions, 3) unit of analysis, 4) the logic of linking data to the propositions, and 5) criteria to interpret the findings. These elements, in this particular study, are explored below.

Research question

The research question refers to the questions that are formulated in lieu of the objectives of the study, and are based on the existing body of knowledge and gaps in it.

Research propositions

The research propositions refer to those propositions, which direct the attention to something that should be examined within the scope of the study (Yin, 2009). In this study, propositions have been developed, which are based on the research conceptual framework stage. Each proposition is linked to a stage of the conceptual framework in order to guide the study investigation. It is important to reinforce that the conceptual framework had been constructed in accordance with the objectives and questions of this study.

Unit of analysis

The unit of analysis is a key element in a case a study, as it examines the data in details to arrive at conclusions (Yin, 1989). Context- specific, the unit depends on the research objectives, questions, and propositions. Thus, as this study aims to explain the reasons behind the prevalent limited FDI inflow to Kuwait through conducting broad investigating into the role of institutional environment on FDI location factors and policies in Kuwait, the unit of analysis in this study is FDI in Kuwait.

The logic of linking data to propositions

In qualitative research, a proposition bears the property of either being true or false in relation to a phenomenon. In this study, each stage of the conceptual framework has a proposition linked to it as to test whether or not what is being proposed (e.g. the role of KFIB in FDI inflow) is either true or false. Testing the propositions paves the way to answer the research questions. Hence, in a logical and systematic manner, the propositions will be tested; subsequently, based on the results of that test (being either true or false), the research question will be answered through questions posed to the participants (both in the survey and the interview protocol along with data attained through secondary sources). These questions are formulated through the operationalisation of the variables the context of which derives from the literature review, and the conceptual framework. It is valid to date that the data analysed to test these propositions is directly proportional to the propositions.

<u>The criteria to interpret the findings</u>

Guided by the conceptual framework, and related to the propositions and questions, the data will focus on the objectives of this study (i.e. the underlying reasons for low FDI inflow into Kuwait). Therefore, only relevant data (qualitative, quantities and secondary), which is directly related to the phenomena under investigation, will be considered. It is likely that this approach leads to loss of some data (see section on data reduction). Interpreting the results of the data analysis is done in the context of directly linking to the various stages of the conceptual framework.

Table 12 Linkage between Research Questions, Conceptual Framework and the Survey and Interview questions

Research question	Designated stage in the conceptual framework	Proposition	Example of the questions in the Survey	Example of the questions in the Interview Schedule
1. What are the key characteristics of Kuwait's FDI policy, institutional systems, and MNC location factors that influence FDI decisions?				
2.a What is the knowledge level of MNCs in the Gulf region of Kuwait as investment location and how does this relate to nationality, Industry, and size of investments in the Gulf region?	**Stage One** An examination of MNCs consideration of Kuwait as a FDI location.	"Kuwait is suffering from low inward FDI because a number of MNCs have never considered Kuwait as FDI destination due to unfamiliarity and unawareness with Kuwait as investment location"	*During the process of searching for a location in the Gulf region, was your company familiar with Kuwait as potential investment location?*	*Have your company been contacted by any agency in Kuwait regarding the investment opportunities in Kuwait?*
2.b What are the major factors that MNCs find What are the major factors that MNCs find attractive / unattractive in Kuwait and how does this relate to nationality, industry, and size of investments in the Gulf region?	**Stage Two** Assessments based on MNC internal environment factors	"Perceived problems with institutional factors exert a negative influence on MNC's wiliness to locate in Kuwait"	*What are the major reason(s) for your company's investment activities in the Gulf region?*	*What are the major reason(s) for your company's investment activities in the Gulf region?*
2.c Which What are the Kuwaiti location factors that are attractive / unattractive for MNCs and how does this relate to nationality, industry, and size of investments in the Gulf region?	**Stage Two** Assessments based on MNC external environment factors (Non-Institutional location factors in Kuwait)		*If your company would consider (or has considered) Kuwait as an investment location, which of the following location factors, attracts (or had attracted), your company to invest in Kuwait?*	*Which location factors attract (or had attracted), your company to invest in Kuwait?*
2.d What are the Kuwaiti institutional factors that are attractive / unattractive for MNCs and how does this relate to nationality, industry, and size of investments in the Gulf region?	**Stage Two** Assessments based on MNC external environment factors (Institutional location factors in Kuwait)		*Which of the following institutional factors, would discourage (or has discouraged) , your company to invest in Kuwait ?*	*Which institutional location factors (or had discourage), your company to invest in Kuwait?*
2.e What are the Kuwaiti FDI policies and that are attractive / unattractive for MNCs and how does this relate nationality, industry, and size of investments in the Gulf region?	**Stage Three** MNCs Examination of Kuwait's FDI related policies.	"Kuwait receives low inward FDI because many MNC's considering investment are dissuaded by obstacles arsing from government FDI policies."	*Which of the following investments related policies, would discourage (or has discouraged) your company from investing in Kuwait?*	*Which FDI related policy, attracts (or had attracted), your company to invest in Kuwait?*
3. Are there institutional obstacles to obtaining approval for FDI in Kuwait and if there are, do these related to key strategic objectives and characteristics of MNCs?	**Stage four** Examination of FDI licences process in Kuwait	"Kuwait receives low inward FDI because of institutional shortcomings affecting FDI entry approval."	Not applicable	*What procedures / requirements were the most problematic, complicated or unclear for your company?*
4. Can institutional changes to Kuwait's FDI policy and institutional systems be identified, which may improve FDI inflows to Kuwait?				

4.5 Source of data

Similar to the approach of Bradley and Moles (2001) and Hurmerinta-Peltomaki (2003) regarding the research design of combining both qualitative and quantitative methods; in this study, three types of data will be used: quantitative, qualitative and secondary data. The quantitative data will be collected through administrating a survey. The qualitative data will be obtained through interviews. The use of the secondary data will further supplement the first two set of primary data. The quantitative data collected preceded the qualitative data attained, as mentioned earlier. The quantitative data is to be analysed using the descriptive statistical methods. The qualitative part of the research, based on interviews to be conducted with MNCs in the Gulf region, is to provide further insight into the phenomenon (Gassel and Pascha, 2000). The quantitative data identifies location factors, which attracts or discourager MNCs to invest in Kuwait (using the factors identified in conceptual framework stage). The qualitative data will be used to provide explanations as to why these location factors are attractive or unattractive to MNCs. The secondary data fills any potential gap in the primary data (Eckhardt, 2004).

4.5.1 Survey

The primary objective of using a survey is to assess a number of factors (identified in the conceptual framework), which influence the MNCs' FDI decisions. This type of data also helps to generate an overview of MNCs' assessment of Kuwait as a host country. Hence, the data generated through the survey will identify the perceptions of MNCs three different perspectives of nationality, size of investment and industry type. The use of the quantitative data is to examine the perceptions of MNCs about Kuwait as a destination for FDI, and *not* to investigate causal relationships between the perceptions of MNCs about Kuwait as a FDI location and investment in Kuwait. Given the very limited nature and poor quality of FDI data in Kuwait, it is not possible to determine FDI as a dependent variable that can be correlated with independent variables determined from the data to be attained through a survey.

- **Survey Development**

The generation of a set of propositions from the study’s conceptual framework is achieved by the operationalisation of the key factors outlined in the framework. During this process, the propositions are converted to variables in order to be measured empirically. Subsequently, testable propositions will be recorded by converting them to testable questions for the survey questions (See appendix A). This part of the survey development process will be tested and revised several time in order to ensure that the participants understand the correct meaning of the conceptual propositions during the process the survey (see next section). Therefore, the researcher intentionally did not build any scales into the survey (e.g. Likert scale). Since using the survey was not to examine the relationship between FDI location factors, or policies in Kuwait and correlated to the FDI inflow performance (De Vaus, 2002).

- **Survey population and Sampling**

The target population refers to the entire group, which the researcher wishes to generalise. In this study, the target population is all foreign MNCs in the gulf region with different nationalities, industries, and size of investments in the gulf region.

The accessible population contains all participants that are accessible to the researcher as a pool of subjects for a study. In this study, the accessible population for the survey is MNCs in the Gulf region, i.e., Saudi Arabia, Bahrain, and UAE (Dubai). The other MNCs in the Gulf region in Oman and Qatar were not accessible, because the Chamber of Commerce in Oman and Qatar decline the researcher request of accessing the MNCs database. Consequently, as the objective is to minimise error and maximise the true measure, through increasing the sample size, to reflect a better picture of the true measure of the population (Lind *et al.*, 2002). Thus, the researcher adopted the rational of "use as large a sample as possible" (Ary *et al.*, 2010 :162). In this case, the researcher will choose all the accessible MNCs in the Gulf region in Saudi Arabia, Bahrain, and UAE (Dubai) as shown in table 14 below.

- **Access development**

The access to MNCs may prove to be a challenging task. There is a lack of existing directories or databases, which identifies MNCs in the Gulf region. As pointed out by Daniels and Cannice (2004), who assert that directories in some developing countries may not exist. This lack of adequate databases about MNCs in the Gulf region may be one of the reasons why many researchers in IB fail to include the Gulf region in their research (Mina, 2007).

Therefore, for this study, an appropriate and updated list of MNCs in the Gulf region needed to be developed. To accomplish this task, multiple visits to the Chamber of Commerce in Bahrain, Saudi Arabia, and the United Arab Emirates (Dubai) had to be made. Subsequently, with the assistance from the Chambers of Commerce and Industry in Bahrain, Saudi Arabia, and United Arab Emirates (Dubai), a database of 400 MNCs has been established. The respective database also includes contact details and investment activities profiles of these MNCs (see appendix A for sample access letter to Chambers of Commerce and Industry).

The list will be organised and categorised in accordance with MNCs' nationalities, size of investments, and industry type. The selection of participants within each MNC in the Gulf region was based on their position, and involvement in the decision-making process. This is to ensure that the questionnaires are addressed to appropriate individuals in each MNC (e.g., business development managers, director of projects, or managing directors), rather than a general enquiry sent to an office or mailbox.

- **Management of survey process**

Administration will be done through a personalised email message addressed to each targeted participant containing a designated URL link to the World Wide Web-based survey. The Bristol Online Surveys (BOS) portal site will be used for this purpose. This is an online survey system created by the University of Bristol (See appendix B). The rationale for using electronic survey in this research includes:

- Savings both time and money, as web survey publication can eliminate the need for paper resources, e.g., feedback publishing costs, distribution costs and survey collection costs.
- The system provides the opportunity to use a variety of stylish formats, when presenting the questions. In addition, it allows the participant to save the survey, to continue answering the questions later.
- The ability to present survey information and results in formats that were previously difficult to present, such as, summary statistics about the results of all the respondents to date, or to present the respondent with a separate, specialised set of questions. In total, 400 personalised email messages are planned to be sent to key participants retrieved from the electronic list of MNC’s in the Gulf region, developed especially for this study.

Table 13 - Survey breakdown

Country	Number of survey to be dispatched
Bahrain	120
Saudi Arabia	80
UAE (Dubai)	200

Source: This research data

4.5.2 Interviews

Interviews are the main source of information for any qualitative enquiry (Sobh and Perry, 2006); especially, when using a case study research design (Yin, 2009). Interviews are well suited for this study because

a) interviews are particularly well suited for exploratory research that seeks in-depth understanding of a research phenomenon, such as, to comprehend as to why Kuwait is suffering from low inward FDI
b) b) interviews will enable the researcher to gain access to the participants' experiences and views of the small size of population of participants (Ghauri and Gronberg, 2005)
c) interviews will further allowing the researcher to establish a personal rapport with the interviewees with several potential benefits, such as, the participants feeling comfortable and 'opening up' as well as gaining access to new participants through snowballing (Ghauri, 2004).

The interview questions formulated through the operationalisation of the unit of analysis derived from the conceptual framework are semi-structured interviews. The semi-structured interviews are neither highly structured nor unstructured. Hence, the interviewer allows the participant to speak freely, and prevents them potential straying away from the main topic (Barriball and While, 1994). The semi-structured interviews pose questions to the interviewee, that are carefully designed to draw the interviewee’s attention to a particular topic, while not leading the interviewee toward preconceived choices. The Semi-structured interviews, in the context of a case study research design, offer several advantages, which include:

- The exploration of the perceptions and opinions of the respondents regarding complex and sensitive issues and enable probing for more information and clarification of answers.

- Researcher can probe to understand perspectives and gain in-depth of information.

- Topic guide ensures that a core list of questions is asked in each interview, since the order of questions is not fixed, flow and sharing of views are more natural.

The justification for the use of semi-structured interview is that the conceptual framework sets parameters for data needed, which dictates the nature of questions in the interview protocol, as opposed to open ended questions. The idea is that the interviewee would speak freely, with the side benefit of a reduction of irrelevant information being relayed under the interview.

As an example, consider the following question: *'Has your company been contacted by any agency in Kuwait regarding the investment opportunities in Kuwait? Or updates on FDI law in Kuwait?*' In the form of a semi-structured interview, the question is directly linked and reflects the 'Host Country Familiarity and Awareness' (stage one in the conceptual framework) and permits the respondent to elaborate on this specific issue. We realise that the data obtained was relevant to the research objective of examining of MNC’s awareness and familiarity about Kuwait. This demonstrates the validity of the answer, and further provides the effectiveness of using semi-structured interview questions. In addition, we realise that the answer is quite concise, which can be regarded as yet another advantage of the interview questions formulated in a semi-structured fashion.

The participants will be selected according to the sampling strategy (see Interviews target population and sampling), and interviewed at their offices (on-site) in several countries in the Gulf region, such as, Saudi Arabia, Kuwait, Dubai and Bahrain. The interview protocol will be used (See appendix B).

Each interview will begin by an introduction of the researcher and his background, along with the outline of the research purpose, aims, and objectives, and issues of confidentiality. With the consent of the participants, the interviews will be audio-recorded using a Dictaphone, and saved on separate digital files labelled with the time, location and the detail of the participant. Each interview is anticipated to last for 60 minute, approximately.

- **Development of the interview protocol**

Interviewers use an interview protocol, as a guide, in order to ensure a systematic process of the interviews, such as, organising the order of the interview questions, managing and optimising the interview time. It allows to maintain the focus of the investigation within the research context, in order to avoid any possible diversion from the topic (Creswell, 1998, Silverman, 2004). Developing the interview protocol, for this study, required careful consideration of what information is being sought and how the information could best be obtained (Fery, 2000). Therefore, the interview protocol was developed based on the conceptual framework stages, in order to ensure that all stages would be covered by the interview questions (Patton, 2002). Three different interview protocols are to be used:

a) Interview protocols for MNCs in the Gulf region and Kuwait.

b) Interview protocol for KFIB in Kuwait.

c) Interview protocols for independent consultants in Kuwait.

The interview protocol consists of three main parts. The first part provides an overview and introduction of the research project to the participant to familiarise him or her with the research topic and the nature of the research. The second part is the ‘ethical considerations’ for the participant, where the interviewer introduces the confidentiality and privacy terms to the participant (such as, the right to stop the interview at any time, the right to protect their identity, and etcetera.). The third part of the protocol consists of the interview questions: introducing main questions (e.g., direct and indirect questions), follow-up questions, and probing questions for the interview (Kvale, 1996) (See appendix B).

The rational of developing interview questions is based on operationlisation of the original research questions, which are linked to the conceptual framework stages, demonstrated in the table below.

Table 14 - Example of the operationlisation process the interview protocol questions

Research question	**Conceptual framework stage**	**Stage proposition**	**Example of Interview question**	**Example of follow-up and probing questions**
"What are the Kuwaiti FDI policies and that are attractive / unattractive for MNCs and how does this relate nationality, industry, and size of investments in the Gulf region?"	Stage Three MNCs Examination of Kuwait's FDI related policies.	"It may be that Kuwait receives low inward FDI because many MNC's considering investment in Kuwait have been dissuaded by government policy obstacles like FDI policies"	Can you please tell me which FDI related policy in Kuwait, in your opinion attracts (or if it had, had attracted), your company to invest in Kuwait?	Why you mentioned these location factors? Can you please explain to me? Why you had chosen these location factors? Can you please give details?
			Can you share with me based on your assessments which FDI related policy in Kuwait, discourage (or if it had discouraged) your company from investing in Kuwait?	

The researcher will ensure that all participants receive the interview protocol well in advance, since some participants may decide not to participant in the study (Knox and Burkard, 2009).

- **Interviews population and sampling**

The target population for the interviews include: senior managers of MNCs in Gulf region, and senior government officials in the Kuwaiti government agencies involved with FDI policy (KFIB). Hence, the accessible population contains all senior managers of MNCs in Gulf region at Saudi Arabia, Bahrain and UAE (Dubai), and all senior government officials in the Kuwaiti government agencies involved with FDI policy, who will agree to participate in the interviews.

The qualitative sampling is about appropriateness (Patton, 2002), purpose and access to good information rather than representative and random or probability sampling (Coyne, 1997). Therefore, participants for the interviews will be carefully selected based on non-random statistical sample strategy. Hence, participants were selected because of their manifestation of their experience to elaborate and examine the research phenomena (Patton, 2002). As an example, key participants were selected from MNCs in the Gulf region and Kuwaiti government senior officials based on their position and involvement on FDI decision-making process.

The sampling strategy in this study is a combination of three purposeful sampling techniques: critical case sampling, selective sampling, and snowball sampling (see table 15 below). Through combining these sampling strategies, a desired sample size is achieved allowing flexibility (Patton, 2002, Silverman, 2005b). This sampling strategy increases the possibility of participants, who are not representatives in the target population (Burns & Grove 1999). It provided the only way of reaching the subjects working in other countries. Since there were no formal lists containing the names of MNCs in the Gulf region, the researcher decided to use snowball sampling to identify participants.

Table 15 - Purposeful sample strategies for selecting interview participants

Sample strategy	Description	Examples
Critical case sampling	Selection of participant who are rich in information because they are specialising in the area of investigation.	MNCs executives in the Gulf region, and independent consultants in Kuwait.
Selective sampling	Selecting participants based on initial set of criteria important to the study such as their expertise and experiences in MNCs' decisions about FDI.	KFIB staff, Investment committee members, and Policy makers in Kuwait
Snowball sampling	Referrals from participants to gain access other participant.	MNCs executives in the Gulf region

Source: Patton (2002), Sandelowiski (1995), and Miles and Huberman (1994)

Furthermore, in a qualitative research there are no clear criteria for the number of participants. What is important is the richness of the data collected from them providing sufficient information in order to adequately answer the research questions (Marshall, 1996, Morse, 2000, Creswell, 2003). In this study, 70 participants will be included, and are classified into three main categories: a) participants from governmental agencies in Kuwait (policy makers in Kuwait), b) participants from MNCs in the Gulf region and Kuwait, and c) local independent consultants.

A- Participants from governmental agencies in Kuwait (policy makers in Kuwait)

The first set of participants, Policy makers in Kuwait—a total of 21—were selected due to their positions and the degree of their involvement with FDI policy formulation and implementation in Kuwait. The respective participants are seen as key actors within the policy process system (Ostram, 2005, Ostrom, 2011). Thus, 21 participants (whole target population) are chosen from this group.

B- Participants from MNCs in the Gulf region and Kuwait

The second set of participants consists of executives and managers, who are decision-makers at MNCs about FDI in Kuwait, Bahrain, United Arab Emirates, and Saudi Arabia. The reason for choosing these countries lies in the fact that they host the highest number of foreign MNCs in the region. Therefore, 40 participants are chosen from this group.

C- Local independent consultants

The third set of participants is a number of independent consultants active in independent organisations (such as, non-profit research institutions) in Kuwait and the Gulf region. The selection criteria for this group was based on their expertise in FDI policies in the Gulf region, and due to their independency, being able to provide a neutral point of view on FDI policy performance in Kuwait, contributing to the comparative evaluation and assessment of the Kuwaiti FDI policies. Hence, 10 participants (whole target population) are chosen from this group.

- **Interview access development**

Interview access will be based on the previously developed survey list. The Executives at MNCs, who participate in the survey, will be asked to also consider participating in the interviews. This request will be stated on last page of the survey. However, as for the policy makers in Kuwait and independent consultant, the whole target population will be contacted for interviews. Hence, it is expected that the researcher might used social capital and networking to secure interviews with a number of senior government officials in the Kuwaiti.

Language of the interviews

Cross-cultural interviews are very context-specific, as they involve communication in different locations and cultures. In case, where the first language of the interviewees is Arabic (e.g., policy-makers, KFIB staff, and independent consultants), Arabic language will be used. The English language will be used, when interviewing the non-Arabic speaking participants (foreigners at MNCs).

4.5.3 Secondary Data

Secondary data sources provide information that may not have been possible to collect through the primary data collection instruments (Ghauri and Gronberg, 2005). According to Yin (2003), this type of data (which can take many different forms), can play an important role in any data collection in case studies, and interpreting research finding and results (Silverman, 2005a). The secondary source of data for this study will mainly comprise documents and archive records of FDI statistics indexes, FDI regulations, and policies for the Gulf region and Kuwait (see table 16 below).

Table 16 - List of secondary data used in this research project

	Content of the data	Provider
Reports and Archive documents	FDI related rules and laws that regulated the FDI activities in of Kuwait.	Government of Kuwait, Central Bank of Kuwait and Kuwait Foreign Investment Bureau (KFIB).
Reports and Archive documents	Draft of the under discussion FDI related laws and records of the Economic and Financial Committee at the Kuwaiti Parliament.	Kuwaiti Parliament.
Reports and published documents	World Investment Report series and Transnational Corporations Journal series.	UNCTAD
Reports, published documents, and panel data	Data on FDI performance and inflow.	World Bank Group and International Monetary Fund (IMF).

Source: This research

Searching and collecting appropriate secondary data is a time consuming task. Therefore, this task will be included in the data collection plan in Kuwait during the fieldwork.

4.5.4 Triangulation

Triangulation is a verification process that increases validity by incorporating different source of evidences in a single study (Creswell and Plano, 2007). Hence, it is considered as a major strength in a case study research design, and data collection. It uses many multiple sources of data providing multiple dimensions of the research phenomenon (Yin, 2011). According Denzin and Lincoln (2003), the advantage of triangulation is that “by combining methods and investigators in the same study, observers can partially overcome the deficiencies that flow from one investigator or method.” Another advantage of designing multi-method research lies in the potential for enhancement of the validity of the study findings. According to Polit and Beck (2004), the researcher can be much more confident about the validity of the findings, when it is are supported by multiple and complementary types of data.

The purpose of triangulation may also be method related (Yin, 2009). Hurmerinta-Peltomäki and Nummela (2006) argue that triangulation is useful in International Business research and emphasise that triangulation can be the way of using multiple methods. For example, when examining, which possible FDI policy is attracting the MNCs to invest in Kuwait, or why other policies had discouraged them from investing in Kuwait, data from both surveys and interviews with MNCs in the Gulf region along with secondary data is used.

Triangulation method refers both to mixing qualitative and quantitative approaches of research and data triangulation, and to the use of multiple data sources in a study. A quantitative approach was used (survey) in the study, and then a qualitative approach (interviews) was used in the study. It is believed that the use of triangulation of both method and data gave a more comprehensive picture of the factors contributing inward FDI flow into Kuwait. According to Bryman and Bell (2007), the purpose of triangulation is to provide a basis for convergence on the truth. They state that by using multiple methods and perspectives, researchers strive to sort out ‘true’ information from ‘error’ information.

4.6 Data Analysis

The data analysis procedure differs in the quantitative and qualitative parts of the study. Hence, this study adopts two general strategies for data analysis: 1) using the conceptual framework as a guide for the data analysis (Miles and Huberman, 1994) relying on the propositions (Yin, 2011); and 2) using both quantitative and qualitative data as well as the secondary data to advance the research findings (Creswell, 1994). Although, qualitative data remains central to this study, as explained earlier, the quantitative data is to add valuable information to the overall finding.

4.6.1 Analysis of the survey data

The method of analysis used for the survey data is simple descriptive statistics. An example of the descriptive statistics techniques is cross tabulation, frequency distribution, histogram, frequency polygon, plus graphical presentation of the frequency distributions and histograms (De Vaus, 2002). The survey data generally creates a systematic coding frame for the data obtained from the respondents. The data will be analysed using spreadsheet software (e.g., MS Excel), using the coding frame as the basis for entering the data into the software programmes to develop descriptive statistics about the sample. Thus, an advance web based online software package will be used to administrate the research survey and the coding will be established via software package. The coded data will then be exported to the spreadsheet software for analysis. None of the advanced statistical methods, normally used to examine the relationship between variables and interval data, such as, analysis of variance or linear regression and correlation, will be used in this search.

4.6.2 Analysis of the interviews data

Data reduction refers to the process of selecting and simplifying the data that appears in the interview transcripts. At this stage, the researcher generates categories and defines themes of the interview content. This is done through indentifying unrelated statement or statements, with unclear meanings. Therefore, the interviews analysis process will start with transcription of the interview, which is followed by the coding process for the transcript content and finally analyse the finding.

In the qualitative phase of the study, the Thematic Analysis will be used. According to Daymon & Holloway (2002), it is suitable for identifying patterns and themes in descriptive data in the form of narratives and statements, bringing order structure and meaning to the mass of collected data (Marshall and Rossman, (1995). The Thematic Analysis further makes it possible to organise significant statements related to the study into structured themes and clusters. Therefore, the main objective of the analysis is to divide and break down complex descriptive data into meaningful and understandable significant statements (Ghauri and Gronberg, 2005).

- **Interview transcription**

Transcription processes is a time-consuming task and the researcher needs to adopt a strategy for transcribing process, which starts immediately after the interview. Transcription is the process through which the researcher transcribes the taped interviews into written form. The researcher will follow the recommendation of Wengraf (2001) and McLellan *et al.* (2003) in regard to transcribing the interview content illustrated in table 17 (below). In the first phase, the researcher listens to the recorded interviews for the purpose of familiarisation with the content, evoking memory, taking short notes for every interview before the transcription process. Later on, the actual transcription process starts by listening to the audio conversation, typing it into word processing software. Thereafter, when the interview transcript is finalised, the researcher will listen to the interview, for the last time, and double-check what has been produced in order to assure nothing is missed during the transcription process.

Table 17 - Interview-transcribing process for this research

No.	Task	Description
1	Familiarise	Listening to the interview for the first time
2	Transcribing	Transcription process by listening to the audio conversation
3	Auditing	Listen to the interview for and crosscheck the produced transcript

Source: Adopted from Wengraf (2001) and McLellan *et al.*(2003)

An independent individual will, then, be asked to listen to the audiotape and follow the transcript in order to ensure the accuracy of the transcript. Finally, the transcript will be sent to the interviewee in order to verify the content of the transcript, and to make necessary changes, if any. For sample interview transcript, please refer to Appendix (Q).

- **Interview translation**

The language boundary is an inherent part of International Business research, (Chapman *et al.*, 2004). Thus, producing full equivalence of the Arabic text into English presents major difficulties to the translators (Bahameed, 2008). Translation theorists (Abu-Ssaydeh, 2007, Abu-Risha, 2008) have noted many barriers in relation to intercultural translation. This implies that translation between languages of different cultures is more difficult than carrying out translation between languages that are culturally similar due to the untranslatability of culture-specific expressions (Bahameed, 2008). Untranslatability refers to areas, where intercultural equivalence does not exist (Abu-Ssaydeh, 2007). Therefore, in some cases the Arab translator may find certain words in Arabic to have no equivalent in English, because the concepts they refer to do not exist in the English speaking cultures. As an example, the following phrase in Arabic: صلاة الاستسقاء , which can literally be translated to English as *'the prayer asking God to make it rain*', really has no equivalent in the English language. Hence, a meaning-based approach for translations will be used, as advocated by cultural anthropologist and a number of International Business scholars (Chapman *et al.*, 2004).

To overcome translation related obstacles, the researcher will takes into account the recommendation of Arabic linguistics scholars (Abu-Ssaydeh, 2007, Abu-Risha, 2008) in order to avoid translating the interview transcripts word by word and instead focusing on translating the *meaning* of the Arabic text into English. A careful use of well-formed structures will be observed in order to write sentences that are grammatically as well as semantically correct for the purpose of ensuring integrity of the meaning of the translated text. Table 18 (below) depicts an example:

Table 18 Example of translation from Arabic to English

Translated English from Arabic	Arabic original Text
Without youth there seems to be no meaning in life	بلا شباب لم يبق في الحياة ما يَسُرُّ

The two sentences above are nearly similar in structure, but each one has its own well-formed structure and keeps the same meaning. This strategy will be applied to the interview transcripts in Arabic (please see appendix C for sample interview transcript translation).

- **Coding process**

Codes serve as labels to separate and organise the qualitative data (Ghauri and Gronberg, 2005). The coding process of qualitative data, according to Miles and Huberman (1994), focuses on open and axial coding process. The coding process of this research relies upon the conceptual framework and the theoretical propositions in their developments, since the propositions have shaped the data collection in accordance to the conceptual framework.

Define the coding categories

The coding category is based on the conceptual framework's stages and the factors associated with them. The first step is to organise the factors identified under the conceptual framework, such as, locational factors under the first stage of the conceptual framework systematically. The next task is to sub-organise the elements of each factor, such as, culture or geographical location into separate sub-categories. For instance, the location factor of country risk was sub-categorised under location factor in the first stage of the conceptual framework and tested for its attractiveness or unattractiveness.

Open coding

Open coding is the process of breaking down, comparing and conceptualising the data into categories (Kvale, (1996). In this research, procedural coding method, which consist of pre-established coding system for a very specific way of analysing qualitative data (Saldana, 2009), will be used.

The coding process will start with an already prepared provisional list of codes, based on the conceptual framework's stages, and corresponding research questions. In the process of open coding, the concepts emerging from the raw data were grouped into conceptual categories. For instance, the process of open coding for institutional location factor, such as, 'private property protection' will be done through establishing three sub-codes categories: attractive quotes, attractive quotes, and no data as it is shown in Table 19 (below).

The attractive quotes will consist of interview contents that support the attractiveness of the private property protection factor. The unattractive quotes will consist of interview content that support the attractiveness of the private property protection factor. However, in the case that the interview content did not include any data regarding this specific location factor, then note will be recorded to indicate that there was no data regarding this specific location factor in the interview content.

Table 19- Example of coding linkage to research question and interview protocol

Research question	**Example of question in the interview protocol**	**Coding basis (Using Nvivo 9 software)**		
		Main Node	**Node**	**Sub-Node**
What are the Kuwaiti institutional factors that are attractive / unattractive for MNCs and how does this relate to nationality, industry, and size of investments in the Gulf region?	*Which institutional location factors attract (or had attracted), your company from investing in Kuwait?*	Institutional location factors	Private property protection	*Quotes about Attractiveness*
				Quotes of Unattractiveness
				No data

Axial coding

The axial coding is the process, where the category and subcategories (obtained through the open coding) are combined and interpreted through linking codes in the context of their relevant categories (Kvale, 1996). In this study, all sub-codes will be gathered to the main coding category by means of using software packages, in order to prepare them for analysis and interpretation (Creswell and Plano, 2007). Subsequently, the coded data is organised, and the themes are based on statements provided by the interviewees from all three participant-categories, i.e., executives at MNCs, governmental officials and policy makers, and the local consultants.

Then, the 'Designated Themes', identified in the literature, which correspond to the articulated propositions for each section of the conceptual framework, will be organised in clusters. For example, the first cluster may contain three themes, which covers 'Awareness' and 'Familiarity' of MNCs about Kuwait as well as the role of KFIB as influencing factors for FDI decision-making. Each theme covers three different perspectives of MNCs:

1. The influence of MNCs' National origin on FDI decision-making.
2. The influence of MNCs' industry type on FDI decision-making.
3. The influence of MNCs' size on FDI decision-making.

Table 20 Examples of presupposed themes organised in this cluster corresponding to the first stage of the conceptual framework

Cluster	Theme
Cluster ONE: The influence of MNCs' national origin on FDI decision-making.	**Theme One:** *Familiarity*
	Theme Two: *Awareness*
	Theme Three: *IPA role in MNCs' familiarity and awareness*

Meaning-formulation of the significant statements

Statements identified in the interview transcripts are statements of significance, which will provide meanings. The themes are used as building blocks to arrive to new information; in other words, new data. It will further demonstrate the linkage between such significant statement and their corresponding meaning (see table 21 below).

Table 21 - Examples of significant statements and their meaning

<u>**Significant statement**</u>	<u>**Formulated Meaning**</u>
".... Few years ago we were invited by the FDA in Washington DC to attend a ceremony of signing a memorandum of understanding with the Kuwaiti Ministry of Health, for the exchange of medical expertise and consultancies.... we began to think seriously about the possibility of expanding our business in Kuwait and Gulf region..."	Such statement is of significance as it indicates the familiarity with Kuwait as a host country for FDI. Meaning the company was actually considering a Memorandum of Understanding.
"... The taxation rate in Kuwait on foreign companies is the highest among all Gulf countries, in fact it is the highest in the Middle East ..."	Such statement is of significance as it indicates the lack of awareness of FDI incentives Kuwait. In light of the fact that Kuwait taxation on MNCs has been amended to a rate of 15% from 55%.

4.6.3 Using computer software to analyse interviews data

The Computer Aided Qualitative Data Analysis Software (CAQDAS) is a general used term for computer software packages used to analyse qualitative data, effectively (Easterby-Smith *et al*., (2008). Unlike the quantitative software packages, the CAQDAS does not do the actual analysis, rather it helps the researcher in the analysis process (Weitzman and Miles, 1995). These software packages allow for operations, such as, writing memos, writing reflection on the interview contents, creating coding and sub-coding categories and searching for keywords (Kvale, 1996). The CAQDAS was chosen for its advantages in analysing the qualitative finding, using a software package called Nvivo 9, which is considered the best available software package. CAQDAS provided the researcher with valuable advantages, such as:

- Speed at handling large volumes of data, creating cods and sorting them according to the selected themes and categories, making the coding process and retrieval process faster and more efficient (Seale, 2000).

- Enhancing the transparency of the process of conducting qualitative data analysis Bryman (2007) and thus encouraging the researcher to be more explicit and reflective about the process of analysis.

- Providing procedural advantage compared to traditional means of text analysis, and helping in the formalisation of processes which contribute to reliable research finding (Sinkovics *et al.*, 2008).

Please refer to Appendix D for a sample analysis of the interviews for MNCs in the Gulf region using N*vivo 9.

4.6.4 Fieldwork Report - Revisions made

This section is a report about the fieldwork conducted, and the necessary revisions made both after conducting a pilot study and during the fieldwork itself.

- **Pilot Survey**

Once the survey was fully developed, each question and the survey as a whole was evaluated rigorously before it was sent to the participants (DeVaus, (2002). Testing of the survey is an essential step to evaluate the survey questions for variations in participants' answers. This is aimed at ensuring that participants understand the intended meaning of the survey questions, and that there are no repeated questions in the survey (Converse and Presser, 1986).

The pilot study involved a test of the survey questions; whereby, 10 individuals participated in the pilot survey, and four in the pilot interview. The result of the pilot study indicated that the survey language needed to correlate more to the business language rather than academic in order to avoid confusion. The data from the pilot study was not included in the study.

- **Pilot interviews**

The pilot interview protocols were used to determine whether there were any flaws, limitations, or other shortcomings within the interview protocol (Kvale, 2007). The pilot study also helped the researcher to develop interviewing skills and to manage the interview time effectively. The results obtained from four participants, in the interview part of the pilot study, also indicated that some of the interview protocol questions were leading questions and needed to be paraphrased as to avoid guiding the interviewees to particular answers.

Furthermore, changes had to be made to the interview techniques. It was, firstly, necessary to build a relationship with the participants (especially, with the participants native of the Gulf region) in order for them to feel at ease and 'open up'. The questions relating to sensitive topics, such as, corruption could not be asked directly and to some extend reframing of some questions had to be done. However, this reframing was not recorded in the interview protocol. Each participant had to be approached differently depending on whether they were expatriate executives from MNCs or governmental officials from the Gulf region.

- **The Fieldwork duration**

The fieldwork lasted for 8 months (from September 2010 to April 2011). The fieldwork started with administrating the survey to 400 targeted participants in Saudi Arabia, Bahrain, Qatar, and UAE (Dubai), who held senior positions (general managers, project managers and governmental officials) within MNCs. On completion of collecting the survey data, field trips were made to Kuwait (KFIB and local independent consultants), Saudi Arabia, Bahrain, and UAE (Dubai) for conducting interviews as well as gathering secondary data from a number of institutions. The respective institutions included: Kuwait Foreign Investment Bureau, Chamber of commerce, and industry in Kuwait, Central Bank of Kuwait, Inter-Arab Investment Guarantees Corporation, Federation of GCC Chambers in Saudi Arabia, and United Nations Economic and Social Commission for Western Asia (UN-ESCWA) headquarter in Beirut, Lebanon.

- **Data collection - Survey**

Out of the 400 email messages sent during October 2010, nearly 100 bounced back with an ‘error’ notification (mainly from MNCs in Dubai), which indicated that the email messages were not delivered, because the email address was not valid. Upon inquiry about the email addresses, the Dubai Chamber of Commerce notified that these MNCs had moved out of Dubai due to the global financial crisis starting in 2008. The low response rate was also received from MNCs in Qatar, for the same reasons. Hence, the total number of received responses was 266—a response rate of 65 % (see table 22 below). The respondents answered all the questions in the survey. The BOS system did not allow participants to proceed to the next section of the survey unless they had completed the previous section.

Table 22 breakdown of the survey response rate for this study

Country	Surveys dispatched	Replied	Response rate
Bahrain	120	103	85 %
Saudi Arabia	80	55	68 %
UAE (Dubai)	200	108	54 %

Source: This research survey results

- **Data collection - Interviews**

The participants' implicitly, in some cases, directly expressed their reluctance in answering questions that were about corruption. However, vast majority of the participants were candid in their responses, and provided rich data. The changes related to the qualitative part of the fieldwork relates to the planned number of participants versus the actual number of them managed to be interviewed.

Furthermore, 13 participants from governmental agencies in Kuwait (policy makers) had agreed to be interviewed (4 from KFIB, 4 from FCIC and 5 from Economic affairs committee). As for independent consultant, 9 participants had agreed to be interviewed. However, the researcher encountered problems in seeking access to participants from MNCs in the Gulf region and Kuwait. Initially, more than 300 senior managers of MNCs in the Gulf region (based on the MNCs survey list) were contacted for interviews by use of emails, out of which only 10 senior managers of MNCs agreed to participate in the study. Therefore, the researcher requested a referral by those 10 senior managers for additional interviews with senior managers using their connections (network). It resulted in gaining access to an additional 17 participants at MNCs in the Gulf region and Kuwait; whereby, increasing the total number of participants to 27. Table 23 below lists the MNCs by industry type, which had participated in the study.

Table 23 Summary of MNCs in Kuwait and the Gulf region

MNC investment activity	Number of MNCs who have participate in this research interview
Petroleum & petrochemical	6
Banking and financial investments	8
Hotels & resorts	3
Medical & pharmaceutical industry	2
Trade	2
Aviation industry	2

Source: This research data

For a detailed list of MNCs interviewed, please refer to appendix (P). Table 24 (below) shows summary of the category, as well as the corresponding number of participants interviewed.

Table 24 - Total number of interviews for this study

Participants classifications	Planned	Actual
Participants from governmental agencies in Kuwait (policy makers)	21	13
Participants from MNC's in the Gulf region and Kuwait	40	23
Local independent consultants	10	9

Source: This research data

Management of interviews

Arabic was adopted, where the first language of the interviewees was Arabic. Such cases involved policy-makers, KFIB staff, independent consultants, and a few senior executives at MNCs (see table 25 below).

Table 25 - Languages used for interviews in this research

Interviewee	Language
MNCs in Kuwait and Gulf region.	English and very few Arabic
KFIB and policy makers in Kuwait.	Arabic
Independent consultants.	Arabic

Source: This research

Finally, the transcripts were sent to the interviewees in order to verify the content of the transcript and to make necessary changes, if any. Four participants replied with a short comment to agree on the contents of the transcripts without making any changes. During the interviews, five of the participants requested not be quoted directly, and another two requested the tape-recorder to be switched off. However, with their consent, the information was still included in the overall data, and analysis.

- **Secondary Data**

Collection of the secondary data, although limited, occurred without any problems. All the material needed was acquired from various providers during numerous visits to the region.

4.7 Validity and Reliability

Validity and reliability pertains to the level of accuracy and transferability in a study in which the phenomena under investigation is observed (Yin, 1994). For instance, here, the validity of the study concerns with the methods used Kvale (1996). The validation is not a final product verification built into the entire research process.

When designing a study, analysing results and judging the quality of the study Patton (2001) states that validity and reliability are two factors, which any qualitative researcher should take into account., Validity and reliability is important in establishing and assessing the quality of any research. Therefore, in order to make qualitative research reliable, researchers are encouraged to systematically design their studies, collect and analyse the data from the field (Ghauri and Gronberg, 2005).

A number of scholars have suggested different validity and reliability terminologies for qualitative research, such as, credibility (internal validity), transferability (external validity), and dependability (reliability) (Riege, 2003, Perry *et al.*, 1999, Sinkovics *et al.*, 2008, Yin, 2009). In this study, using the case study design, terminologies of validity and reliability as suggested by (Lincoln and Guba, 1985) will be used.

According to Lincoln and Guba (1985), internal validity refers to the establishment of cause and effect relationships, while emphasising on constructing an internal validity research process. In qualitative research, internal validity refers to whether or not there is a good match between researcher's observation and the theoretical ideas developed (LeCompte and Goetz, 1982). For instance, the causal effect of the KFIB's performance was scrutinized as a mediating factor for the level of FDI inflow into Kuwait. Such relationships are dynamic in nature (Healy, 2000: 913), and are influenced by environment. In this case, it would be the Kuwaiti culture's impact on the informal institutions. Hence, it was possible to address the *why* in this study by exploring the cause and effect—within both case and cross-case analysis—instead of describing the facts. The data was collected from three different and appropriate sources (i.e. executives at the KFIB, local consultant and executives at MNCs), which provided rich and relevant information.

Avoiding subjective elements in the collected data is called Construct validity (Yin, 1994). It refers to the subject of a study, and reflects on the dimensions being studied using multiple sources of data and evidence, their correlation, and the way the set of data complement each other by triangulation of multiple sources of data. Healy and Perry (2000) point out that in order to minimise unsubstantiated findings is helpful, further contributes to accuracy and objectivity. The three different sources of data pointed out the same results, providing confidence about the objectivity and accuracy of the entire study.

External validity refers to the degree to which the research findings can be generalised across social settings (Bryman and Bell, 2007). In this study, it meant to establish whether the specific sample of processes was representative for the larger population in general. The aim was to test the NIE theory using the Ostrom model in the context of FDI in exploring the effect of institutions on FDI inflow into Kuwait through analytic as opposed to statistical generalisation. Since *"the investigator is striving to generalise a particular set of results to a broader theory"* (Yin, 1994: 36). This was done by following Yin's (1994) requirements on external validity, through replication logic as a guide for sample selection as well as the findings' corroboration.

Finally, reliability refers to the restrictions on the operation and procedure of research enquiry, which can be repeated by other researcher to achieve similar findings (Riege, 2003). In other words, the extent to which a study's operations can be repeated with the same results (Cook and Campbell, 1979), and is based on the *single reality* notion that can be studied (Perry et al, 2000). In this study, the requirements for reliability were met through a number of procedures, such as, recording the research design steps, using an interview protocol during data collection as well as a adopting a coherent systematic approach to ensure consistency. Such measures may ensure that other researchers following the same procedures and repeating the same case can arrive at same findings (Ellis, 1995). Additionally, the data generation in order to further strengthen the reliability in this study. It was ensured that the audio recordings were clearly audible, and the interview transcriptions were written carefully and systematically. This was achieved by listening to the recording several times, and getting them checked by a third party methodically. Overall the use of these techniques, contributed to enhancing the validity and reliability of this study, and meeting the four main criteria for the quality of a research. Table 26 (below) highlights the techniques that were used in this research to enhance the validity and reliability of their overall research structure, as it has been suggested in various scholarly discourses.

Table 26 - Summary of techniques for establishing validity and reliability in this study

Techniques	Phase of the study in which technique occur
Internal validity	
• Display tables and diagram in the data analysis to assist explanation building the data analysis • Assurance of internal coherent of results during the analysis • Accuracy of data analysis • Theoretical and literal replication • Explanation building	*To be implemented during the process of data analysis of the study.* *To be implemented during the process of data analysis of the study through crosschecking the results.* *Derivation of coding schemes, and process of establishing and organising codes.* *Preliminary research phase.* *Research design, data generation and analysis* *Research design, data generation and analysis*
Construct validity	
• Define the scope and boundaries in the research design • Comparison of evidence with the extent literature in discussion. • Theoretical sampling	*Triangulation of imperfect reality* *Establishment of a chain of evidence*
External validity	
• Define the scope and boundaries in the research design • Comparison of evidence with the extent literature in discussion. • Theoretical sampling • Analytical generalisation	*To be implemented during the process of research design of the study to help achieve reasonable analytical generations* *To be Implemented in the discussion and recommendation of this study ,to clearly outline contribution and generalise those within the scope and boundaries of the study* *The use of multiple sampling techniques for selecting participants and MNCs in this study.* *Research design phase*
Reliability	
• Record the research design steps. • The use of interview protocol during data collection • Coherent systematic approach to ensure consistency • Case Study protocol • Case Study database	*Record in a systematic way the process of research design.* *Data collection phase of the study, with all participant who the interviewed.* *Interviews (data) to be recorded with a Dictaphone. The transcripts of the interviews to be sent to the participants for verification purposes. Establishing of systemic method for translating interviews transcripts, and the use of CAQADS in data analysis.* *Research design phase* *Data generation and analysis*

Source: (Riege, 2003, Perry *et al.*, 1999, Sinkovics *et al.*, 2008, Yin, 2009)

4.8 Ethical considerations

The fieldwork will not commence until a formal ethical approval is attained by the University of Bradford's Research Committee. Thus, the ‘Informed Consent Form’ (See Appendix B), for the interviews, has been prepared according to the University of Bradford’s Code of Practice for Ethics in research. The form includes directives about the participants’ knowledge about the purpose, methods, and the use of the study.

Likewise, the survey will be sent through the BOS system and not through any on-line commercial sites in order to avoid any possible violation of data security and participants’ confidentiality. In addition, as per the University of Bradford research committee's ethical requirements, all participants will be advised through data protection statement that all data collected in the survey will be held anonymously and securely. No personal data will be asked for or retained, as the research is governed by the ethical policies of the University of Bradford, which guarantees the confidentiality of all respondents.

The privacy issues, during the fieldwork, will have two implications. Firstly, the necessity for the researcher to develop an assurance for participants’ privacy rights, requiredno sensitive questions on issues such as race, ethnicity, political opinion, religious beliefs, and sexual orientation. Secondly, there may be few participants, who might object to the audio recording of the interview; while some participants may ask to stop the recording to erase part of their statement; subsequently, their requests will be granted.

The primary risk to the participants will be a potential breach of confidentiality leading to the disclosure of any adverse comments or statements made by the participants concerning their employers. Therefore, during the transcription process, the real names of the participants or commercial organisations will be replaced with fictional ones (for example, 'MNC_Gulf_A' to replace the real name of the MNC, or 'KFIB_staff_4' to replace the real name of KFIB staff). This will allow the researcher to retain important information while protecting the identity of an individual, or organisations.

4.9 Methodological Limitations

The fieldwork did pose some limitations, mostly due to the limited data available on FDI performance and activities in Kuwait and the Gulf region. During the fieldwork, multiple visits were made to the Chamber of Commerce in Bahrain, Saudi Arabia, and United Arab Emirates (Dubai), which had prepared an electronic list of all foreign MNCs in their countries available for this study per the researcher's request, which later on was further developed by the researcher. The electronic list consisted of MNC contact details, investments activities profile, and key contact persons. However, the lists were too general and unorganised. Therefore, the considerable time was spent in order to filter the lists and establish MNCs' profiles.

Another limitation during the process of the data collection involved the number of interviewees. Almost 10 participants from KFIB and other government agencies in Kuwait hesitated to participate in this study. It was mainly due to cultural factors in Kuwait and the Gulf region—despite assurances made about confidentiality and anonymity and informed consent form provided by the researcher. In addition, a few interviewees (mainly from KFIB and other government agencies in Kuwait) refused to audio tape the interview. In two specific cases, the interviewees decided against participating in the interview, when they understood that interview had to be recorded.

Although, the interview questions were articulated to cover all factors in the conceptual framework, some topics, such as, intellectual property protection and tariffs policy were not considered. Hence, the need for conducting further research concerning these particular factors in the future. Translation was another limitation for this study, since the researcher and the translators came across perplexing problems and difficulties; especially, when dealing with certain expressions and proverbs in Arabic. Hence, parts from some of the statements were nearly untranslatable. To this end, the meaning-based approach was taken.

Overall, no major adjustments to the fieldwork were made, and the plans outlined (in this chapter) were followed.

4.10 Summary

This chapter has outlined the method to conduct the fieldwork. It began with a short introduction, which was followed by a justification for adopting the philosophical paradigm of Critical Realism. Based on the nature of the study and its research philosophy, it was argued the qualitative mixed method and case study were the best suited research methods for this particular study. The other important aspects concerning methodology were also covered and discussed. These aspects include: sources of the data sought and sampling strategies, various instruments for data collection, such as, surveys and interviews in tandem with secondary data. The triangulation strategy was also discussed. The challenges that were faced during translating the transcripts from Arabic to English were also highlighted. The methodological limitations of this study were also discussed.

CHAPTER FIVE

KUWAIT IN CONTEXT

CHAPTER FIVE: Kuwait in Context

5.1 Introduction

This chapter contributes to the overall study in terms of answering the first research question by providing a brief discussion and background information about Kuwait from a historical and social perspective. It is achieved in the context of locational factors, exploring their influence upon the key characteristics of its current FDI policy and institutional system, which determines MNCs' decision-making in opting for Kuwait as a FDI destination.

The chapter is divided into five sections, which include: Kuwait's history, geographical location, demographic changes, public welfare system, and finally economy before and after discovery of oil and its impact.

5.2 Historical Background

The limited data from the archaeological excavations of Failaka Island indicate a Greek presence between 400 to100 B.C. This implies that Kuwait may have been a meeting point for the ancient civilisations of Mesopotamia, Dilmun and Rome (Al-Shamlan, 1986). During the more recent past, tribes settled in Kuwait starting from the 1680s an event, which is often seen as the beginning of the actual history of Kuwait (Abuhakima, 1984). During the nineteenth and early twentieth century, Kuwait established an important position in the world trade, as a junction for routes between the East and the West (Dickson, 1956).

The modern day Kuwait was founded in the early seventeenth century by families of the Arabic tribes that moved from the Central Arabian Peninsula, and settled in this area seeking food and water. By 1756, the settlers’ numbers had reached 10,000 making their livelihood mainly through fishing and pearl diving (Winstone and Freeth, 1972). The settlers selected a Sk. Sabah (I) amongst themselves as a leader. His main responsibilities were to resolve disputes, as well as providing security from the neighbouring attacking tribes. In 1758 Sk. Sabah (I), from the Sabah family, was appointed as the Amir (ruler) and this family has been in power since then (Abuhakima, 1984).

5.3 Geographical Location

Kuwait is located at the North-East area of the Persian Gulf. Kuwait has a coast line on the East by the Gulf (195 kilometres); in the South and South-West. Kuwait shares the border with Saudi Arabia (250 kilometres); in the North and West, it shares a border with Iraq (240 kilometres). Due to its geographical location, Kuwait is considered as a significant passageway to the North-East of the Arab peninsula. The Kuwaiti borders totals about 685 kilometres with a distance of 200 kilometres between its Northern and Southern borders and 170 kilometres between its Eastern and Western frontiers. Kuwait is located between the latitude 28.45, 30.05 (North of the equator), and the longitude 46.30 and 48.30 (East of Greenwich). Its climate can be characterised as a desert climate. The climate in general is hot, dry during the summers, cold, and rainy during the winters (Kuwait Facts and Figures, 2011: 52).

Figure 20 - The Location of Kuwait on the world map

Source: Kuwait facts and figures, Ministry of Information, Kuwait (2008)

5.4 Population

The first population census in Kuwait was conducted in 1957. From 1936, prior to the actual oil exports, the rate of the population's growth suddenly accelerated and reached around 100,000 in early 1957, with further growth doubling its size to 206,473 (Kuwait Facts and Figures, 2010: 43). Since then, the population census has been carried out every ten years. The estimates from the Central Statistics Office illustrate that the population increased by mid-1988 to reach 2.1 million by the year 2000, which saw a drop of 1.4 million after the end of the Iraq-Kuwait war. The gradual increase, since then, has resulted in a total population of around 2.59 million (including 1.3 million non-nationals) in 2011. The population is expected to reach 3 million by the year 2015 with the current growth (Statistical Review, 2011).

5.5 Government

Kuwait gained independence from the UK on June 19, 1961. Its constitution, which combines aspects of both presidential and parliamentary systems of government, was approved and put into effect in 1962. It has a democratic *Amiri regime*, defined as the constitutional emirate; whereby, the Amir of the state is the ruler of the country. With three legislative, executive and judiciary branches and the Amir as the head of all three branches (Herb, 2002).

The Emir enjoys a hereditary position, and it is the Emir, who appoints the prime minister. The executive branch is the Kuwaiti government, which is headed by the Prime Minister, Jabir al-Sabah (since 2011). The Cabinet (e.g., Council of Ministers) is appointed by the Prime Minister and approved by the Emir. The most recent cabinet was formed in February 2012.

Kuwait National Assembly, as the legislative branch, has 50 seats, where each member serves a term of four years. In Kuwait, laws are not executed unless approved by the Amir. Only the Amir can issue pardons. Hence, laws enacted by Kuwait National Assembly are not valid until signed by the Amir within one month. After a month, if they are not signed, the proposed laws and legislations are returned to the Assembly, and if approved, they become in force without Amir signature (Al Moqatei, 1999).

The judicial branch is independent, which has a civil law system, with Sharia law significantly influencing private matters. The country is divided into six governorates, each with a courthouse and a court of appeals. Finally, there is a single supreme cassation court, in addition to a constitutional court (Amin, 1991).

5.6 Economy

Kuwait does not fit into the classification of developed or developing economy, but probably falls somewhere between the two (Al Matar, 2011). It demonstrates the characteristics of a developed economy (such as, a high per capita income being one of the highest in the world), a strong annual growth rate and a consistently healthy balance of payments. At the same time, it has a number of indicators of an underdeveloped economy, such as, dependence on the production and export of a single primary commodity (oil and gas), a short supply of skilled local labour and a heavy dependence on the importation of consumer goods (Dashti *et al.*, 2011). Kuwait's economy is predominately oil and gas based (80%), and with approximately 105 billion barrels of proven oil reserves (Luft, 2006). The country is regarded as the holder of the fifth-largest oil reserves in the world, after Saudi Arabia, Canada, Iran, and Iraq OPEC (2012). Petroleum accounts for nearly half of Kuwait's GDP, and comprises 95% of its export revenues and government income (CBK, 2012).

In 1934, the ruler of Kuwait granted an oil concession to the Kuwait Oil Company (KOC), jointly owned by the British Petroleum Company, and the Gulf Oil Corporation. In 1976, the Kuwaiti Government nationalised KOC. The following year, KOC took over part of the onshore production in the Divided Zone between Kuwait and Saudi Arabia with joint with Saudi Arabian Chevron, which, by its 1984 purchase of Getty Oil Company, acquired the Saudi Arabian onshore concession in the Divided Zone (KPC, 2011). Kuwait began negotiations in the early 1970s to gain full control over its own natural oil resources, and by mutual agreements with the company's two original partners (British Petroleum and Gulf Oil). The state's shareholding in KOC was increased progressively until full control was achieved. In 1975, an agreement was signed by Kuwait and the two oil companies giving Kuwait complete ownership and control of its oil resources; hence, KOC was nationalised (El Mallakh and Atta, 1981).

The oil soon became a major source of conflict within the government. The National Assembly wanted to be part of every decision made regarding its main national resource, and to play a role in other policies made by the government. Oil enabled successive Kuwaiti government to introduce new goals directed towards binding the people to the state becoming the number one employer and welfare provider, catalysing the growth of large bureaucratic apparatus (Abulhasan, 2004). Kuwait has an oil production of about 2.5 bbl/day, which makes it one of the top exporters of oil in the world today (OPEC, 2012). It amounts to vast financial reserves, which has de-motivated the authorities to diversify the economy

5.6.1 The need for Kuwait to Move away from Dependency on Oil Revenues

Kuwait's economy is heavily dependent on oil export revenues; however, it is seeing signs of decrease of earnings and depletion of its oil reserves. Such decline in revenues and reserves are amplified by a focus on unearthing new oil wells, increasing its daily oil production from the current 2.5 million bbl/day to a substantial 4 million bbl/day in 2015.

Such heavy reliance may cause the country to suffer from the general drawbacks that are associated with the Dutch Disease, such as, volatility of revenues (Davis, 1995). Making a move away from its total dependency on oil is essential in order to be able to sustain its economic longevity. While other GCC states have shown reasonable willingness to diversify their economies through attracting FDI, Kuwait appears to be less successful in this endeavour. The ambition of the Kuwaiti government to industrialise the nation is yet to bear fruit (Al Tony, 2009).

5.6.2 Disadvantage of Oil Dependency in Kuwait

There are various general disadvantages to high dependency on oil, or any other natural resources, for that matter. However, some specific drawbacks in the case of Kuwait highlighted in the following sub-sections.

- **The Dutch Disease**

In the 1960s, the Netherlands witnessed significant increase in its national wealth with the discovery of large natural gas deposits, with a number of economic flip-sides as drawbacks associated with sudden additional national income. Such drawbacks included the domestic resources, such as, labour and materials, being shifted to the natural resource sector (the resource pull effect), and causing prices to rises on the domestic market; therefore, increasing the costs to producers in other sectors. It further resulted in hampering growth along with soaring strength of the national currency; consequently, resulting in a decline in non-oil exports products. The sector that suffered the most was the manufacturing sector in terms of compromising its global competitiveness. This phenomenon was coined ‘Dutch Disease’ by (Ebrahim-Zadeh, 2003).

The Dutch disease’s symptoms—mentioned above—are shared in all resource-rich countries that are highly dependent on exploiting such resources. (Humphreys *et al.*, 2007) explain this predicament as “*a sudden rise in the price of natural resource exports produces an appreciation in the real exchange rate. This makes exporting non-natural resource commodities more challenging and competing with imports across a wide range of commodities becomes almost impossible (the spending effect). Foreign exchange earned from the natural resource meanwhile may be used to purchase internationally traded goods at the expense of domestic manufacturers of the goods.*”

Kuwait’s heavy dependency on oil has left it with similar symptoms to the Dutch Disease. It was demonstrated during the economic boom in 1970s, due to soaring oil prices during the first oil crises, when the price of oil in 1973 jumped from $3 per barrel to $12. However, by the end of 1979, there was a decrease in the demand for oil and prices fell. In 1981, the government announced a fiscal budget deficit for the first time in the country’s history. The economic slowdown was reflected in the change in real gross domestic production (GDP) in 1981, which was 9% lower than that of 1980, and declined a further 15% in 1982 (Kaboudan, 1988). Such decline revealed Kuwait's vulnerability due to its near total dependency on one source of revenue, which was the main reason for its lack of efforts to diversify and reform its economy (Dashti *et al.*, 2011).

- **Living off Capital**

Since oil and gas resources are non-renewable sources of energy and revenues, countries solely depending on these resources face problems, as they are constantly consuming their capital rather than income. If all revenues consumed in each period, then the value of the country’s total capital declines (Eltony, 2007).

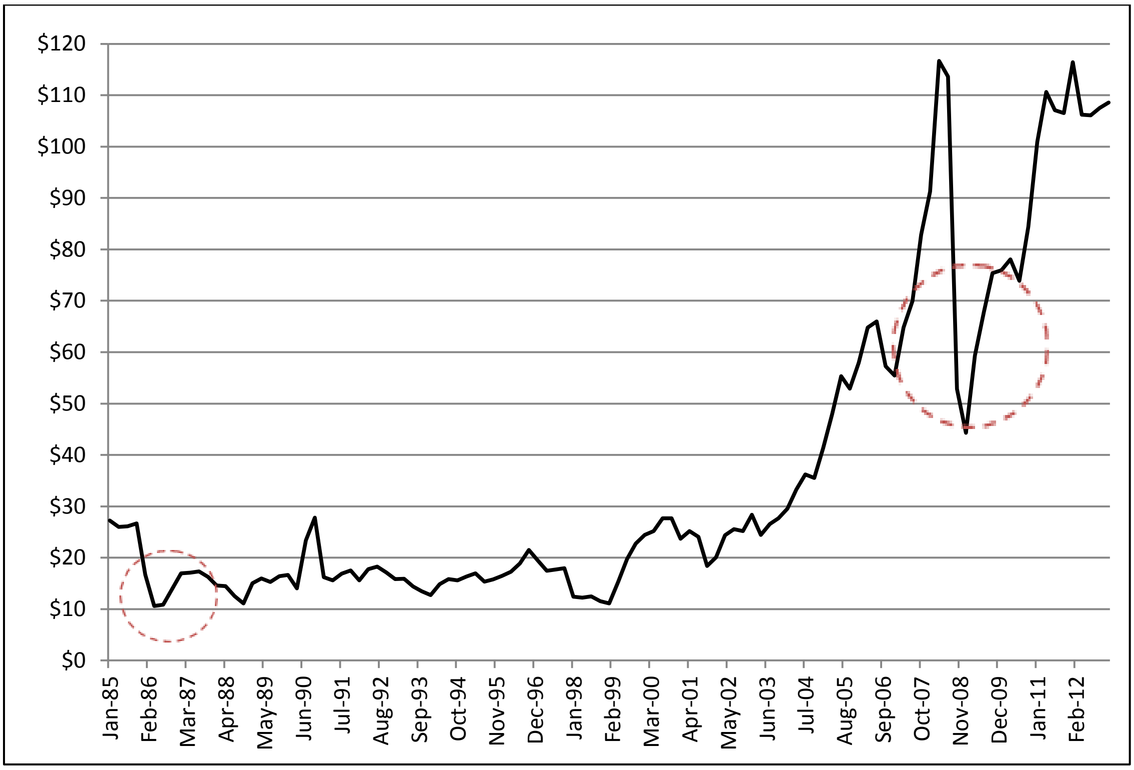
The first international oil price hike in 1973 resulted in a significant change in the economics of Kuwait, and the scope of its activities. For instance, the GDP and per capita income in Kuwait grew by 137.7 % and 125.1 % respectively between the years 1973 and 1974 (CBK, 2011). This increase in per capita income resulted in a surge in demand for goods and services that, therefore, increased the demand for imported goods and labour, thus contributing to an imbalance in the labour force and the population mix. Economic and service demands, such as education, health, and utilities continued to grow during the early 1970s, far exceeding the growth in population. During this period, public spending was 80% of the total revenues. The wages accounted for 45% of total permanent expenditure. This reflected the policy of state for distributing wealth by guaranteeing employment to its citizens (CBK, 1981).

According to (Humphreys *et al.*, 2007), when countries experience an increase of their income, there will be a pressure by the population demanding for rapid and visible improvements in their standard of living, further leading to an increased spending of their capital. Such pressure was also visible in Kuwait, which resulted in spending its oil wealth revenues in the 1960-70s, towards an ambitious plan to establish a welfare system. The accelerated pace of establishing the welfare system caused many problems as the country had limited administrative capacity, low productivity and qualifications and limited participation of the local labour force. Following the introduction of the 1962 constitution, new ministries were formed with rapid growth, as Kuwaitis were hired in large numbers as a means of redistributing the oil revenues nationally, leading to an over-sized bureaucratic apparatus (Gray, 2011).

- **Volatility in Revenues**

Due to the variations over time in rates of extraction and the timing of payments by oil companies, oil revenues become highly volatile (Ahmad and Mottu, 2002). The disadvantage of highly volatile revenues is that long term planning for future financing is almost impossible; especially, when the commodity's value is fluctuating. The result can be high levels of expenditure in good years followed by deep cuts in bad years. This, in turn, can lead to 'boom- bust cycles', and all too often the benefits in the good years are transitory; whereas; the problems generated during the bad years endure (Humphreys *et al.*, 2007). Applying this to Kuwait, the state witnessed oil stagnation in the 1980s and late 1990s, and another sharp decline in oil prices in 2009, whereby, the price of a barrel of oil dropped from \$110/bbl to below \$50/bbl (see figure 21 below) disturbing the sustainability of the country's development.

Figure 21 - Kuwait oil prices from 1985 - 2013 (quarterly basis)



Source: Platt's Month(Adj) Mid (US$/Bbl)

5.7 Foreign Direct Investments in Kuwait

The main motive for attracting foreign direct investment into Kuwait is not to attract capital flow, as the country is a leading capital exporter itself (UNCTAD, 2012), rather to benefit from transfer of technology, and its know-how (Enderwick, 2005). Also, the creation of employment within the private sector as well as training of the local in various fields of expertise (Lipsey, 2004).

The interaction between FDI and technology is considered vital in the discussion of FDI. Indeed, the transfer of technology has perhaps become the predominant issue, as discussions of MNCs and their dealings with developing countries evolve. This is so, since technology is believed to be a critical source of economic growth, trade, and even contributes to changes in the organisation of social relations Romer (1993).

In Kuwait, it is expected that through an inflow of FDI, many new technologies will be introduced, used, and adapted, improving the industrial, health, and educational industries in Kuwait. At the same time, it contributes to the human resource development through training and transfer of skills, which are either unavailable or scarce in the country. MNCs typically employ host country's nationals as middle and top management in their organisation, exposing the locals to new and advance managerial skills, which results in training of the local work force as operators and managers (Lipsey, 2004).

5.7.1 Historical overview of FDI in Kuwait

This section is divided into two main stages, that is, the pre and post oil stage. The section will provide a historical overview of the foreign direct investment in Kuwait.

- **Pre-oil stage**

Before 19th century, Kuwait was under the rule of the Ottoman and the British Empire, without making any form of foreign direct investment (Al-Omar, 1997). The reasons for the non-existence of FDI were two-fold: country's small population size, and the economy were mainly depending on small economic activities, such as shipbuilding, pearl diving, and trade by sea.

- **Post oil stage**

At the beginning of the 19th century, MNCs played a critical role in oil exploration and the production of oil through old concession and agreements between countries and states in the Gulf region. The Iraq petroleum company in 1925 awarded exploration concession agreement to the Standard Oil Company of California, and later on to Arabian American Oil Company (ARAMCO) as prime example.

The first oil concession agreement in Kuwait was awarded to Kuwait Oil Company Ltd. in 1934, which was established by the Anglo-Persian Oil Company (now British Petroleum Company), and the Gulf Oil Corporation (now Chevron Corporation) (Kuwait Facts and Figures, 2011). The agreement entailed exclusive oil concessions including exploration, production, refining, and exporting of oil and petroleum products. However, by the end of World War II, particularly after its dependence, the Kuwaitis realised that the oil concession agreement held little value to the country. Eventually, this led to the nationalisation of the oil and gas industry, declaring them as a national wealth (Winstone and Freeth, 1972). In 1975, the Kuwait Government took over 100% of the Kuwait Oil Company. However, old oil concession agreements were not totally cancelled, rather renamed as joint ventures, since Kuwait at that time still needed the technology of exploring and producing oil and gas.

- **Contemporary FDI in Kuwait in the context of GCC**

Kuwait like all GCC countries has enjoyed a booming oil and gas revenues lasting over half a century, with the past two decades particularly demonstrating the dynamism and drive for economic diversification (Mina, 2013). However, diversifying source of income is one of the main tasks that the GCC countries are currently seeking to accomplish to reduce reliance on oil and gas. FDI can help the GCC countries meet this challenge through expanding output of the non-oil sector. This will enhance access to technology, the adoption of innovation in production processes, and also bring new expertise and develop marketing, transport, and communication infrastructures.

Despite the potential benefits to the GCC countries, the level of FDI inflows into the GCC countries is low. The attractiveness of GCC as a location for FDI is nevertheless quite good, Mina (2007) argued that GCC location determinants, the economic indicators (such as GDP, Inflation rate, trade freedom, etc), and costs of doing business environments inductors are favourable for attracting FDI inflows (see table 27 and 28)

Table 27 - Key Economic indicators for GCC countries in 2013

	Bahrain	**Kuwait**	**Oman**	**Qatar**	**Saudi Arabia**	**U.A.E**
Area (Sq Km)	760	17,818	308,500	11,586	2,149,690	83,600
Population (millions)	1.3	2.7	3.2	1.9	27	5.8
GDP -Real growth rate	3.9 %	5.1 %	5 %	6.6 %	6.8 %	3.9 %
GDP - per capita (PPP)	$29,200	$40,500	$29,000	$103,000	$31,800	%49,800
Exchange Rate (period average)	0.376	0.276	0.385	3.75	3.77	3.67
Inflation Rate	2.8%	2.9 %	3 %	1.9 %	4 %	0.7 %
Trade Freedom	82 %	77 %	82%	78 %	77 %	83 %
Investment Freedom	75 %	55 %	40 %	56 %	40 %	45 %
Number of BITs*	42	71	42	56	34	49
Number of DDTs**	26	49	28	37	23	48

Sources: IMF (2013), Arab Investment & Export Credit Guarantee Corporation (2013), Heritage Foundation (2013)
*BITs: Bilateral Investment Treaties, **DDT: Dutch Double Taxation Treaties

Table 28 - Doing Business for GCC countries in 2013

	Bahrain	**Kuwait**	**Oman**	**Qatar**	**Saudi Arabia**	**U.A.E**	**Arab world (Avg).**
Ease of Doing Business	**42**	**82**	**47**	**40**	**22**	**26**	**45**
Starting a Business	88	142	73	109	78	22	45
Dealing with Permits	7	119	59	18	32	13	38
Getting Electricity	48	55	54	25	12	7	47
Registering Property	29	89	18	40	12	13	65
Getting Credit	129	104	83	105	53	84	95
Trading Across Borders	54	113	49	58	36	5	55
Enforcing Contracts	113	117	107	95	124	104	32

Sources: IMF (2013) and World Bank Data (2013)

According to world investment report (2013), Saudi Arabia and the United Arab Emirates alone accounted for 80 % of FDI inflows to the GCC economies. FDI inflows in Saudi Arabia were about $ 12 billion, Saudi Arabia was the largest recipient of FDI inflows in the GCC countries in 2012. The main areas of inflows in Saudi Arabia were in petrochemicals and oil refining. FDI to the United Arab Emirates were almost $10 billion, the strong performance in Dubai’s non-oil sectors have helped rebuild foreign appetites for FDI in the country. However, unlike other GCC countries, Kuwait has not established itself as a major destination for FDI inflow and remains one of three ESCWA member countries (along with Palestine and Yemen) which received the smallest amount of FDI (ESCWA, 2011). The FDI participation in the Kuwaiti economy remains very limited.

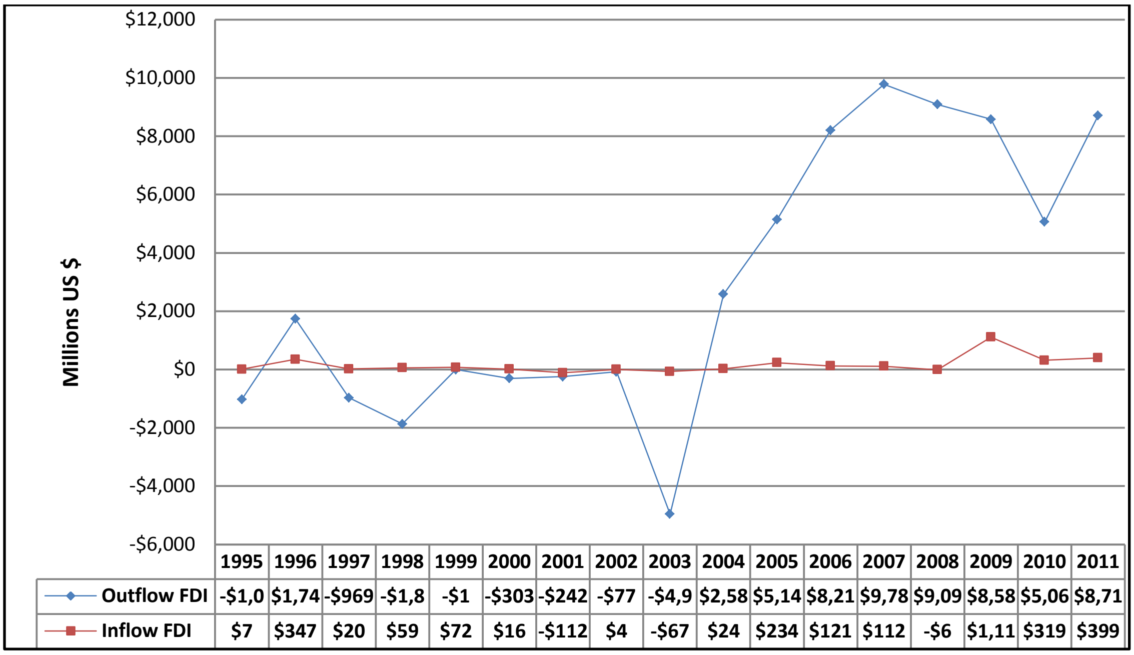
Table 29 - FDI inflows in the GCC region (2005-2012)

Country	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Bahrain	1,049	2,915	1,756	1,794	257	156	781	891
Kuwait	234	122	116	-51	145	319	399	851
Oman	1,538	1,597	3,332	2,359	2,211	1,142	788	1,514
Qatar	2,500	3,500	4,700	4,107	8,722	4670	-87	327
Saudi Arabia	12,097	17,140	22,821	38,151	35,514	28,105	16,400	12,182
UAE	10,900	12,806	14,187	13,700	4,003	5,500	7,679	9,602
TOTAL	**28,318**	**38,080**	**46,912**	**60,060**	**50,852**	**41,019**	**25,869**	**16,765**

Source: WIR, UNCTAD (2013)

Furthermore, UNCTAD (2012) classified Kuwait as a *high potential* to attract inward FDI, but such potential is undercapitalised (WIR, 2012). Figure 22 below provides a historical view of Kuwait FDI outflow and inflow.

Figure 22 Kuwait FDI outflow and inflow (1995-2011)



Source: UNCTAD (2012)

- **FDI distribution in Kuwait**

The majority of FDI inflow in Kuwait falls in the industrial sector, which is dominated by the petroleum industry, which happens to be the most attractive sector for foreign investors (Tadros, 2011).The remaining FDI inflow is distributed in the service sector, specifically the banking and financial investment sector, as it is shown in table 30 below.

Table 30 - Total FDI projects (According to Sector)

Sector	Investment Volume (K.D.)*	Percentage %
Service	45,000,000	7.5 %
Industrial	550,199,000	92.5%
Total	595,199,000	100 %

* Kuwaiti Dinar = 3.5 US $ Source: KFIB (2012)

In 1997, the Kuwaiti government initiated a project called the 'Kuwait project', which required an estimated investment of USD 15 billion (KOC, 2011). The 'Kuwait project' is a petroleum project, which is limited to technical supports and constructions of pipelines and oil tanks, and service contracts in the Kuwait petroleum industry, which requires FDI. The aim of the respective project is to increase the oil production capacity (from 2.5 to 4 billion by the year 2015) for the Kuwaiti north fields using advanced technology.

However, since the Kuwaiti constitution considers oil as a national wealth and requires a special concession for foreign MNCs to participate, the 'Kuwait Project', to date, is still pending and under debate in the parliament. This is so, as many petroleum MNCs, such as, Chevron Texaco, Elf Total, Syncope, Ex Mobil, Shell, Conoco Philips, British Petroleum and Indian Oil Company have shown strong interest in the Kuwait Project. Another large FDI inflow project in Kuwait is an equally shared joint venture between the Petrochemical Industries Company (PIC), and the Union Carbide (also known as Dow Chemicals) which started in 1995. At the same time, a project of USD 5 billion was one of the major petrochemical projects in the region. Finally, the FDI into the Kuwaiti banking sector is notable, and unlike other Gulf countries. The existence of Gulf banks and international banks was absent until 2005, when three foreign banks PNB, HSBC and Citibank to were allowed to operate in the country.

5.8 Institutional framework for FDI in Kuwait

The objective of this section is to provide a brief overview of the main laws, rules, and regulation associated with FDI activities in the context of Kuwait's institutions, and the way they influence the current FDI inflow into the country. There are many rules and regulations that regulate the commercial activity in Kuwait, including FDI law No. 8/2001. The respective law governs the foreign investments in the country, and overrides all other previous laws related to the FDI. We begin by the income tax law.

5.8.1 The income tax law No. 3 /1955

Until recent years, the law number 3/1955, which is enforced by the Ministry of finance (legislated in 1955), imposed taxes only on commercial firms, as there is no income tax for individuals-citizen or expatriate. The ministry of finance is the only government agency, which is responsible for collecting the income taxes on all commercial firms in Kuwait. Income Tax Decree 3/1955 was legislated to address the request of The Tax Decree 3/1955. It was drafted in a short period of time by an inexperienced government, who was responsible for dealing with foreign corporations or the exploration of natural resources (Al Matar, 2011). Consequently, it led to the amendment (No. 3/1955). In 2007, approved by the National Assembly, it resulted in a reduction of tax rate levied on MNCs from 55% to 15% in order to make Kuwait competitive amongst other Gulf countries in attracting MNCs.

Table 31 - The Old and New Corporate Income Tax Rates in Kuwait

The Old and New Corporate Income Tax Rates in Kuwait					
Tax Bracket (K.D)	**Old Tax Rate**	**New Tax Rate**	**Tax Bracket (K.D)**	**Old Tax Rate**	**New Tax Rate**
0 - 5,500	5%	15 %	75,001 - 112,500	30%	15 %
5,501 - 17,750	10%	15 %	112,501 – 150,000	35%	15 %
18,751 – 37,500	15%	15 %	150,001 – 225,000	40%	15 %
37,501 – 56,250	20%	15 %	225,001 – 300,00	45%	15 %
56,251 – 75,000	25%	15 %	300,001 and above	55%	15 %

Source: Central Bank of Kuwait (2008)

The new changes were welcomed, as the heavy tax imposed on foreign investment companies was seen to hold back the flow of FDI into Kuwait (Al Matar, 2011). In general, the amendment is expected to promote foreign investments by reducing the tax in most cases.

5.8.2 The Commercial agencies Law No. 36 /1964

The commercial agency law in Kuwait dictates that no foreign companies are allowed to conduct any type of business in Kuwait except through a Kuwaiti agent (The Kuwaiti agent could be a Kuwaiti individual or an enterprise (Kuwaiti company or a Kuwaiti share holding company). This law was amended in 2001 to allow foreign companies to establish presence and operate business activities independently and fully owned through FDI.

5.8.3 The public tenders and projects law No. 37 /1964

This particular law regulates the public tenders (referred to as the government tenders) prohibits any governmental agency to directly proceed with issuing any tender to the public. To date, law No. 37/1964 appoints the Central Tenders Committee (CTS) as a general body to act on behalf of the Kuwaiti government in regulating, issuing the government tenders, as well as reviewing and awarding the tenders to the participants. Based on this law, no foreign MNC is allowed to participate in the tenders unless they have a Kuwaiti agent or is part of a joint venture or in partnership with a Kuwaiti company (Al Kateeb, 2010).

5.8.4 State Audit Bureau Law No. 30 / 1964

This law appoints and empowers the State Audit Bureau (SAB), which is attached to the Kuwaiti parliament as the regulatory and monetary authority in Kuwait (Al Sharrah, 2003). It is an independent governmental agency, which is responsible for financial and administrative auditing of the performance of government agencies and companies in which the government holds more than 51% stake. The main objective of SAB is to maintain an effective control over the public funds to safeguard them, preventing any misuse, and verifying their proper utilisation for the purposes, they have been allocated. The state bureau also audits all the tenders awarded by the Central Tenders Committee. Therefore, any tender of government projects should be brought by the state audit bureau. The state audit bureau is attached to the Kuwaiti parliament as the regulatory and monetary authority in Kuwait (Al Sharrah, 2003).

5.8.5 Law No. 32 /1968 Concerning Central Bank of Kuwait

In 2004, the Central Bank of Kuwait (CBK) issued Law No. 28/2004 amending certain provisions of Law No. 32/1968 (concerning currency, the CBK itself and the banking industry). The measure was taken to conform to the international developments in the field of banking supervision and the liberalisation of financial services within the context of the General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO).

The Law eliminates the legal barriers on the entry of foreign banks into the existing local market. Prior to this, it required the participation of the Kuwaiti government or Kuwaiti banking and financial institutions as stakeholders in the capital of these foreign banks. However, the law requires foreign financial companies to coordinate with CBK before applying to Kuwait Foreign Investment Bureau in Kuwait. The purpose of such procedure is to ensure foreign investors' eligibility in satisfying the legal requirements of CBK.

5.8.6 Foreign Direct Investment (FDI) law of Kuwait Law No. 8 /2001.

The FDI for the foreign investment activities is the only comprehensive law, which regulates the foreign direct investment activities in Kuwait. This law was based on 13 laws and decrees by the Kuwaiti government (Al Kateeb, 2010). It was designed to facilitate FDI’s participation in the Kuwaiti economy in accordance with the rules and regulation within the specific sector that the law states. The law identifies the foreign capital as funds, stocks, and foreign trading bonds transferred to Kuwait. Therefore, equipment, tools, transport vehicles, raw materials, and supplies imported from outside as well as intellectual property rights (patents, trademarks, licences and trade names registered) under the laws are considered as foreign capital. According to this law, foreign investors retain all their rights acquired in their country of origin, including trade names, patents, and trademarks.

The law also appoints the investment committee headed by the minister of trade and commerce to nominate members at the FCIC from the governmental agencies as well as the private sector to review the investment applications and to approve them or to reject them. This law also regulates and directs the activities of KFIB in strategic planning, marketing plan as well as giving the incentives to attract investors into Kuwait (Al Kateeb, 2010).

- **Open sectors for FDI in Kuwait**

The Law NO.8/2001 specifies the sectors for FDI in which foreign investor may carry out economic activities, as per figure 23 below:

Figure 23 -Open industrial sectors in Kuwait

List of industry sectors in Kuwait which foreign investors are allowed to participate
1. Industries except for enterprises related to oil, gas exploration or production. 2. Construction, operation and management of Infrastructure enterprises in the fields of water, power, drainage and communications. 3. Banks, investment corporations and foreign exchange companies 4. Insurance companies which Ministry of Commerce & Industry agrees to incorporate. 5. Information technology and software development. 6. Hospital and medicines manufacturing. 7. Land, sea and air transport. 8. Tourism, hotels and entertainment. 9. Culture, information and marketing except for issuance of newspapers, magazines and opening of publishing houses. 10. Integrated housing projects and zones development except for real estate speculation. 11. Real estate investment through foreign investor subscription to the Kuwaiti shareholding companies 12. Storage and logistic services. 13. Environmental activities. 14. Educational and training.

Source: KFIB (2012)

As seen in the list above, with the exception of oil and gas exploration and production, foreign investors are not allowed to invest in the petroleum and petrochemical industries. The term 'natural resource', in accordance with the Kuwaiti constitution, is defined as national wealth, such as, petroleum. Thereby, any investment in this sector may only be granted through a law. Other natural resources, such as, gravel, sand and fisheries are not covered by the respective provision (Al Sharrah, 2003).

- **Licenses for FDI**

The current FDI law (8/2001) names KFIB as the authority responsible for issuance of FDI licenses in Kuwait. KFIB is in charge of studying the FDI license application and then the Foreign Capital Investment Committee (FCIC) must decide the proposed suggestions, considering recommendation made by the competent authorities. The Competent authorities are authorities, who possess expertise in a particular industry and are able to provide technical assessment and recommendations to the FCIC. For instance, the ministry of Higher Education is considered as a competent authority. The respective ministry can provide recommendations for projects in the field of establishing private universities, and so is the ministry of health in regards to business activities in the field of healthcare (Al Sharrah, 2003). The law specifies that license application shall be decided within a maximum period of six months from the date of submission. In case of rejection of a FDI license application, the decision must be justified in writing, so that the investor is aware of the reasons for the rejection.

- **Procedures and process of FDI licenses in Kuwait**

According to KFIB regulations (2012), once an application for FDI license has been submitted by a foreign investor, KFIB's staff must review the application within the time period of one month from the date of submission. Subsequently, the (FCIC) is to evaluate and make a decision to the proposed suggestions within a period of no more than six months from the date of submission of the application. However, the Kuwaiti FDI law 8/2001 states that this period may be extended for similar period if the minister deems it necessary. In case, where the application for investment license is approved, KFIB will inform all the concerned authorities of the decision. However, in case, where the application for the license is rejected, the rejection must be justified in written. In all cases, the foreign investor must be advised of the outcome, within a maximum of 15 working days. In case of rejection of the application for the license, the foreign investor cannot appeal the decision or to reapply for new license within a year. Figure 23 (below) demonstrates the breakdown of the FDI licensing process.

Step No. 1: Reception

KFIB staff meets with the foreign investor, receives application along with attachments reviewed (work plan, feasibility study, national / foreign labour schedule, required machinery and equipment, and etcetera), and designates a special file for the project to be studied. A formal receipt is then issued to the foreign investor.

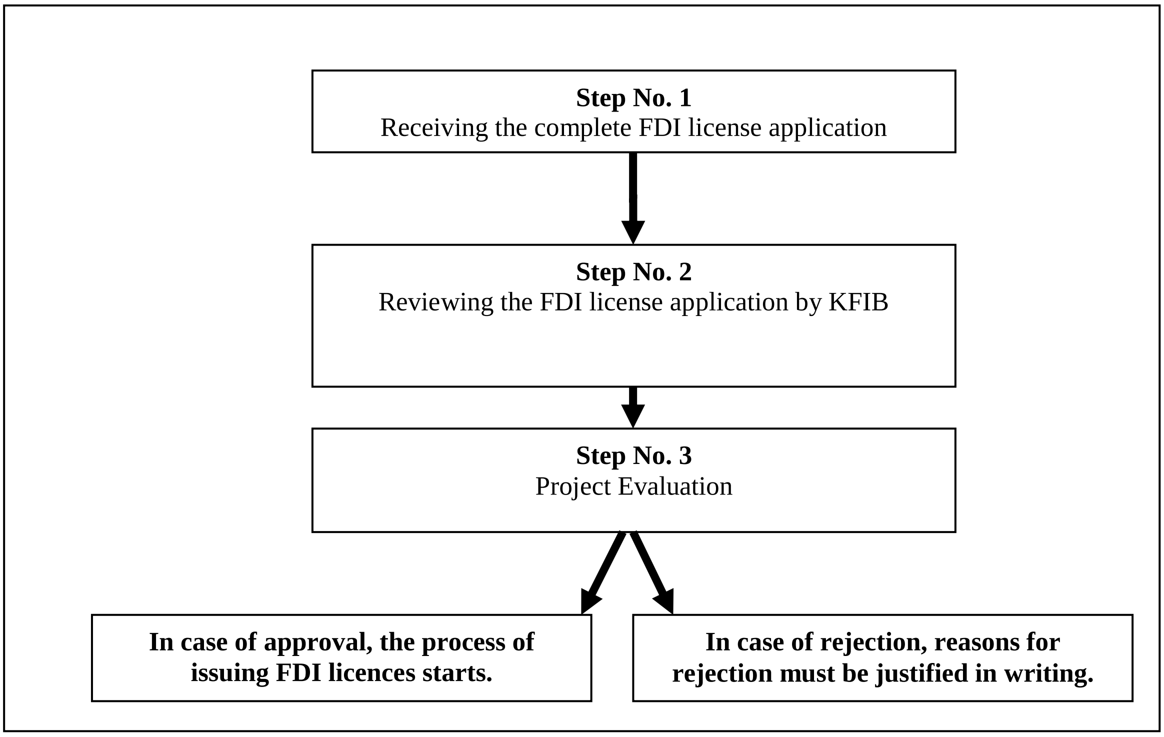
Step No. 2: Reviewing the application

KFIB staff reviews the application to ensure that all the needed paper-work is enclosed. Subsequently, sends the project file to the project evaluations department, which, in turn, contacts the competent authorities for recommendations.

Step No. 3: Project Evaluation

The project proposal and relevant competent authorities recommendations are sent to the FCIC for assessment and. In case of granting a decision for a FDI license, KFIB obtain the minister of commerce & industry's approval of FCIC recommendations, and resolution of the project proposal. Then, KFIB will inform the foreign investor and concerned authorities with the decision, and issues the FDI license. In case of a rejection, reasons for rejection are submitted to the FDI license applicant.

Figure 24 - A diagram presents the process of FDI license in Kuwait



Sources: KFIB (2012)

▪ Secured Guarantees for Foreign Investment

The Foreign MNCs, licensed under the provisions of Kuwaiti FDI law 8/2001, may not be confiscated or nationalised. Therefore, the law prohibits absolute confiscation or nationalisation of any licensed foreign enterprise under the provisions of this law. This prohibition is contingent on the lack of the public interest element in respect of expropriation. These guarantees are meant to make the foreign investor aware that his funds will be secured in the country and not vulnerable to any investment risks such as those facing investments in other countries. Thus, it prohibits absolute confiscation and nationalisation while making expropriation for public interest's sake contingent on justifiable reasons and against fair compensations in accordance with the laws enforced in the state. In addition, the foreign investor has the right to transfer his investment in full or in part or to another foreign investor, or to national investor, or relinquish the same to his national partner in case of partnership.

▪ Privileges and Obligations of Foreign Investment

The FDI law provides a number of incentives to the investor. These incentives include tax exemption, double tax treaties, exemption from customs duties, allotment of land and real estate, recruitment of foreign labour, and etcetera. However, the FCIC is to approve all or parts of such incentives offered to the foreign investors, who are contingent to Kuwaiti's economic development plan and the number of Kuwaiti workers employed in the enterprise. It will have to comply with the provisions of Law no. 19/2000 of the recruitment of the national labour. In addition, it will have to be compliance with the protection of the environment against pollution, observing the public order and morals, instructions relating to security, public hygiene, and third party safety.

Below are the types of incentives offered to the foreign investors:

- Exemption of income tax or any other taxes for a period of ten years from starting the actual operation as well as exemption of every new investment made by the same enterprise.
- Benefit supplied under double taxation agreements as well as investment encouragement and protection agreements.
- Total or partial exemption from customs duties on the following imports: Machinery, equipment, spare parts required for construction, expansion and

development. Raw materials, semi-processed goods, wrapping and packaging materials and such other materials required for production purposes.

- Allotment of lands and real-estate required for investment purpose in-accordance with the laws and regulations applicable in the State of Kuwait.
- Recruitment of required foreign labour in accordance with the laws and regulations applicable in the country.

▪ **Penalties**

In case, where a foreign investor breaches the provisions (henceforth, license conditions), the processed laws or rules in the country, the FCIC may apply one of the following penalties against the investor: a) Notice, b) Warning, c) Removal of incentives granted—wholly or partially, and d) Administrative suspension of the enterprise for a certain period. Furthermore, the court may rule on cancelling the license and liquidating the investments. However, the foreign investor may complain to the Minister against the penalties within thirty days from the date he is notified of the levied penalty. In case of rejecting the complaint, the decision must be justified in writing (Al Sharrah, 2003).

▪ **Dispute resolution in FDI law**

According to the FDI law 8/2001, it is possible to agree to resolve conflicts through arbitration (either Kuwaiti or international). The law provides legal means for arbitration to satisfy and secure foreign investors, who may fear the neutrality of the Kuwait council of Ministers and Kuwaiti courts. The choice of arbitration is justified by its simple procedures and low costs compared to that of the courts. This is possible, since Kuwait has adopted the arbitration system in the civil law, Commercial Procedures (No. 38/1980), and the Law for Judicial Arbitration (No. 11/1995). In addition, the Kuwait Chamber of Commerce and Industry has established the Kuwait Centre for Commercial Arbitration, which has adopted an arbitration system inspired from the arbitration model of the United Nations.

5.9 Institutions involved in FDI law implementation

Key institutions involved in regulating and implementing FDI laws and activates in Kuwait are the council of ministers, ministry of commerce and industry, the committee of foreign capital investment and KFIB. The FDI law 8/2001 outlines the role of each of these bodies in the organisation, supervision, and control of the investment process. Therefore, it is necessary to investigate the administrative role of these bodies in the process of foreign investment. It is also important to evaluating their objectively about their adherence to the policies of the country, which are geared towards attracting foreign investment to build a diverse and sustainable economy competitive in the global market.

5.9.1 Council of Ministers

The FDI law 8/2001 stipulates that it is the responsibility of the Council of Ministers (i.e., the Cabinet) to determine the economical projects that the foreign investor(s) are permitted to participate in; whether on their own, or in partnership with a national investor in Kuwait. Due to the possibility of the external influence over any decision, the law does not permit the involvement of the Council of Ministers directly in any other foreign investment issues. This is because the Council of Ministers is the highest political and executive authority in the country.

5.9.2 Ministry of Commerce and Industry

Ministry of Commerce and Industry is the authority ordained to issue by FDI licences for foreign investors to invest in permitted sectors. The decision of the Ministry is to be based on the Investment Committee's recommendations after agreement of the relevant competent authority. This legal process indicates that licences for foreign investments are issued by a decree from the Ministry of Commerce and Industry, based on the Investment Committee's recommendation. Thus, the foreign investors, wishing to invest in Kuwait has to submit an application to the Foreign Capital Investment Committee (FCIC). The Foreign Capital Investment Committee, through its technical bureau called the Foreign Capital Investment Bureau, studies the application and either gives a negative or positive response in accordance with the rules and regulations of the State of Kuwait. In addition, it is the role of the Ministry of Commerce and Industry to issue executive regulations and decrees relating to the Foreign Investment Law in order to make it easy for foreign investors to follow the process elaborated for foreign investors in the State of Kuwait.

5.9.3 The Foreign Capital Investment Committee (FCIC)

The FCIC, Chairman being the Minister of Commerce and Industry has a role of the Secretary-General within the Committee, is created by Council of Ministers (i.e. the Cabinet). The Minister of Commerce and Industry has to issue a decree organising the work of the Committee. Compensations for the members of the FCIC would be determined by a decree from the Cabinet. Concerning the FCIC duties, the current FDI law (8/2001) stipulates:

- Review all applications for investment and submit approval or rejection recommendations.
- Design strategies for creating investment opportunities available in the country and take the initiative to attract foreign investors.
- Grant incentives to encourage the foreign investor, facilitate the FDI license and registration procedures, and eliminate obstacles that the investor may encounter.
- Impose a method for monitoring, follow-up and assessing the performance of foreign investments in the country.

5.9.4 Kuwait Foreign Investment Bureau (KFIB)

According to the FDI law 8/2001, KFIB functions as an executive body that serves the committee with a technical and managerial function of the FCIC. KFIB shall receive license applications, complete the same in conjunction with concerned authorities, conduct the required studies, and submit suggestions to the FCIC. In addition to this, the FDI law (8/2001) state that KFIB should act on all matters related to the FDI, particularly:

- Inform international markets about the enterprises placed for investment and highlight the incentives offered.
- Provide all necessary information, clarifications, and statistics requested by foreign investors.
- Follow up execution of licensed enterprises and eliminate the obstacles and difficulties, which the investor may face.

5.10 Summary

The purpose of this chapter was to provide a detailed background of the research setting, that is, Kuwait—the context for this study. The chapter commenced with a historical, geographical, and demographical background, and then moved to Kuwait's economy. Through analysis of the need for an economic diversification in Kuwait, a case has been presented. The argument made for the need of economic diversification by seeking to increase FDI through removal of institutional barriers. Such dependency was then asserted to be causing phenomena, such as, the Dutch Disease, depletion of Kuwait's natural resources and volatility of state's revenue. Furthermore, the history of FDI in Kuwait—pre and post oil era—was covered and discussed in lieu of Kuwait's current FDI laws and regulations, such as, the law No. 32 /1968 concerning central bank of Kuwait, and the Foreign Direct Investment (FDI) law of Kuwait Law No. 8 /2001 encompassing open sectors for FDI. The procedures and processes for FDI license applications and in Kuwait were also discussed. The chapter ended by reviewing various formal FDI related governmental agencies and their roles, such as, the Council of Ministers Ministry of Commerce and Industry, The Foreign Capital Investment Committee, and the Kuwait Foreign Investment Bureau (KFIB).

CHAPTER SIX

RESULTS AND FINDINGS

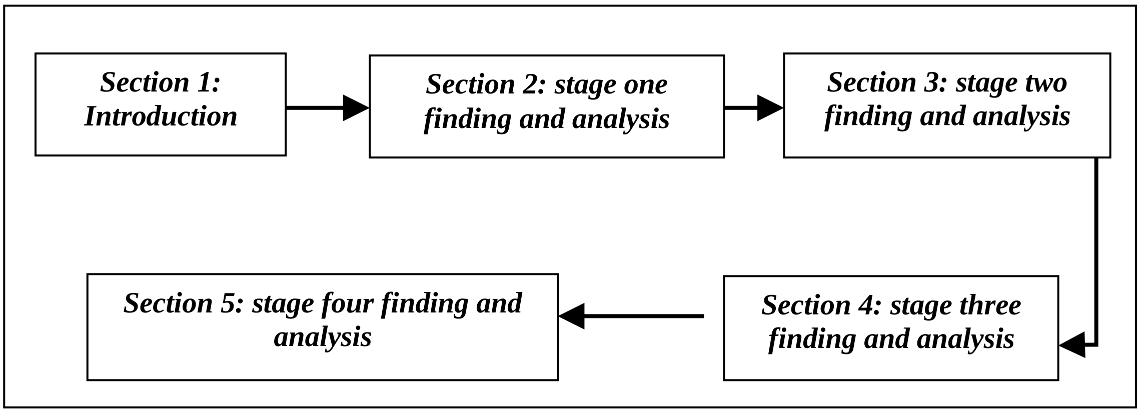
CHAPTER SIX: Finding and Analysis

6.1 Introduction

The purpose of this chapter is to present and analyse the survey and interview data in order to provide answers to the research questions. This chapter comprises five sections. The first part presents the results and analyses linked to the first stage of the conceptual framework, that is, MNCs familiarity with Kuwait. Part two presents the results and analysis of the data relating to stage two of the conceptual framework, that is, MNCs strategic factors, which is divided into three sub-sections, due to the sheer volume of information. The third part presents the results and analysis of the third stage of the conceptual framework, that is, Kuwait's FDI policies. Part four, presents the results and analysis of the data relating to the stage four of the conceptual framework. Finally, part five provides an overall summary and conclusions of the entire chapter.

For each part of this chapter, the conceptual framework has guided the presentation of the survey and interviews results. The structure of this chapter is depicted in figure 25 below.

Figure 25 - Structure of chapter six



6.2 Stage One -MNCS' awareness of and familiarity with Kuwait

This section presents the results relating to stage one of the conceptual framework, that is, host country's familiarity, and awareness concerning factors, which guide the MNCs decision-making process, when selecting a location for investment (as already discussed in section 5.1 of the Conceptual Framework Chapter). A degree of a country's familiarity and awareness is an important factor influencing the inward FDI into Kuwait *vis-à-vis* the other Gulf States that have already established familiarity and awareness regarding MNCs in the region. The results of this stage will provide an answer to the following research question:

- **What is the knowledge level of MNCs in the Gulf region of Kuwait as investment location and how does this relate to nationality, industry, and size of investments in the Gulf region?**

The results are presented in the following order: firstly, the quantitative results are presented from the survey, in accordance with MNCs' characteristics of their nationality, industry, and size of investments in the Gulf region; secondly, the qualitative results underpinned in the data retrieved from interviews and secondary sources are used as to further enrich, and enhance the quantitative results. The qualitative results are also presented in accordance with the perspectives of MNCs' characteristics of nationality, industry, and size of investments in the Gulf region.

6.2.1 Survey results of MNCs' familiarity and awareness

Throughout this section, the measurement of familiarity and awareness was conducted by means of using frequency distribution based on inputs from MNCs, who answered the survey questions (See appendix B) concerning familiarity and awareness about Kuwait as a FDI destination. The results are based on the 266 participants from MNCs in the Gulf region, which indicate that:

a) The majority of MNCs in the Gulf region (i.e., 90 %) are familiar with Kuwait as a potential investment location.
b) The minority of MNCs in the Gulf region (i.e., 1 %) are aware of the investment opportunities in Kuwait and FDI rules and regulations.

Table 32 (below) presents survey findings attained from a number of MNCs in the region, which are based on their familiarity and awareness of Kuwait.

Table 32: Familiarity and Awareness of Kuwait by MNC in the Gulf region

		Frequency	**Percentage**
Familiarity	**MNCs *with* familiarity**	240	90 %
	MNCs without familiarity	26	10 %
Awareness	**MNC *with* Awareness**	2	0.8 %
	MNC without Awareness	264	99.2 %

The findings indicate that many MNCs in the Gulf region are familiar with Kuwait as a potential location for their investments. However, in regards to awareness, most of MNCs in the Gulf region are not aware of Kuwait's investment opportunities, Kuwaiti FDI law, regulations, and other FDI related policies in Kuwait. Hence, despite the high level of familiarity of MNCs in the Gulf region, there is an enormous shortage of awareness amongst these MNCs about Kuwait's investment opportunities and FDI rules and regulation. Thus, based on MNCs nationalities, the results reveal no significant difference regarding MNCs' familiarity or awareness about Kuwait the Gulf region. However, Based on MNCs' Industry type, we find that all MNCs from group (B) Petroleum, group (D) Trade, and 88% of group (A) Financial and 62% of group (C) Services are familiar with Kuwait. This is while, when it comes to MNCs' awareness about Kuwait, the results show that with the exception of 2% of MNCs of group (A) Financial, which possesses awareness about Kuwait FDI investment opportunities, FDI rules and regulation. The rest do not have any awareness at all, revealing a significant difference related to the familiarity and awareness based on MNCs' industrial sector.

Finally, based on MNCs' size of investments, the results point to a difference in the level of familiarity and awareness, as all MNCs with small and large size investments, with the exception of MNCs with medium-size investments, are not familiar or aware of Kuwait. It is important to note that due to the low number of medium-size investments MNCs, such results may not be conclusive. Full details of MNCs' findings based on their unique characteristics are presented in Appendix (G).

6.2.2 Interviews results of MNCs' familiarity and awareness

This section presents the qualitative results of the study in order to provide further information and, in some cases, explanations for the results already presented in the quantitative part. The structure of this section is similar to the previous section, and presented in accordance with MNCs' perspectives of nationality, industry type and the size of the investments in the Gulf region organised in one cluster under two themes.

Cluster one: MNCs' Awareness of and Familiarity with Kuwait

This cluster contains three presupposed designated themes, as discussed in section 5.1 from the Conceptual Framework Chapter. To avoid any ambiguity, the constructs of *Familiarity* refer to the MNCs' knowledge of a certain host country as a potential location for FDI. *Awareness* refers to MNCs' exposure to appropriate information regarding investment opportunities, including information about FDI regulations and policies.

- **Theme One - Familiarity**

The data about MNCs' familiarity of Kuwait as an investment destination, from industry type perspective of MNCs, is derived from interviews conducted with six different MNCs from petroleum and petrochemical, banking, and financial investment, and trade MNCs. The MNCs from the respective industries appeared to have a higher level of familiarity about Kuwait than other MNCs.

All MNCs, from a variety of domiciles, did refer to the level of their familiarity with Kuwait as a possible location for investments in the Gulf region during the early stages of searching for a location in the region. The MNCs most familiar with Kuwait were mostly American, British, Indian, and Japanese. This could largely be due to the existence of a large number of these MNCs in the region, further confirming the impact of agglomeration (Peng, 2009). This is confirmed by data obtained from the Federation of GCC Chambers of Commerce and Industry (secondary data), which shows that the majority of western MNCs were American and British; whilst, the majority of Asian MNCs were Indian, followed by Japanese and Chinese (FGCC, 2011). During the interviews, with participants from petroleum and petrochemical MNCs, the interviewees acknowledged Kuwait as a potential location for their future investments, due to its location in the Gulf region, since it possess the world's largest oil and gas production and reserves (OPEC, 2012). The following statement from an executive at a petroleum company confirms this fact, which also indicates that petroleum companies opt for Kuwait due to their resource seeking strategy as a motivation:

> *"Ideally, the Gulf region is the centre for all oil companies, it has the world's highest oil and gas production sites and reserves, the Gulf region produces approximately 45% of the daily quota of crude oil worldwide production, Saudi Arabia with almost 12 million barrel per day, UAE with 3.2 million barrel per day and Kuwait with 2.8 million barrel per day, and Iran with approximately 2.5 million barrel per day..." Source: interview with an executive of MNC in the Gulf region - MNC_AG_2.*

Similarly, all participants from petrochemical MNCs had the same level of familiarity with Kuwait as petroleum MNCs. The petrochemical and petroleum industries are closely interrelated, and petrochemical plants do depend mainly on petroleum products as feedstock. Thus, the location of Kuwait in the world's largest petrochemicals plant-cluster had contributed to such familiarity. The following statement by a senior manager at international American petroleum MNC in the Gulf region asserts this fact:

> *"When discussing the gulf region, we mean Saudi Arabia, Kuwait, United Arab Emirates and Iran. These are world's leading oil producing countries ...for petrochemical industries petroleum products and gas is the main feedstock for any manufacturing petrochemicals, therefore ideally Kuwait will be known to us because of its location in the middle of this petroleum hub in the Gulf region...I would also caught petrochemical hub because all of these countries in the region are also producing different type of petrochemicals" Source: interview with an executive of MNC in the Gulf region -MNC_AG_7.*

Similar findings also emerged from the results of the interviews conducted at MNCs in the banking and financial investment industry. The following statement provided by a senior manager of a European financial investment MNC in the Gulf region further support this assertion:

> *" ... The bank is aware that Kuwait is very active in banking transactions, from history you would know that the first Arabic bank in the gulf was a Kuwaiti bank established during 1940s .. .. In 1983 Kuwait National Bank bought shares of English bank in London, it was the gossip of bankers at that time, as there was no Arabian bank before in London ..."Source: interview with an executive of MNC in the Gulf region -* MNC_AG_9

The above statement shows that the financial and banking MNCs had already acknowledged the existence of Kuwait during their search for a location in the Gulf region, indicating their familiarity with Kuwaiti as a potential FDI destination. The majority of the banking and financial investors acknowledged Kuwait as a destination for FDI, mainly because Kuwaiti banks had gained a strong reputation worldwide since 1950s due to the government's policy in depositing portion of its oil and gas revenues into local banks enabling them to purchase portfolios in many leading banks worldwide. Thus, providing the Kuwaiti banking sector with a reputation of possessing high liquidity (Darrat *et al.*, 2003). Subsequently, drawing the attention to a number of global banks and financial investment corporations.

Similarly, financial investment MNCs were fully familiar with Kuwait, because of the well-established financial market in Kuwait, and the existence of the Kuwaiti Stock Exchange (KSE)—established for over 40 years now. According to a number of financial investment MNCs, the KSE was the first stock exchange in the Gulf region, at a time when many other Gulf countries did not have stock exchanges (Fasano and Iqbal, 2003). In addition, those same MNCs believed that the KSE had gained a global reputation as one of the most trustworthy in the Middle East, providing a form of publicity and familiarity about the Kuwaiti financial and banking market. KSE appears to have made Kuwait an attractive location for both banking and financial investment MNCs. The following statement from a participant of European financial MNCs provides supporting evidence:

> *"During the 1980s the only stock exchange was in Kuwait, at that time it was the only Arabic stock exchange with an independent body that supervised its operations and activities ..." Source: interview with an executive of MNC in the Gulf region - MNC_AG_10*

As far as MNCs from other industries are concerned, the hospitality and healthcare MNCs had acknowledged their familiarity with Kuwait, and yet had decided not to invest in Kuwait. For example, during the interview with a senior manager at an Asian hospitality MNC in the Gulf region, he indicated that his company is familiar with Kuwait, and that in fact had considered Kuwait, but still had chosen other location:

> *"The company considered Kuwait as our first project location, our team worked hard in gathering information about Kuwait, unfortunately later on we decide not to proceed with our project in Kuwait after the company evaluation of the Kuwaiti regulations of establishing hotels in Kuwait is strict and prohibiting many of the services we provide to our customers here, especially the serving alcohol and hosting concerts and parties within the hotel premises "Source: interview with an executive of MNC in the Gulf region -MNC_AG_17*

Similar to the case of the banking and petroleum MNCs, the healthcare MNCs' familiarity with Kuwait was based on previous knowledge of Kuwait's health sector through exposure to the ministry of health in Kuwait. In support of this assertion, an international project manager from an American MNC stated that his company was familiar with Kuwait by virtue of the existing medical protocol between the United States Food and Drug Administration (FDA) and the ministry of health in Kuwait for providing medical services in Kuwait:

> *".... Few years ago we were invited by the FDA in Washington DC to attend a ceremony of signing a memorandum of understanding with the Kuwaiti Ministry of Health, for the exchange of medical expertise and consultancies.... we began to think seriously about the possibility of expanding our business in Kuwait and Gulf region..." Source: interview with an executive of MNC in the Gulf region -MNC_AG_23*

The same subject was raised during an interview with a director of an Asian aviation MNC in the region regarding their perception of Kuwait as a suitable FDI destination, the director said:

> *“We shift our attention by the mid-1990s toward Dubai, since there was a growing activity for business and tourism, we had also spotted the Kuwaiti market, as many regional airlines used to stop in Kuwait. However the market size and volume of passengers of Kuwait was not encouraging any more…” Source: interview with an executive of MNC in the Gulf region - MNC_AG_20*

Other interviewees from the same type of industry provided similar statements concerning Kuwait. Therefore, it could be argued that there exists sufficient evidence for hospitality, aviation, and healthcare MNCs' familiarity with Kuwait as a potential location for their investments. However, due to a number of locational factors of Kuwait s well as the Kuwaiti FDI related policies, those MNCs had decided not to invest in Kuwait.

Finally, the statements made by the participants from MNCs with large size investments in the region, demonstrate a high level of familiarity with Kuwait but which had nevertheless decided not to invest in the country. All of these MNCs belonged to the hospitality, aviation, and healthcare sectors from different nationalities. As an example, it can be mentioned that during an interview with a senior manager of an Asian aviation MNC, it was indicated that his company had considered Kuwait during the early stages of location search:

> *"we had a plan to expand our business in the region by establishing branches of our company and most of the Gulf countries, Kuwait was of course part of the plan, however because of market size in Kuwait and the high competition by other competitor in the region including the national carrier we decide to not considered investing in Kuwait for the mean time" Source: interview with an executive of MNC in the Gulf region - MNC_AG_20*

In addition to the market size, there were other factors for the MNCs from the hospitality industry to not to invest in Kuwait. These factors include the lack of western style entertainment (nightclubs and casinos) as well as the prevalent prohibition of alcoholic beverages in Kuwait.

- **Theme Two - Awareness**

The interviews with participants (at MNCs from different nationalities in the Gulf region) demonstrated a low level of awareness about investment opportunity in Kuwait, its current FDI regulations and policies; specifically, the new Kuwaiti FDI regulations designed to attract inward FDI into Kuwait. For example, in 2007 the Kuwaiti government approved an amendment to the FDI corporate tax (Law No. 3/1955), reducing the tax limit to 15% from 55% as a measure to encourage MNCs to invest in Kuwait. Nevertheless, there was, and still is, a lag in delivering such information to MNCs worldwide. This gap in informing MNCs and foreign investors has resulted in lost opportunities for Kuwait to attract MNCs. The following statement made by a senior manager at European financial MNCs confirms this observation:

> *"There was a plan to open company branch in Kuwait to expand our operations, as the Kuwaiti financial market is an active and will establish in the Gulf region, the project visibility study had sure that foreign companies in Kuwait are subject to high taxation rate on their earning, by comparing the taxation in Kuwait with the average taxation rate of Gulf region countries, the taxation in Kuwait on foreign companies is the highest among all Gulf countries, in fact it is the highest in the Middle East ..." Source: interview with an executive of MNC in the Gulf region - MNC_AG_11*

This manager is under the impression that there still exists a 55% income tax on foreign corporations, which clearly was the old Kuwaiti FDI tax law. This means that after four years of amending the FDI tax law on foreign investors, MNCs in the Gulf region are still not aware of this important incentive. This provides a good example of the failure of information flow to MNCs about Kuwait recent changes to its FDI laws.

The results also indicate that a limited awareness about the FDI law and regulations in Kuwait is prevalent among different industrial sectors of which MNCs operate in the Gulf region. For example, the Kuwaiti government had amended the Kuwaiti FDI law 8/2001 to open petroleum downstream operation (such as, technical service, petrochemical process and logistics of petroleum) for foreign MNCs' investments. However, many petroleum and petrochemical MNCs in the region were not aware of this amendment. It is evident in the following statement made by a senior manager from a European petroleum MNC:

"we cannot invest in any way in Kuwait, as petroleum multinational company there is no business for us in Kuwait, because of the current FDI law which considered the oil and gas petrochemical most everything in the petroleum sector a national wealth, and grand Kuwait oil company all the privileges to explore and refine and ship the oil out of Kuwait ..." Source: interview with an executive of MNC in the Gulf region - MNC_AG_1

Similarly, other MNCs from different industries, such as, 'trade' were not aware of the recent investment incentive programmes launched by the Kuwaiti government to attract FDI into Kuwait. As a case in point, the amendment of the Kuwaiti FDI law provides exemption from customs duties to commodities normally being traded. A senior manager of an Asian trade MNCs in the Gulf region said:

"Now we are discussing this topic in my office and you have provided me with this booklet about the updated FDI laws ... I was surprised to notice that there is a waiver of the custom duties in Kuwait for some commodities that we do trade in our company, I am grateful for this... This is new information to me!" Source: interview with an executive of MNC in the Gulf region - MNC_AG_22

Another example is from the healthcare sector, which demonstrates the limited awareness among MNCs about investment opportunities in Kuwait. This remains so, despite government extending its invitation to international healthcare services to contribute to the state development plan (2010-2014) by investing in the Kuwaiti healthcare sector through the establishment of specialised healthcare centres. During a discussion with an executive at an American healthcare MNC, the following was revealed:

"there was a plan between the Kuwaiti government and United States Department of Health in providing consultancy services through the food and drug administration's, there were talking about establishing a poison control centre in Kuwait ... We never been told about the FDA and the Kuwaiti government plan in inviting international healthcare providers into Kuwait, FDA told us it is not their part and it is Kuwaiti government business to announce the plan... " Source: interview with an executive of MNC in the Gulf region -MNC_AG_23

Hence, decision makers become reluctant to consider Kuwait as an FDI destination due to their lack of awareness; subsequently, causing uncertainty associated with the location with corresponding transaction costs.

- **Theme Three - IPA role with familiarity and awareness.**

The results of the interviews with many MNCs in the Gulf region from different nationalities and industries as well as investments size point to a very limited role played by KFIB. As none of the MNCs had received any information about investment opportunities in Kuwait, with some indicating that they had never heard about KFIB before this interview. A senior manager of North American petroleum MNC stated:

> *"No, I do not know about this office in Kuwait and I am sure the team does not have any idea about the Kuwaiti foreign investment agency ... I would like to ask you if it fits in newly established in Kuwait ? Because I never come across their name before" Source: interview with an executive of MNC in the Gulf region - MNC_AG_4*

Another senior manager of European financial investments held:

> *"When you ask me about Kuwait foreign investment bureau and if we received any contact by them, I'm afraid I cannot answer this question because I don't know what this office is about... I have no information about this office and we never had been contacted by this office... And to your question and the answer would be no I don't know any information about them and never been contacted by them " Source: interview with an executive of MNC in the Gulf region -MNC_AG_11*

Similar statement was provided by an executive at an Asian hospitality MNC, which emphasised that KFIB had never been in touch with his company:

> *"I don't think I heard about to the Kuwaiti foreign investment office before ... Maybe because they are newly established? I don't know... As you have mentioned this I'm surprised why they did not promote Kuwait and provide foreign companies in the Gulf region some information about themselves how to contact them, how great to get in touch with them.... Normally promotion agencies or make the first movement toward contacting companies not the other way, supposedly they try to market Kuwait..." Source: interview with an executive of MNC in the Gulf region -MNC_AG_18*

Other participants from various MNCs provided almost identical responses to the question of whether or not they had been contacted by KFIB to offer information about investment opportunity in Kuwait.

<u>Analysis KFIB performance in Kuwait</u>

The objective of this study is to provide answers to the research question of identifying possible institutional obstacles for FDI in Kuwait. Thereby, it was necessary to further scrutinize the reasons behind the low performance of KFIB in promoting investment opportunity about FDI in Kuwait. A manifestation of which is found in investor-services failure, and limited investment for dissemination of information to potential investors. The results reveal two main reasons for the low performance of KFIB: a) KFIB's administrative and financial attachment to the Ministry of Trade and Commerce causing a high degree of dependency, and b) Limited recourses available to KFIB to market and promote investment opportunities in Kuwait to MNCs.

I. KFIB's administrative and financial attachment to the Ministry of Trade and Commerce.

The studies (Morisset and Neso, 2002, Morisset, 2003, Morisset and Andrews-Johnson, 2004) show that the independence of an investment promotion agency dramatically affects its performance. Independency can usually be achieved through the creation of a clear organisational structure with allocation of sufficient resources to meet the investment promotion plan, which in turn, contributes to independency from any governmental organisation. This appears to be absent in the case of KFIB.

For instance, one executive opined that the poor state of KFIB's performance was due, largely, to the bureaucratic obstacles arising from the control of the KFIB by the Ministry of Trade and Commerce:

> *"... I believe that we are not performing to our maximum potential. You compare us to other Gulf countries like Bahrain and Dubai, but remember we are still a small developing government agency with many restrictions and bureaucratic procedures, it is unfair to compare us with Bahrain and Dubai foreign investment offices because they are fully independent governmental agencies..." source: Interview with a manager at KFIB - KFIB_KW_1*

Another executive's statement referred to specific situations, where KFIB being a part of the Ministry of Trade and Commerce had led to bureaucratic administrative procedures that limited the ability of KFIB to operate effectively:

> *"... Each time we propose activities that would enhance the performance of this office, we are confronted with budgetary constraints. When we apply for conferences and exhibitions our requests are usually declined by top level Ministry officials on the grounds of reasons that appear fit and proper to them. For example; I remember a time when we applied for a regional conference for the following month, the approval from the ministry came three months later" source: Interview with a manager at KFIB-KFIB_KW_2*

The information provided by this executive suggests that the KFIB is not performing with efficiency in comparison to other GCC IPA offices. All other GCC investment offices or agencies are completely independent agencies, with some of them being headed by high rank officials to demonstrate the state's serious attention given to these agencies. For example, the chairman of Bahrain Investment Agency is the Royal Crown Prince of Bahrain (AGIM, 2012). Further support for such approach to be taken for KFIB emerges from the interviews with independent consultants in Kuwait:

> *"... The idea of establishing a Kuwait investment bureau was great, however linking the Kuwait investment bureau to the Ministry of Trade and Commerce will limit all the office activities, because it would be under the usual governmental lengthy procedures...."* Source: *Interview with local consultant in Kuwait -CON_KW_1*

Another independent consultant added:

> *" If the Kuwaiti investment bureau continues to be under the ministry of trade and commerce, then this office will not be able to perform any promotion and marketing activities, because promotion and marketing need a fast and prompt decision by the decision maker ..." Source: Interview with local consultant in Kuwait -CON_KW_3*

Other consultants believed that the government is not serious about attracting foreign direct investment into Kuwait; otherwise, it would have paid more attention to KFIB. This claim is evident from the statement below:

> *"Kuwait investment bureau was established by Kuwaiti government to simply say that we have an investment promotion office when international organisation like World Bank IMF visit Kuwait to see how Kuwait is trying or shall I say claiming to diversifying the economy, there is not much attention giving to that agency... There is a limited budget and resources, and the office still a part of the Ministry of trade and commerce ... If the government is serious about FDI in Kuwait they would establish better for an investment agency and facilitate all the human resources, budget, and other resources ... everybody knows very well that government is not short of budget or financial resources, and therefore you can see that because we are not serious about it my attention was giving to this office"* Source: *Interview with local consultant in Kuwait -CON_KW_2*

All of these statements suggest that KFIB is experiencing serious issues with its organisational structure, manpower, and financial resources. With such shortages and lack of government's attention paid to KFIB, it should not be surprising that KFIB does not perform as well as other investment promotion agencies in the region and hence unsuccessful in promoting Kuwait as a FDI destination.

II. <u>Limited Recourses Available to KFIB</u>

The data about limited recourses available to KFIB to market and promote investment opportunities in Kuwait was attained through interviews conducted with KFIB executives as well as independent consultants in Kuwait. It was further supplemented by the available secondary data (e.g., Wold Bank, IMF, and UNCTAD). At the beginning of the investigation into KFIB through interviews, two executives at KFIB admitted to the limitations in marketing Kuwait effectively to MNCs in the Gulf region. One executive did not wish to provide any statement, on record, regarding this matter other than to place the blame on the limited financial and manpower resources made available to the KFIB.

For example, KFIB is in need of skilled staff with appropriate qualifications, and adequate competencies in order to handle the workload. For example, the staff members, who are able to effectively communicate with non-Arabic investors, and to make use of modern technology as we well as having the necessary knowledge and skills to set up and implement an effective marketing plan to promote the investment opportunities in Kuwait. There is evidence that this is not what the current personnel at KFIB are able to achieve. For instance, there are many staff members at KFIB, who cannot speak or write in English; consequently, making it extremely difficult to communicate effectively with a non-Arabic speaking foreign investor. A senior manager at KFIB supported the above assertion by saying:

> *"All the staff here had been recruited through the governmental employment bureau, most of them does not speak English or have any background on investments and customer relationship... Later on we experience large number of resignation by these employees, I personally ask few of them why they have decided to resign and become an answer is: we don't know what we are doing here! Yes we receive our salaries by the end of each month but there's no work to do ... " Source: Interview with a manager at KFIB-KFIB_KW_2*

He further added:

> *"clearly there is a need for a series and immediate attention by the government to the Kuwait foreign investment bureau, and empower the office to work independently to achieve the objective of establishing this office as investment promotion agency in Kuwait, until that happen there is not much can be done..." Source: Interview with a manager at KFIB-KFIB_KW_2*

In support of the above evidence, one can refer to the Global Investment Promotion Benchmarking (GIPB) index of the World Bank, which conducted an assessment of the KFIB promotional performance in marketing Kuwait, handling investor’s inquiries, and evaluated the KFIB website during 2006, 2009 and 2012. As shown in table 33 below, the overall result for KFIB as investment promotion agency was a weak performance.

Table 33 - Global Investment Promotion Benchmarking for Kuwait

	2006	2009	2012
Inquiry Handling performance	Very Weak	Very Weak	Very Weak
Web site Performance	Weak	Weak	Average
Overall Performance	Weak	Weak	Weak

Source: GIPB index, World Bank (2012)

The results, therefore, indicate that low performance of the KFIB is due to KFIB's administrative and financial attachment to the Ministry of Trade and Commerce. The limited recourses available to KFIB to market and promote investment opportunities in Kuwait is the likely reason for this result.

6.3 Stage Summary

The survey results confirm that almost all MNCs in the Gulf region are, in fact, familiar of Kuwait as a potential location for their FDI, but not aware of its investment opportunities, Kuwaiti FDI laws, regulations, and other FDI related policies. From the perspective of MNCs' nationality, the results indicate that there is no significant difference related to the familiarity among them. Based on MNCs industry type, the results indicate that all MNCs from Petroleum and trade group, and majority of MNCs in the financial group in the Gulf Region are familiar with Kuwait. However, MNCs from services group are less familiar with Kuwait, hence explaining the small number of MNCs, which fell into the group not being familiar with Kuwait as an FDI destination. In addition, with the exception of a few MNCs from the financial group, the results show that the vast majority of the MNCs are not aware of Kuwait's investment, FDI rules, and regulations. Therefore, the results point to the fact that there is a difference related to the familiarity and awareness based on MNCs industrial type including when looking at the MNCs from their nationality, industry type and investment size.

Furthermore, the analysis of the data attained from three different sources concludes that the low level of awareness about Kuwait is strongly linked to the low performance of the investment promotion agency in Kuwait (KFIB), as none of the MNCs had received any information about and investment opportunities in Kuwait or its FDI rules and regulations. The results reveal two main reasons for this low performance of KFIB: 1) administrative and financial attachment to the Ministry of Trade and Commerce, and 2) inadequate manpower and financial resources allocated to KFIB.

6.4 Stage Two - Findings and Analysis of MNCS' Strategic Factors

The objective of stage two of the Conceptual Framework was to guide the investigation in order to provide answers to the following sub-research questions:

- **What are the major factors that MNCs find attractive/unattractive in Kuwait and how does this relate to nationality, industry, and size of investments in the Gulf region?**
- **What are the Kuwaiti location factors that are attractive/unattractive for MNCs and how does this relate to nationality, industry, and size of investments in the Gulf region?**
- **What are the Kuwaiti institutional factors that are attractive/unattractive for MNCs and how does this relate to nationality, industry, and size of investments in the Gulf region?**

This section postulates that when MNCs examine Kuwait, their decisions are based on strategic assessments of both industry-based competition, and location factors assessments (discussed in section 5.2 of the Conceptual Framework). Hence, if a MNC is satisfied with the assessments outcome based on these factors, then it would move forward to the next stage of the conceptual framework (stage three - assessment of FDI related polices). However, if a MNC were not satisfied with the assessments' outcome of industry based competition, then it would drop the potential host country from its list and search for alternative locations.

6.4.1 Results of MNCs' internal environment factors

The first part of stage two covers MNCs' internal environment factors, which influence the search for new locations (discussed in section 5.2.1 of the Conceptual Framework Chapter).

Here, the MNCs' internal environment factors refer to MNCs' 'motives' for FDI. MNCs tend to take into account a number of internal environment factors, which focus on economic efficiency, integrating them to their own internationalisation strategies, including market seeking strategy, natural resource seeking strategy, efficiency seeking strategy, and strategic-asset seeking strategy.

- **Survey results of MNCs' internal environment factors**

Based on the data collected from 266 MNCs that participated in the survey, the key finding report of that the majority of MNCs in the Gulf region are:

c) Market seeking MNCs (44%).
d) Efficiency seeking MNCs (30%).
e) Resources seeking MNCs (16%).
f) Strategic assets seeking MNCs (10%).

Table 34 (below) presents MNCs' motive for investments, and their percentage.

Table 34 - Percentage of survey finding of key FDI Motives of MNCs in the Gulf region

FDI motives	Number of MNCs	Percentage of MNCs
Strategic assets seeking	26	10 %
Market seeking	117	44 %
Efficiency seeking	80	30 %
Resource seeking	43	16 %

The rational for market seeking MNCs to choose the Gulf region appears to be mainly the booming tourism and financial services sectors in the GCC countries (The Economist, 2010), in tandem with the high consumer purchasing power plus low sale taxes on commodities (Kandil and Morsy, 2011). Likewise, efficiency seeking MNCs' that focus their attention on the GCC economies are not there because of GCC being a major exporters of oil and gas, rather due to the fact that they present opportunities in the development of major projects in the petroleum and petrochemical sector, and infrastructures sector (The Economist, 2010). Meanwhile, a few resources seeking MNCs have been attracted to the region, especially petroleum MNCs, because they did not find opportunities in the Gulf region. The reason being that petroleum upstream operations (e.g., the exploration, searching and production) are dominated and controlled by the national companies (e.g., ARAMOC, KPC, ADNOC); hence, are restricted to foreign investments.

As for the strategic assets seeking MNCs, it appears that they are influenced by the fact that the GCC governments have begun to invest in strategic assets (e.g., portfolio funds) more widely. Subsequently, it is opening up investment opportunities within the Gulf region. For instance, the FDI inflow to Bahrain made by other GCC countries like

Qatar, Saudi Arabia, Kuwait and UAE increased from 517 US$ million in 2003 to 2.9 US$ billion in 2007 (ESCWA, 2010).

In general, the results about MNCs from their nationalities as a indicate that the Asian MNCs represent 44% (Market seeking), followed by 29% North American MNCs, and European MNCs represent 27% of the total MNCs in the Gulf region. When analysing the data on MNCs' from industry type perspective, and combining the frequencies, we find the following:

Group (A) Financial represent 29% of total MNCs; group (B) Petroleum 34% of total MNCs; group (C) Services 17% of total MNCs; and group (D) Trade 21% of total MNCs in the Gulf region.

Finally, based on MNCs' size of investments, the results indicate that 65% MNCs are of small size of investments, followed by 42% large size of investments, and 3% of medium size of investments. Full details of MNCs findings based on their unique characteristics are presented in Appendix (H).

- **Interviews results on MNCs' internal environment factors**

This section presents the qualitative results of the study in order to further complement and in some cases provide explanations for the results obtained in the quantitative part. The structure of this section is similar to the previous section, and presented in accordance with MNCs' characteristics of nationality, industry type and the size of their investments in the Gulf region, which is further organized in one cluster under four themes.

<u>Cluster Two: MNCs' Internal Factors - Motivation.</u>

This four designated themes, all presupposed and based on MNCs' motives for FDI, circulate around MNCs' internal environment factors (discussed in the Conceptual Framework, section 5.1). The themes include natural resource seeking strategy, efficiency seeking strategy, strategic-asset seeking strategy, and market seeking strategy.

- **Theme Four – Natural resource Seeking**

The data collected through interviews indicate natural resources seeking MNCs are all from petroleum and petrochemical MNCs, since the Gulf region produces 26 million barrel per day, equivalent to 38% of the daily production of crude oil in the world, and processes 55% of the reserved crude oil worldwide.

The region—possessing a vast amount of crude oil and gas reserve—is a key attraction for natural resources seeking MNCs from all over the world; specifically, petroleum and petrochemical MNCs. This was confirmed by a senior manager of European petroleum MNCs in the region:

> *"The company had started operation in the Persian Gulf region 15 years ago, because it is the board largest oil production agglomerate in the world, because this region produce 23 million barrel per day. Also, Persian Gulf region is the biggest agglomerate as well for crude oil and natural gas, I don't think there is a single large petroleum company without an office in the region" Source: interview with an executive of MNC in the Gulf region -MNC-AG-2*

Similar to the above statement, a senior manager of North American petroleum MNC mentioned that:

> *"choosing to be in the Gulf region is an obvious commonsense for any petroleum company, this region is the richest place on earth with oil reserve and high production on a daily basis, it is estimated that this region will continue to be the biggest oil production and reserves for the coming 25 years, and I think this is very practical reason for us to be here." Source: interview with an executive of MNC in the Gulf region -MNC-AG-6*

A comparable response was also recorded from a senior manager of a petrochemical MNC in the region:

> *"Petrochemical industry is based on hydrocarbon often derived from crude oil as the main feedstock's, such as naptha and gasoil plus liquid petroleum gas. These are the core components and the bases for any petrochemical industry, in the Gulf these projects are commonly available for petrochemical companies like us. This is why chose to be here and establish our projects in this region" Source: interview with an executive of MNC in the Gulf region -MNC-AG-7*

Based on the above statements, it is clear that petroleum and petrochemical MNCs are attracted to the Gulf region, because of the availability of natural resources such as crude oil and gas.

- **Theme Five – Efficiency Seeking**

Throughout the interviews conducted with the participants, no data about the efficiency seeking as a motivation for a MNCs FDI emerged.

- **Theme Six – Market Seeking**

The results from the interviews show that the majority of MNCs from different industries and nationalities are present in the Gulf region. The reason being: market size, high consumer purchasing power, and the availability of high liquidity provided by the governments.

The results from the interviews show that the banking and financial investment MNCs are attracted to the region to market and sell their financial products and investments portfolios to individuals and governments. The following statement made by an executive from a European banking MNC illustrates the above assertion:

> *"The bank is operating in the Gulf region because of the Gulf customers in buying international bonds through the bank as secure investments, the bank will provide integrated service and advice to the customer who have limited information on buying international bonds and securities, what was obviously interesting is the fact that we have noticed that some local governments also buy international bonds and securities through advice and assistance of our financial investment division " Source: interview with an executive of MNC in the Gulf region -MNC-AG-11*

Another statement, along the same lines, was made by a senior manager at an Asian financial investment MNC:

> *"On many occasions, US Government or its agencies issue Treasury Securities, these treasuries can be bought and sold through a network of licensed, a commercial bank or investment professional agencies, as they can provide you with the most recent issues that are trading in the secondary market. For example, the US Department of the Treasury occasionally stops selling paper savings bonds through over-the-counter channels to the general public, although the option of buying savings bonds is possible through Bureau of Public Debt, Gulf customers who wish to buy these savings bonds might need more information and advice, and this is where all role comes in providing the right advice to our customers on how and when to buy these savings bonds." Source: interview with an executive of MNC in the Gulf region -MNC-AG-15*

MNCs from different industry types, amongst them the hospitality industry, had established their presence in the region because of its market size and consumers' purchasing power. A senior manager at a North American hospitality MNC asserted:

"establishing the actual operation of the tale was the mid-90s in Dubai were to become a business and leisure centre for the region, many Gulf citizens arrive to debate to enjoy the wide range of services that we can provide here in Dubai for them, specially from Saudi Arabia, Iran and Kuwait where there's too many restrictions for establishing and operating the hotel industry in these countries." Source: interview with an executive of MNC in the Gulf region -MNC-AG-16

Another statement from a senior manager of an Asian hospitality MNC supports the previous interviewee's point of view:

"we noticed the growing demand in the markets here in the Gulf to for hospitality services, we had started our business in the region by providing high standard services and luxurious food and beverages because there is a demand and strong buying power in this region." Source: interview with an executive of MNC in the Gulf region -MNC-AG-18

Likewise, MNCs from other key industries, such as, the aviation industry, had decided to extend their operation in the Gulf region, due to a high demand for aviation services with the Gulf citizens' ability to spend money on leisure and travel. A senior manager at an international airline company said:

"It becomes important for our company to operate in the Gulf markets, there is a strong buying power and demand on the aviation industry by individuals and businessmen from around the world who wish to travel to the region, or even using the region as transit hub, for us the Gulf markets is growing because of the richness from oil and obviously it become promising market for our company." Source: interview with an executive of MNC in the Gulf region -MNC-AG-20

The final evidence related to market seeking MNCs worth mentioning in this theme was provided by trade MNCs in the region, indicating that they are always in search for markets with growth potential and strong purchasing power—a feature that matches the Gulf region markets. A senior manager of an Asian trading MNC stated:

"from point of view the Gulf region is rich region with customers who can afford by products at similar rate of the European market customers, who is also the issue of low tax rate on sales which makes the profit of fast or any trade company is greater than Europe or the United States, of course the Gulf market is not as big as a European or American market, but also its shares the strong and capability buying power by customers in the Gulf " Source: interview with an executive of MNC in the Gulf region -MNC-AG-22

Based on the above statements and other interview results, it is then obvious that the trade MNCs are motivated to enter Gulf region markets mainly, because of strong consumer purchasing power and low level of taxation.

- **Theme Seven – Strategic-Asset Seeking**

Throughout the interviews conducted with the participants, no data about 'strategic-asset seeking' as a motive for an MNC's FID in the Gulf region emerged. This lack of data may depend on several factors, such as, the fact that strategic-asset seeking MNCs did not consider any strategic-assets in the Gulf region. However, the respective speculations need to be Analysis based on MNCs' external environment factors (Non-Institutional location factors)

The next section will present results from both survey and interviews regarding MNCs' assessment, and evaluation of Kuwait's non-institutional location factors. The purpose is to determine as to which non-institutional location factors had attracted and which one had discouraged MNCs to invest in Kuwait. In each section, the results are presented and categorised according to MNCs' nationality, industry type, and the size of their investments.

6.4.2 Survey results of MNCs' external environment factors (Non-institutional location factors)

The results show that in principle, there are some key location factors in Kuwait, such as, its geographical location, the availability of natural resources as well as satisfactory physical infrastructure, which scored high among all MNCs. Depending on the MNCs' industry type, size of investments, and their investment motives, these factors were prioritised for FDI in Kuwait.

Overall, it is deduced that that there are three dominating attractive non-institutional location features of Kuwait, which include: 1) geographical location (the most attractive location factor), 2) cost factors, and 3) economic factors.

- **Survey results on the attractive non-institutional location factors**

The overall results, as shown in table 35 below, highlight three key attractive non-institutional location features of Kuwait and their corresponding priority percentage:

Table 35: Frequency and Percentage of the attractive non-institutional location factors

Non-institutional location factors	Frequency*	Percentage
Geographical location in Kuwait	122	46 %
Cost factor in Kuwait	66	25 %
Efficiency factors Kuwait	46	17 %
Market factors in Kuwait	18	7%
Country Risk in Kuwait	7	3 %
Social and Culture Factors in Kuwait	7	3 %
* Factor is considered attractive, if it scored frequency is greater than 40 (e.g. 15 %)		

The geographical location of Kuwait was selected by the majority of MNCs because Kuwait is situated in northern part of the Gulf region. The respective location provides access to the Iraqi market (Quintana, 2011), the Saudi Market, and the Iranian market. The fact that historically the respective location has been a part of the Old Silk Road does also add value to Kuwait as a trading hub.

The cost factors, encompassing the cost of labour, transportation and logistics as well as raw materials, appeared to be the second most attractive feature of Kuwait for the MNCs, as they are at exceptionally low levels (Doing business in the Arab world report, 2012). Likewise, efficiency factors (the availability of adequate and modern infrastructure) were also chosen by MNCs from different nationalities and industries as an attractive feature of Kuwait. The MNCs appear to be motivated by the newly created infrastructure (post first Gulf war in 1990), when the Kuwaiti government had to reconstruct all the state infrastructures, such as, roads, ports, communications and petroleum manufacturing infrastructure (Global, 2006). Finally, based on MNCs' nationalities, the results indicate that there is no significant difference between the attractive non-institutional location factors. So is the case for MNCs from the industrial sectors, and MNCs' size of investment perspectives. The full details of MNCs findings, based on their unique characteristics, are presented in Appendix (I). Finally, it appears that other locational factors, such as, market factors, country risk, and social and culture factors appear to be less attractive for MNCs.

- **Survey results about on Unattractive non-institutional location factors**

The results about attractive and unattractive non-institutional locational factors of Kuwait perceived by MNCs are shown in table 36 below.

Table 36: Frequency and Percentage of unattractive non-institutional location factors

Non-institutional location factors	Frequency*	Percentage
Kuwaiti Market factors	87	33 %
Cost factors in Kuwait	59	22 %
Kuwait geographical location	9	3 %
Country Risk (Kuwait)	13	5 %
Efficiency factors	40	15 %
Social and Culture Factors	58	22 %
* Factor is considered unattractive, if the scored frequency is greater than 40 (e.g. 15 %)		

It appears that the Kuwaiti market factors are not attractive for MNCs, and the cost factor appear to be a discouraging non-institutional location factors for MNCs. This is a factor, which has been previously considered as an attractive non-institutional location factors, indicating a mixed opinions among MNCs, as does the efficiency factors.

Hence, analysing the data on the MNCs from the nationality perspective, reveal that limited difference in relation to the unattractive non-institutional location factors. The North American MNCs choose costs, social and culture, efficiency factors, whereas, both the Asian and European MNCs consider market, costs and social and cultural factors as the most discouraging non-institutional location factors, when considering Kuwait as a potential FDI destination.

The limited defences are also detected in the data, based on MNCs' industrial type. The results indicate that, although, all groups had chosen market factors, social and culture factors, group (A) Financial industries chose efficiency factors, group (B) petroleum industries, group (C) services industries, and group (D) trade chose cost factors, as unattractive non-institutional location factors in Kuwait. Finally, based on MNCs' size of investments as a perspective, the results indicate that there is no difference related to the attractive institutional location factors.

Overall, we find that the social and cultural factors in Kuwait appear to discourage MNCs to consider the country as a possible investment location. The socio-culture factors in the Kuwaiti community is based on Islamic and Arabic culture, and considered to be of a conservative nature, strictly following the Islamic believes and Arabic doctrine. This does not allow for any room to compromise behaviours that are contradictory to these norms among them business activates such as sale of alcoholic beverages. Finally, as it is apparent, other location factors, such as, country risk, geographical location of Kuwait appear to be less discouraging non-institutional location factors for MNCs.

Full details of the findings based on MNCs' unique characteristics are presented in Appendix (J).

- **Interviews results of MNCs' external environment factors (non-institutional location factors)**

The qualitative data analysed aims to identify the attractiveness or unattractiveness of a location in the context of MNCs' external environment factors (non-institutional location factors) for their FDI. The presupposed designated themes are derived from the literature review, and presented in the Conceptual Framework section 3.4. Each of these themes scrutinises the data collected from the participants in the context of three perspectives of MNCs, namely: MNCs’ origin (nationality) type of industry, and the size of their investment. In the previous stage of analysis, the respective perspectives were actually clusters themselves containing two designated themes. The results are organised under one cluster containing six themes.

▪ **Cluster Three: Non-Institutional Location Factors.**

Cluster three contains the analysis of the 'non-institutional location factors', organised as six presupposed designated themes (cost factors, market factors, geographical location factors, location risk factors, economic factors and social and cultural amenities). All of which are based on the factors identified in the literature review and presented in the Conceptual Framework Chapter, Section 5.2.

▪ **Theme Eight – Cost Factors**

The analysis of the data showed that MNCs had mixed views about the cost factors' attractiveness in the Gulf region. Under this theme, these cost factors comprise of labour costs, costs of start-up, business operation costs, production costs, and cost of raw material. Starting with labour costs, for example, the global project development manager at American medical MNC stated:

> *"Kuwait has number of distinguish features in term of economic visibility such as availability of expert medical staff ... few Kuwaiti national and other are expatriates ..."Source: interview with an executive of MNC in the Gulf region -MNC-AG-23*

The statement points to the availability of experienced medical staff, both within the locals and the expat community, implying lower recruitment costs as an attractive feature for medical and pharmaceutical MNCs in the Gulf region. The statement above was analysed from the industry type perspective of a MNC. Looking at MNCs from other perspectives, in the context of the cost factor as a theme, there are a similar evidences to be found. For instance, when covering the nationality perspective of MNCs in the context of and in lieu of different elements in the cost factor, such as, costs of transportation, raw material and land acquisition, a bank branch manager from global MNCs in the Gulf region stated:

> *"...Comparing the cost of opening a business in Kuwait to other cities such as Dubai, I can see that the cost of establishing the businesses low in Kuwait, for example of the usual cost of opening business is the office rent, cost of purchasing office furniture and stationeries and not for dropping the cost of utilities bills like electricity and water..."Source: interview with an executive of MNC in the Gulf region -MNC-AG-10*

Along the same lines, when considering the investment size of MNCs as a perspective, a number of banks indicated that banking transaction costs in Kuwait are lower than other countries in the Gulf region. Subsequently, this results in a positive impact on project profitability in relation to the size of the investment. A senior manager of a banking MNC mentioned:

> *"... Back office transaction cost which include fees on transfer between banks locally or internationally plus other transactions such as issuing letter of credit, letter of guarantee is essential to consider, in Kuwait these cost are relatively lower than other countries in the Gulf region, which make Kuwait economically attractive for us as a bank" Source: interview with an executive of MNC in the Gulf region -MNC-AG-13*

Data about other types of costs, such as, economic costs (e.g., production, transportation using pipelines, and storage costs) were also included in this analysis for MNCs from the petroleum and petrochemical industry. This clearly indicates that in the Gulf region, Kuwait is regarded as an attractive destination for their future investments:

> *"What attracted Kuwait is the cost of oil production, in the United States it cost almost $24 per barrel and in Canada it cost 26 the law per barrel in North Sea this figure can escalate to $30 per barrel, however the cost of producing oil in Kuwait and the Gulf region as well is average of $ 5 per barrel ..." Source: interview with an executive of MNC in the Gulf region -MNC-AG-4*

Another senior manager of a global petroleum MNC in the Gulf region stated:

> *"The cost of producing crude oil from the field and store this oil until it's ready to be shipped is exceptionally low in Kuwait and in the Gulf region, if I compare that with our operations in South East Asia whereby the cost is almost $26 per barrel, however it will not exceed $ 8 per barrel in Kuwait, in this case 100,000 barrel of production will eventually cost $260,000 versus $80,000 in Kuwait, you can see by yourself the difference" Source: interview with an executive of MNC in the Gulf region -MNC-AG-5*

These statements place an emphasis on the importance of the production cost of petroleum, and natural gas for MNCs. This was typical for the majority of the interviewees from MNCs within this industry. Interestingly enough, economic cost factors were an attractive feature of Kuwait, which was also confirmed by other industry type MNC. One executive at aviation MNC highlighted the importance of the cost factor for their decision- making, and how cost-effective analysis takes place. The executive had following to state:

> *"Fuel prices at Kuwait airport is the lowest in the Gulf region, you might appreciate that fuel prices is enormously important for our voyage calculations, the recent increase in the fuel prices had an immediate reflection by increase of tickets and air-cargo prices simultaneously" Source: interview with an executive of MNC in the Gulf region -MNC-AG-20*

The mixed view about attractiveness of Kuwait, as a destination for FDI, in lieu of cost factor, is evident in the previous interviews conducted with executives at American medical and health care MNCs—the cost factors were regarded as attractive for them. A senior manager at an Asian health care MNC insinuated that establishing any healthcare or medical business in Kuwait is not economically viable, due to the high cost of medical and pharmaceutical supplies in Kuwait:

> *"Observing the Kuwaiti market, it is notable that the prices of medicines for healthcare professional usage, and I refer to bulk patches, as well as the prices medical supply in Kuwait is over upper limit of the prices in the Gulf region .."Source: interview with an executive of MNC in the Gulf region -MNC-AG-24*

Likewise, since the cost of renting lands in Kuwait is exceptionally high, it deters trade investor from investing in Kuwait:

> *"The project in Kuwait was to build a mega "cold store" with capacity of 65,000 cubic meters consisting of 30 rooms maintaining temperatures ranging from - 25C to +25C, this facility specifically planned to be located on a convenient port berth used for reefer ships and merchants use for importing perishable commodities which require temperature controlled, and then exporting these commodities to countries in the region such as Iraq, Saudi Arabia and Iran. However when we enquire about the price of renting the land, the project fails the test of economic viability" Source: interview with an executive of MNC in the Gulf region -MNC-AG-22*

- **Theme Nine – Market Factors**

Based on the data, it appears that the unattractiveness market factors, such as, market size, market growth and consumer purchasing power was a notable pattern for MNCs. For instance, several banking MNCs considered the size of the Kuwaiti market as relatively small in comparison to other markets in the Gulf region. In addition, MNCs recognised the existence of high level of competition as the Kuwaiti local banks provide competitive banking services to the local clients. During an interview with a managing director at a branch of a leading bank in the region, it was stated that:

> *"Kuwaiti market is smaller than the markets in Dubai and in Emirates.. Also this high competition between the local banks in term of providing quality services to the customers, of Laurel impression that Kuwaiti market difficult to penetrate" Source: interview with an executive of MNC in the Gulf region -MNC-AG-9*

Many other interviewees provided similar responses regarding the Kuwaiti banking and financial investment market conditions. A director at a financial investment company mentioned that in Kuwait the portfolio management tend to be more toward Islamic portfolio funds, meaning offering any international portfolios in Kuwait would pose difficulties:

> *"Within the Kuwaiti market, consumers feel safer toward Islamic portfolios funds especially with the recent credit crunch crisis in the United States during 2008, therefore any attempt to present non-Islamic portfolios funds would face difficult challenges..."Source: interview with an executive of MNC in the Gulf region -MNC-AG-12*

The unattractiveness of Kuwaiti market conditions was also conveyed by executives in other industries, such as, the aviation MNCs, who considered the Kuwaiti market to be among the smallest market sizes in the Gulf region. The combination of intense competition posed by and between the national carrier as well as private local carriers was exemplified in the following two statements.

> *"There is two major hubs in the Gulf region for aviation companies; the first is Saudi Arabia that basically because the holy Islamic places, Muslims around the world would like to visit the holy Islamic places and Saudi Arabia, the second is to buy as it is the business hub in the region, now notably Qatar is growing as second hub for a business in the region .... Our classification to the Kuwaiti market is small to medium-sized passenger flow, which is still not attractive "Source: interview with an executive of MNC in the Gulf region -MNC-AG-20*

> *"There is a notable competition in Kuwaiti airline market, not only by the national carrier, but by the local private carriers ... in Kuwait there are two private airlines, and as far as I know Kuwait is the only country in the region has two private airlines in additional to the national carrier " Source: interview with an executive of MNC in the Gulf region -MNC-AG-19*

To provide further evidence for the perceived unattractiveness of Kuwaiti market conditions for MNCs across various industries, an executive within the hospitality industry offered his criticism by pointing to a medium to low occupation rate:

> *"The company did not consider to invest in Kuwait because of the size of the hotel industry in Kuwait is limited, perhaps Kuwait is not a tourist country nor business hub in the Gulf region" Source: interview with an executive of MNC in the Gulf region -MNC-AG-17*

Same interviewee also suggested that other discouraging factors had stopped them from investing in Kuwait. The respective factors will be discussed in the social and cultural attributes of Kuwait—discussed in the last section at this stage of analysis (see page 176).

- **Theme Ten – Geographical location Factors**

The geographical location of Kuwait was the most attractive non-institutional location factor for MNCs. The results point out that petroleum and petrochemicals MNCs have several reasons behind being attracted to the geographical location of Kuwait. The first reason is the access to the Gulf coast, which provides shipping routes for petroleum products:

> *"Geographical location of Kuwait is an advantage ... The presence of ports on the coastal side of Kuwait, integrated production with export facilities, therefore Kuwait does not need to share export pipelines with other countries, unlike the situation with Kazakhstan which faces extreme difficulties in exporting the oil due to the absence of coastal access to the Black Sea, and that will reduce the profit margin of oil production, but Kuwait has its own course tells and will establish petroleum ports" Source: interview with an executive of MNC in the Gulf region -MNC-AG-5*

Another interviewee concurs with the above statement by adding:

> *"a distinguished feature of Kuwait, which attract the company is the availability of ports on the coast of side of the Gulf, that means the shipping cost will be minimised, there will be no need to use ground transportation in this case as we can directly ship products using petrochemical marine vessels" Source: interview with an executive of MNC in the Gulf region -MNC-AG-6*

The statements of these interviewees were typical for the majority of the participants regardless of their origin (nationality, particularly within the petroleum and petrochemical MNCs. Furthermore, the geographical location of Kuwait also emerged as a key factor for many MNCs involved in banking and financial investment. Kuwait offers the unique geographical location in the region between Iraq, Iran, and Saudi Arabia, providing an access and a gateway to these markets and banks:

> *"Geographical location of Kuwait within the Gulf region allowed access to the Iraqi and Saudi market, the company prefer to open a branch in Kuwait, which has a border with Iraq and Saudi Arabia, rather than opening a branch in Iraq due to the high-risk or in Saudi Arabia due to Islamic banking restrictions" Source: interview with an executive of MNC in the Gulf region -MNC-AG-*14

Another managing director of financial investments MNC provided further support for the above statement by asserting:

> *"Having a border with Iraq and Saudi Arabia, Kuwait gain a competitive advantage location wise, because of its location and strong economy Kuwait had managed to minimise the effect of the global credit crisis in 2008 and 2009, which make the country reasonably attractive" Source: interview with an executive of MNC in the Gulf region -MNC-AG-11*

The comments of these interviewees reinforced the attractiveness of Kuwait's geographical location in the Gulf region in the context geographical attractiveness. It emerges as an encouraging factor for various sizes of investment to be made by MNCs in Kuwait. The results of the interviews conducted with executives at MNCs in different industries—among others, the aviation MNCs—clearly indicate that Kuwait's geographical location is, indeed, considered attractive. An executive at Aviation MNC mentioned that the flat landscape of Kuwait, without any natural obstacles, as well as proximity to other destinations in the region was an attractive factor:

> *"Natural geography of Kuwait is ideal for aviation services like other cities in Gulf region like Jeddah ... Kuwait has a support service which allowed smooth navigation to and from Kuwait international airport ... Also, due to being located in the Northern part of the Gulf region Kuwait is less prone to air traffic congestion with other similar locations. In this context the nearest airport, Dammam in Saudi Arabia is approximately 300 miles away" Source: interview with an executive of MNC in the Gulf region -MNC-AG-19*

- **Theme Eleven - Location Risk Factors**

The MNCs in the Gulf region demonstrated mixed views about the location risk factors about Kuwait. Under the location risk factors, the data about several types of risks, such as, country risk, financial risk and political risk were included. In this theme, we start by statements made about country risk and its impact on conducting business, with evidence from shipping companies. For instance, because of the location of Kuwait being a politically volatile, revoking memories of the tanker war between Iran and Iraq, some of the shipping insurance companies classify the Gulf region as 'risky region'. Consequently, it caused them to add an extra premium on the insurance. A manager of a trade MNC mentioned:

> *"Currently we are paying extra for Marine insurance when shipping from or to Kuwait as the North part of the Gulf region is consider dangers zone by many insurance company ... this had*

discouraged the company from investing in Kuwait" Source: interview with an executive of MNC in the Gulf region -MNC-AG-23

The statement of this interviewee points toward a high locational risk, causing for a caution and discouragement in considering Kuwait for future investment projects by the company. Such statement is in collision with the existing general view in an international and geopolitical context. However, MNCs in the Gulf region perceive Kuwait's location to be of low risk; specifically, in terms of terrorist threat for the region. A senior manager at petroleum MNC stated that:

> *" One of Kuwait's advantage is lower risk, in Iraq we had to suspend our operation in the South embarked because of terrorist threat, also few remember Saudi Arabia few years back there was terrorist threat on a number of petroleum facilities in East province, comparing that to Kuwait would find Kuwait lowest of terrorist threat "Source: interview with an executive of MNC in the Gulf region -MNC-AG-5*

The information provided by this interviewee underlines the location risk of Kuwait to be minimal, and act as an attractive feature for petroleum and petrochemical MNCs in the Gulf region.

Other MNCs also considered Kuwait as a country with low risk factor. For example, financial and investment MNCs in the Gulf region agreed that Kuwait is considered a low-risk country in term of financial risk with statements made such as the following:

> *"Kuwait from financial point of view is considered low-risk, to my understanding there is no restriction on capital and profit repatriation as per the financial regulation, and much less restriction on transferring capital, foreign currencies comparing to the majority of developing countries" Source: interview with an executive of MNC in the Gulf region -MNC-AG-12*

In the same context, a senior manager of an international banking Corporation added:

> *"our observation Kuwait economic risk is stable that is because the regulation are clear the exchange rate are stable, the interest rate is also stable and both is under monitor of the monetary authority in Kuwait, if you compare it to other developing countries where the interest rate and exchange rate is been severely fluctuating by government intervention.."Source: interview with an executive of MNC in the Gulf region -MNC-AG-15*

Along the same lines, a senior executive of an American hospitality MNC indicated:

"When I compare Kuwait with other developing countries especially Africa or the Asian subcontinent, it's notably that Kuwait has less political violence and low-level of crimes, or potential civil war."Source: interview with an executive of MNC in the Gulf region -MNC-AG-16

The above point of view was shared and complemented by a local consultant, who believed that Kuwait is a political stable country. Currently, Kuwait is the only country in the region that has democratic freedom and elected parliament. He said:

"I think you shouldn't be any worry about any possible political crisis in Kuwait which might disturb the International companies operations, 50 years ago Kuwait has a parliament and there is freedom of speech and opinion, Kuwait is small peaceful country and whether experience, and I think in my opinion we will not, any type of political disturbance" Source: Interview with a local consultant in Kuwait -CON_KW_3

This issue was further explored with another local consultant, who arrived at a similar conclusion:

"The Kuwaiti community is a small community will share the Islamic religion and Arab culture, therefore there foreign must not expect any ethnic tension or religious tension or any sort of community conflict in Kuwait, May God always bless our unity..." Source: Interview with a local consultant in Kuwait -CON_KW_1

- **Theme Twelve – Efficiency Factors**

The efficiency factors were another dominating attractive non-institutional location factor of Kuwait for MNCs' FDI, encompassing categories, such as, availability of skilled labour, adequate technology, infrastructure, and advanced communication infrastructure. However, varying results were obtained from analysing the statements by executives of MNCs from the perspective of their investment size. For example, the results of interviews with executives from the banking MNCs generally indicated that the availability of professional Kuwaiti bankers, who perform numerous banking transactions, as an attractive economic feature of Kuwait. The bank in this case does not need to train the new employees. A bank manager stated:

"We were discussing the National percentage labour, and it seems that the bank is not troubled by the high percentage because Kuwaiti nationals are skilled with the student little experience in dealing with banking transaction, and it seems Kuwaiti nationals performance is better than other nationals in the Gulf region such as Qatar or Saudi Arabia" Source: interview with an executive of MNC in the Gulf region -MNC-AG-15

Many other participants from banking MNCs provided similar responses regarding the Kuwaiti national labour; whereby, linking availability of high skilled Kuwaiti nationals to robust training programs offered in Kuwait:

> *"Few years ago I visited Kuwait to attend a course hosted by Kuwait centre of Banking Studies in Kuwait, I was surprised to noticed many young Kuwaitis studying a banking operations diploma, which was before and experience staff and using similar equipment to the banks, this is the reason why the Kuwaiti labour market can provide highly skilled national labours to work at any bank" Source: interview with an executive of MNC in the Gulf region -MNC-AG-13*

The attractiveness of Kuwait as a FDI destination in the context of its efficiency features was also highlight by petroleum and petrochemical MNCs. For example, the majority of executives at petroleum MNCs asserted that Kuwait, like other Gulf countries, possesses advanced technology in oil exploration and production, including SPM and automated oil storage facilities. The respective factors are considered very important economic determinates for petroleum and petrochemical operations. A senior executive manager asserted that:

> *"After the war with Iraq 20 years ago all the Kuwaiti loading terminals been refurbished while some have been newly built so the RVD listed region if you compare it to Iran, Saudi Arabia, Emirates. The Kuwaiti loading terminals have a modern offshore floating facilities with an outstanding international standard SPM facilities this SPM allows all loading offshore to very large crude carrier, which yield in tremendous saving of time and money here" Source: interview with an executive of MNC in the Gulf region -MNC-AG-**3***

Many of the other interviewees held similar opinions regarding the existence of sufficient and modern infrastructure of petroleum and petrochemical industry in Kuwait. A manager of a petrochemical MNC shared a similar view during the interview:

> *"during my visits to Kuwait I had noticed that Kuwait oil company have aggressively invested in petroleum infrastructure, there is many gathering centres for petroleum and natural gas along the pipelines from the field to the shore, these gathering centres some of them are using advanced computer integrated machinery which means they are running by computers from a control room in a remote location, also the tank facilities in Kuwait is motor and perhaps because of the war 20 years ago, as all of these tanks considered new if it's compared with other tanks in Saudi Arabia, Iraq and Emirates" Source: interview with an executive of MNC in the Gulf region -MNC-AG-1*

Other MNCs from various parts of the world, engaged in different industries, such as, the aviation industry, provided identical testimonials:

> *"During the visit to Kuwait airport, myself and the team had noticed that Kuwait airport is well equipped with modern cargo equipments, logistic equipment, and the reasonable attention is paid to health and safety unlike other airports in the Gulf region, by the time the team pass the passport control the luggage is already out, this is considered a good sign of highly equipped airport" Source: interview with an executive of MNC in the Gulf region -MNC-AG-19*

Another similar view about the efficiency, as an attractive non-institutional factor of Kuwait, was shared by a senior manager of an American hospitality industry, as demonstrated in the following statement:

> *"The availability of advanced telecommunications is very notable in Kuwait, you can find internet network coverage everywhere, even in the shopping centres and some public areas. Also the telephone lines in Kuwait had been converted to digital phone lines which is better for us as business companies because we have several outside phone lines processed through a key system with a central control unit, unlike many Gulf countries who still using the analog line until now." Source: interview with an executive of MNC in the Gulf region -MNC-AG-16*

Hence, the results of the interviews with managers and consultants suggest that the efficiency factor is, indeed, attractive for MNCs. Such results were consistent regardless of MNCs' nationality, industry type, or the size of investment as perspectives.

- **Theme Thirteen – Social and Cultural Amenities**

With regard to the social and cultural amenities in Kuwait, the results report that social and cultural amenities in Kuwait had significantly influenced hospitality MNCs negatively in considering investing in Kuwait. Hence, this theme includes cultural categories that affect MNCs' employees, such as, amenities, religious restrictions on food and beverages, discrimination against women in the context of work and racism against expats. The social and cultural factors in Kuwait are rooted in the Islamic laws, which restrict many products and services to be offered in Kuwait. The Kuwaiti law, which is based on the Islamic Shariah law, restrict the import, production, sales, and serving of any alcohol beverages in the country. The same rules are applicable to the import, sale, serving, and consumption of products made out of pork. A manager of a leading hospitality chain MNCs mentioned:

> *"There is no tourist or entertainment market in Kuwait, unlike Dubai or Bahrain, Kuwait is not a destination for holidays,*

> *because of restrictions on entertainment and tourism activities..."Source: interview with an executive of MNC in the Gulf region -MNC-AG-18*

He, then, added:

> *"Due to restrictions because of religious matters, serving alcohol beverages is restricted by the law in Kuwait. We understand that Islam forbids the consumption of alcohol, but other Gulf countries do serve alcohol ... only Kuwait and Saudi Arabia prohibited the serving and sale of alcohol beverages, add to this that there is restriction in hosting any musical concerts "Source: interview with an executive of MNC in the Gulf region -MNC-AG-18*

The information provided by this interviewee suggests that because of the Islamic law, cultural aspects, as non-institutional location factors, had discouraged this type of MNCs to consider investing in Kuwait. Such sentiments were further confirmed by yet another manager of global hotel chains in the Gulf region, who said:

> *"To explain why the company is not planning to open branch in Kuwait, because of entertainment and nightlife in Kuwait is zero, I mean there is no such thing called night life or entertainment in Kuwait. If you had interviewed any hotel company in the region you will understand that not serving alcohol beverages is making hotel or resort loses large portion of revenues, the hotel revenue from serving alcohol through bars and nightclubs mini bars at the guest rooms is approximately 35% of the total to revenue ... you can also add 15 to 20% from renting function halls for concerts ..... Going to Kuwait with almost 45% lower margin of profit from the outset is economically seriously detrimental. This is why we don't want to open business in Kuwait for the time being" Source: interview with an executive of MNC in the Gulf region* -MNC-AG-16

The Sharia Law in Kuwait seems to affect other industries, such as, the aviation industry as well. During interviews with executives from a couple of airlines, it was indicated that aviation MNCs were discouraged from considering investing in Kuwait, since the Kuwaiti Customs authorities required all alcohol beverages, including the duty free items, to be sealed before entering the Kuwaiti airspace and allowed to be opened only after the aircraft had left its airspace. Moreover, the catering services at the Kuwait airport do not provide some dishes, popular among travellers, which include: dishes cooked with wine or served with pork meat. The following quotation from an interview with a manager of a leading aviation company illustrates the situation:

> *"of course in Kuwait we have restrictions in serving alcohol beverages and certain type of food before we enter the Kuwaiti aerospace and should be concealed until we leave the Kuwaiti aerospace, that conflict with our business and first class protocols . . . As the airlines usually provide the business and first class passengers with complimentary alcohol beverages once they are*

> *on board and waiting for the aircraft to take off" Source: interview with an executive of MNC in the Gulf region -MNC-AG-19*

The statement of this participant emphasised the role of social and cultural amenities in deterring aviation MNCs to consider investing in Kuwait. Beside these two particular industries, the Kuwaiti social and cultural attributes did not seem to play any significant role as a determining factor for FDI for MNCs in other industries, irrespective of their nationalities or the size of investment. For example, during the interview with a senior manager of a bank, it was indicated that culture factors in Kuwait or the Gulf region does not play a critical role in the decision-making process:

> *"When we decide to penetrate the GCC market we took into consideration some of the social issues that we might face such as: biggest fight unequal role for women and men in the same organisation in terms of duties and responsibilities, of bilingual employee who possess Arabic language, and other issues. We are well prepared to handle these issues in the GCC region" Source: interview with an executive of MNC in the Gulf region -MNC-AG-9*

Similar point of view was stressed by a senior manager of petroleum MNC, where he clearly stated that cultural amenities, such as, the anti-foreigners behaviour does not exist in the region:

> *"being in the Gulf region for five years now and reviewing the community culture and behaviour toward foreign companies in the region, we have never experienced any harmful or negative attitude of the local community toward foreign MNCs, we are pleased to say that cultural conflict or antisocial behaviour is does not exist in this region. However we have experience antisocial behaviour is from many communities in Africa were being considered as a part of the devilish conspiracy by the local government toward these local communities " Source: interview with an executive of MNC in the Gulf region -MNC-AG-5*

6.4.3 Analysis based on MNCs' external environment factors (Institutional location factors)

This section will present the finding from both survey and interviews regarding MNCs assessment, and evaluation of Kuwait's institutional location factors. The purpose is to determine which institutional location factors had attracted or discouraged MNCs in the Gulf region to invest in Kuwait.

The presentation of the results in this section will begin by highlighting the overall impression of MNCs about institutional factors in Kuwait, their attractiveness, and decision to invest in Kuwait. In each section, the results shall be presented according to MNCs' nationality, industry type, and the size of their investments.

- **Survey results of MNC external environment factors (institutional location factors)**

This section will present the findings related to the attractiveness and non-attractiveness institutional location factors of Kuwait, which is based on the survey data collected from MNCs in the Gulf region.

- **Survey results on attractive institutional location factors**

This section will present the overall results regarding the attractive institutional location features of Kuwait, as shown in table 37 below - highlighting three dominating attractive institutional location features of Kuwait:

a) Private property protection in Kuwait
b) Legal system in Kuwait
c) Intellectual property protection in Kuwait

The data shows that 46% of MNCs in the Gulf region had chosen privet property protection in Kuwait as the most attractive location feature, 24% of MNCs in the Gulf region had chosen legal system in Kuwait, and 17% of MNCs in the Gulf region had chosen the intellectual property protection in Kuwait.

Table 37: Frequency and Percentage of the attractive non-institutional location factors

Institutional location factors	Frequency	Percentage
Bureaucracy	0	0 %
Privet property protection	125	47 %

Labour regulations	0	0 %
Corruption	0	0 %
Intellectual property protection	41	15 %
Legal system	100	38 %
*** Factor is considered attractive, if the scored frequency is greater than 40 (e.g. 15 %)**		

The data shows that the majority of MNCs were concerned about private property protection, as the region has a history of confiscation; particularly, when countries in the region gained their independence and nationalised the oil companies during the 1960s and 1970s (OPEC, 2004). MNCs also expressed concerns about the justice and judicial system in the host country, this concern is mainly based on the fact that few countries in the region (such as Saudi Arabia and Iran), are basing their judicial system on the Islamic law and not consider the contemporary commercial international laws. This does not seem to be favourable for MNCs. The same rationale of the private property protection is applied to the intellectual property protection for MNCs in the region.

The results show no significant difference related to the attractiveness of the institutional location factors based on MNCs nationalities as a perspective. So is the case, when looking at MNCs' size of investments or industry type. The full details of MNCs findings, based on their unique characteristics, are presented in Appendix (K).

Other institutional location factors, such as, corruption, labour regulations, and bureaucracy appear to be less attractive factor to of MNCs in the Gulf region.

- **Survey results on unattractive institutional location factors**

This section presents the unattractive (discouraging) institutional location features of Kuwait for MNCs in the Gulf region. The overall findings (as shown in table 38 below) highlight two dominating unattractive institutional location features of Kuwait:

a) Bureaucracy
b) Corruption

The data shows that 59% of MNCs had chosen bureaucracy as the most discouraging institutional factor, and 28% chose corruption as the next discouraging institutional factor in Kuwait.

Table 38: Frequency and Percentage of the attractive institutional location factors

Institutional location factors	Frequency	Percentage
Bureaucracy	158	59 %
Privet property protection	12	5 %
Labour regulations	0	0
Corruption	74	28 %
Intellectual property protection	8	3 %
Legal system	14	5 %
*** Factor is considered attractive, if the scored frequency is greater than 40 (e.g. 15 %)**		

MNCs emphasise that bureaucracy is the most discouraging feature of institutional factors in Kuwait. The governmental bureaucratic procedures are linked to the efficiency of formal transactions, such as, the time to receive approvals on business licenses, and the numbers of stages that an application has to go through. The greater the bureaucratic procedures, the more costly it is for the MNCs to conduct business in that host country. It also contributes to a grow grounds for corruption; hence, it is not surprising that corruption was regarded equally a discouraging institutional factor in Kuwait as bureaucracy.

Based on all three MNC perspectives, i.e., nationalities, industrial sectors, and size of investments the results show no significant difference related to the unattractive institutional location factors in the Gulf region. Other factors, such as, private property protection, labour regulations, intellectual property protection, and the legal system in Kuwait appear to be less discouraging for MNCs institutional location factor in the Gulf region.

Full details of MNCs findings, based on their unique characteristics, are presented in Appendix (K).

- **Cluster Four: Institutional Locational Factors.**

The qualitative data analysed in this cluster is based on presupposed designated themes derived from the literature review and presented in the Conceptual Framework. The aim is to identify the attractiveness or unattractiveness of a location as a destination for MNCs' FDI in the context of institutional locational factors. It contains themes, such as, corruption, property protection, intellectual property protection, and legal system.

- **Theme Fourteen - Corruption**

Corruption is a very complex phenomenon, as its roots lie deep in bureaucracy, and host country's institutions (Mundial, 1997). Hence, due to the sensitive nature of this theme (many believe that talking about corruption is a serious matter and could be understood as direct accusation of corruption to governmental officials), the majority of MNCs avoided too openly expressing their opinions. This study provides a couple of quotations from executives at MNCs from different industry types, nationalities and the size of investment. For instance, a senior manager at petroleum MNC said:

> *"There is mystery with uncertainty surrounding of the project Kuwait which being announced by the Kuwaiti government 15 years ago to develop the oilfields in Northern part of Kuwait, currently with the prevailing oil prices around $100 per barrel, the Kuwaiti government could owned extra $2 million per day if the project Kuwait was executed by the government, however until now there is no clear reason why this is happening, there is a few stories in newspapers about conflict of interest between influential parties in the government and parliament member....But again this is what we read in the newspaper and it's not my opinion or the company opinion. "Source: interview with an executive of MNC in the Gulf region -MNC-AG-4*

It is clear that the above participant was referring to the corruption surrounding a project in Kuwait, which was publicly addressed in the Kuwaiti National Assembly during 2011.

Another example of the form of corruption is the case of customs agency at one of the Kuwaiti ports, which was pointed out by another interviewee:

> *"one of our sister companies in Kuwait dealer with export and imports with the Kuwaiti partner had always faced a delay in the paperwork of their shipments to Kuwait, operation manager himself had to go to the customs and tried to solve this problem and he was surprised to know that the custom officer had asked him indirectly for "motivation gift" in order to speed up the process of the paperwork to release the shipments, obviously this particular customs officer was indirectly asking for bribery " Source: interview with an executive of MNC in the Gulf region - MNC-AG-21*

These two statements were the only statements with regard to corruption founded in the 24 transcripts of the interviews conducted with executives at MNCs in the Gulf region.

However, in support of the above assertions, one local consultant in Kuwait indicated that corruption is everywhere, but is only occasionally visible to the general public:

> *"Corruption is a series social disease and it's everywhere. You can clearly see the corruption and developing countries especially in Africa and other poor countries, but it is less visible in European and American in my opinion because of the anticorruption programmes they have, and surely there is corruption in Kuwait, but Kuwait has a rich country and locals receive high wages and absence of any taxation, therefore corruption is less visible in Kuwait" Source: Interview with local consultant in Kuwait -CON_KW_1*

- **Theme Fifteen - Property Protection**

The protection of physical property rights was viewed positively by MNCs. A senior manager of a petrochemical MNC, currently investing in Kuwait through a joint venture, emphasised the importance of the existence of a robust property protection law in any location that his company operates. The property protection rights provide an assurance to the investors against any confiscation of the property (e.g., mechanical equipments):

> *" as a petrochemical company in Kuwait, we provide advanced technological equipments to our Kuwaiti partners, this advanced equipments is costly and we have strong agreement with our Kuwaiti partner to protect our property rights, we are proud to work in Kuwait because Kuwait was the first country in the Gulf region who issue the property law 15 years ago, we feel secure and safe because we trust the Kuwaiti court system, all what I can say from my experience in Kuwait that the legal system compared with other Arabic countries is one of its kind !"* Source: *Interview with MNC in Kuwait - MNC_KW_1.*

Such views were also shared by other executives from other industries and nationalities. A manager for banking MNC said:

> *"property rights protection is including financial assets is an important factor for us as we search for new locations to expand our business, during the assessment process in considering Kuwait as a future location for our business, the enforcement of property rights law in Kuwait was an advantage" Source: interview with an executive of MNC in the Gulf region -MNC-AG-12*

The results generally indicate that regardless of the industry type of the organisation, MNCs in the Gulf region feel encouraged to consider Kuwait as a location for their investments. They believe that Kuwait offers adequate laws for protection of their physical property. Such attitude was further confirmed by local consultants, where they pointed out that the institutional framework for protecting investors' physical property rights were taken seriously in Kuwait:

> *"Historically, the property right is secured by the Kuwaiti law, however during mid-90s the property rights and intellectual properties arise globally and National Assembly had passed a law of property rights protection ... Also the current FDI law 8/2001 gives guaranteed to the foreign investor against any confiscation or nationalisation of his physical or intellectual properties" Source: Interview with local consultant in Kuwait -CON_KW_6*

The comments of this interviewee suggest that the property rights are protected in Kuwait through court of law. The Kuwaiti FDI law 8/2001 provides additional guarantees to the foreign investors assuring them that their physical properties will not be put at risk for confiscation or nationalisation. Accordingly, in support of this view, the Global Competitiveness Report (2012) ranks the strength of investor protection is Kuwait at number 28 out of 144, and property rights protection at number 43 of 144.

- **Theme Sixteen - Intellectual Property Protection**

Throughout the interviews conducted with the participants, no data about 'Intellectual Property Protection' emerged.

- **Theme Seventeen - Bureaucracy**

The government bureaucracy, as a theme, proved an unattractive institutional location feature of Kuwait. Almost all MNCs, currently active in Kuwait, touched upon it. As an example, during an interview with a construction company in Kuwait, the vice chairman of the company indicated that the requirements for securing land for their factory as well as the necessary utility services, such as, electricity and water is entangled in lengthy bureaucratic procedures. It further suggests that obtaining such facilities took more time than the FDI license itself; consequently, causing additional costs and frustration:

> *"we receive the FDI license to start factory for cement production in Kuwait after that we found out that we need to obtain construction permits for the factory and we have to apply for a licence to access to land, the requirement to gain access borderland, and utilities where extremely difficult lengthy and very bureaucratic procedures, it took eight months to get all these pyramids in order! " Source: Interview with MNC in Kuwait - MNC_KW_1.*

Other executives at MNCs in Kuwait complained about the additional approvals required before kick-starting their business in Kuwait. One participant from a foreign bank branch indicated that after obtaining the FDI license from KFIB, there were further requirements to obtain additional approval(s) by the Central Bank of:

> *"By the time KFIB had granted the company the license to operate in Kuwait as a foreign bank, we had to obtain additional approval by Central Bank of Kuwait . . . The procedures for that approval was lengthy and time consuming" Source: interview with an executive of MNC in the Gulf region -MNC-AG-4*

Like the previous participant, this interviewee also suggested that the process of obtaining additional banking operational license seemed to be more complicated than necessary, and a source of discouragement for banking MNCs to invest in Kuwait. In line with the same view, few other bank managers expressed the same level of frustration causing discouragement in considering Kuwait as a FDI destination. This points out towards an additional layer of producers, and veiled protectionism in banking projects:

> *"Throughout the process of obtaining FDI license in Kuwait we were surprised that we needed specialised approval of the central bank of Kuwait ... What comes to mind is that there is a desire to limit foreign participation in banking sector" Source: Interview with MNC in Kuwait - MNC_KW_2*

The same participant added:

> *"I very well remember an incident of a foreign bank who applied for FDI licensing in Kuwait, however after they had been asked to obtain additional approval by Central Bank of Kuwait, the bank had decided to withdraw their FDI application" Source: Interview with MNC in Kuwait - MNC_KW_2.*

Similar views on the issue of bureaucracy were obtained from other executives. A senior manager at petroleum MNC, recalling an incident, said that a senior manager at their company had to visit Kuwait to attend a petroleum conference, and issuing of a visiting visa for his colleague took more than seven days. Comparing this process with other Gulf countries, he mentioned:

> *"one of our managers wanted visit Kuwait for the annual meeting of Middle East petroleum companies, it took seven days just to process his business visa, this was surprising to myself when I compare this to Visa centre in Dubai, it takes only three hours to process business Visa in Dubai." Source: interview with an executive of MNC in the Gulf region -MNC-AG-7*

In agreement with this point of view, a local consultant also expressed their dismay about additional requirements and approvals as a sign of governmental bureaucracy in

Kuwait. The consultant said that the government ought to facilitate the foreign investor's business in Kuwait. These bureaucratic procedures in the form of additional and 'special' approval seemed to discourage MNCs from various countries and industries with different size of investment to consider Kuwait for their FDI:

> *"The rational explanation for additional industrial sector licensing, is the need to control the foreign investment flow to this particular industrial sector, due to higher concern, such as protection of local businesses ... In this case the only choice available for the government in controlling the sector is through extreme administrative requirement for new foreign investors" Source: Interview with local consultant in Kuwait -CON_KW_8*

The excessive bureaucratic procedures at this level—particularly, for the banks—seem to be of special interest. Most of the countries have liberalised their general investment laws for foreign investment. This is also confirmed by the country economic profile of the global competitiveness index (2012), which ranks ineffective government bureaucracy to be the most problematic factor for doing business in Kuwait.

- **Theme Eighteen - Legal System**

One dominant theme in the data, related to institutional location factors of Kuwait, was the Kuwaiti legal system, which included the categories of the role of Sharia law, reliability of the legal system, judicial independency, and non-prejudice of among locals and expats. During the interviews conducted with a number of MNCs in the Gulf region, the majority of the participants stated that the justice and court system was an attractive feature of the institutional system in Kuwait. A senior manager at petroleum MNC in Saudi Arabia indicated that the Kuwaiti legal system is the most sophisticated and advanced system in the Gulf, when compared to the Saudi system:

> *" The legal system and the arbitration system a contract enforcement is also acceptable with some variation in Saudi Arabian law they are more to the Islamic law and the Islamic Shariah but we are coping with that and it’s not a big difference than the normal or the regular civil law " Source: interview with an executive of MNC in the Gulf region -MNC-AG-5*

The statement suggests that the Kuwaiti court system is flexible in handling the legal issues, and is considered as an important aspect of the MNCs in the region. Therefore, if the foreign investors encountered a legal dispute, they would then choose to settle the issue(s) according to the civil or commercial laws of the host country. Such views were shared by many other participants. For instance, a bank branch manager in Kuwait indicated that the Kuwaiti legal system is flexible and includes both the Islamic law and the commercial law. According to him, it is important for the banking and financial investments, since certain financial transactions in the region are being conducted in accordance with the Islamic laws. He said:

> *"Kuwait has a suitable legal setting, the court system is mixed between the civil and Islamic law, unlike the Saudi Arabia which is purely the Islamic law or Dubai which is purely commercial law, as a bank we deal with Islamic banks in Kuwait and the Gulf , if we have any trouble we need a court that consider Islamic banking laws" Source: interview with an executive of MNC in the Gulf region -MNC-AG-9*

The combination of the Islamic law and the commercial law in the Kuwaiti legal system is, therefore, viewed as an attractive feature for the banking and financial investment MNCs in the region. The MNCs are of the view that in order to have a fair trial, the court system must consider both of these laws, when settling disputes between banks and financial investment institutions. In addition, local consultants in Kuwait provided positive comments about the legal system of Kuwait, as evident from the following statement:

> *"Comparing Kuwait with third world countries, the legal system in Kuwait is considered among the best functioning system, the state constitution provides and protect independent judiciary, and because of that only his Highness the Amir appoints all judges" Source: interview with local consultant in Kuwait -CON_KW_4*

The efficiency of the independent judiciary, legal system in Kuwait, was further highlighted by an executive from a MNC in Kuwait, who had came across legal issues during the operation in Kuwait in the past two years. The respective senior manager, currently active in Kuwait under FDI license, used the term "justice served" to indicate the reliability of the judicial system in Kuwait. Although, the case involved a dispute with a local Kuwaiti supplier, the commercial court in Kuwait had ruled in favour of his company against the local Kuwaiti counterpart. In his view, it was indicative of a high level of judicial system in Kuwait, as he said:

> *"few months ago we had a case with local supplier, and according to our internal procedure this case had to be taken to court ....we had concerns and doubts about courts in Kuwait, however I'm pleased to see that justice served in this small country, without any doubt judicial system in Kuwait is reliable, rightful, and independent" Source: Interview with MNC in Kuwait - MNC_KW_1.*

The information provided by this interviewee underlines the independency and reliability of the Kuwaiti judicial system. It further supports the fact that Kuwait's legal system is as attractive institutional location factor in Kuwait. A further support for this claim can be found in the Global Competitiveness Report (2012), according to which Kuwait's judicial independence is ranked 32 among 144 countries in regard to the efficiency of legal framework in settling disputes.

6.4.4 Stage Summary

This stage presented the results of analysed data in regards to the MNCs' location factors, highlighting the attractiveness and unattractiveness of Kuwait as a FDI destination for MNCs in the Gulf region covering three MNC perspectives, that is, nationality, size of investments, and industry.

The survey results indicate that there are three dominating attractive non-institutional location factors of Kuwait: geographical location, cost, and efficiency factors. There is no significant difference found in the attractiveness of the non-institutional location factors based on MNCs nationalities, size of investments or industry type.

Furthermore, the survey results confirm that there are four key unattractive non-institutional location factors of Kuwait: market, cost, social, culture, and efficiency. From MNCs' nationality perspective, the results indicate that there is a difference in relation to the unattractive non-institutional location factors. The North American MNCs chose costs, social and culture, efficiency factors; whereas, both the Asian and the European MNCs considered market factor, costs factors and social and cultural factors. Based on the MNCs' industry type, the results revealed that there is a difference related to the unattractive institutional location factors. Even though, all groups had chosen market, social and culture factors as unattractive MNC's within the financial group chose efficiency factors. The MNCs in petroleum, trade, and services groups chose cost factors in Kuwait. Finally, based on the MNCs' size of investments, the results indicate that there is no difference related to the attractive institutional location factors.

The survey results also show that there are three dominant attractive institutional location factors of Kuwait: private property protection, legal system, and Intellectual property protection. There is no significant difference in relation to their attractiveness of the institutional location factors based on MNCs' nationalities, industry type sector, or size of investments as perspectives. Furthermore, it was also found that there are two key unattractive institutional location factors of bureaucracy, and corruption in Kuwait. Again, though, there is no significant difference in the unattractive institutional location factors based on MNCs' nationalities, industry type, or their size of investments as MNCs' perspective.

The interview results of non-institutional location factors show that the geographical location of Kuwait was the most attractive non-institutional location factor of Kuwait. The reason being the strategic geographic location of Kuwait in the northern Gulf region, which makes Kuwait a trading centre within the proximity of three major markets, that is, Iraq, Saudi Arabia and Iran. Likewise, efficiency factor was regarded as a dominating attractive non-institutional location feature of Kuwait by many MNCs (petroleum and petrochemical, financial and investment, hospitality and aviation) regardless of their nationalities or their investment size.

However, MNCs from different nationalities and industrial sector had mixed views in regards to the cost factors in Kuwait. The Petroleum and petrochemical, banking, and financial investments MNCs, both with large-sizes of investments, considered the cost factors to be attractive. The aviation MNCs, with medium-size of investments, found cost factors to be attractive as well.

However, health services MNCs (with medium-sized investments) were of mixed views about the attractiveness of cost factors in Kuwait. The American health services MNCs considered the cost factors to be attractive factors; however, their Asian counterparts viewed them as unattractive. Similarly, MNCs had mixed views about the location risk factors in Kuwait. The petroleum and petrochemical, financial and investment, and hospitality MNCs viewed the location risk factors of Kuwait to be minimal. The trade MNCs expressed a concern about locational risks of Kuwait mainly due to the recent political crisis in the Gulf region. Mixed views were also found about the social and cultural amenities in Kuwait. The respective factors had a negative influence on both hospitality and aviation MNCs; however, did not have any discouraging effect on the petroleum and petrochemical, financial and investment MNCs.

It was also found that most MNCs from different nationalities and industry types agreed that market factors in Kuwait are unattractive non-institutional location.

The interviews results on institutional location factors show that all MNCs in the Gulf region of different nationality and industry types stated that the justice and court system was an attractive feature of the institutional system in Kuwait. A limited number of MNCs indicated that corruption is a discouraging institutional feature in Kuwait, but no MNC in the Gulf region or in Kuwait provided any comments on the intellectual property protection. All MNCs in the Gulf region and in Kuwait agreed that bureaucracy, such as, lengthy procedures and issuing business license and permits, excessive requirements (specially, when hiring foreign staff), as one of the unattractive institutional location features of Kuwait.

6.5 Stage Three - Results of the analysis of Kuwait FDI Policies

As discussed before in the Literature Review Chapter, the FDI policies play an important role in attracting MNCs to a location. The FDI policies are generally geared towards the removal of restrictions on the operations of foreign MNCs, and reduce cost factor conditions in order to strengthen country's investment climate and competitiveness in attracting MNCs (Gastanaga *et al.*, 1998, Globerman and Shapiro, 1999). Hence, MNCs do carefully examine the host country's FDI related polices as a part of their assessment. The analysis of data is carried out with the view of providing an answer to the following research question:

- **What are the Kuwaiti FDI policies and that are attractive/unattractive for MNCs, and how does this relate nationality, industry, and size of investments in the Gulf region?**

The rational of this stage is that if a MNC has developed sufficient familiarity with Kuwait as a location for their future investments, and after examining the location institutional and non-institutional factors with satisfactory results, the next step for the MNC would then be to assess the FDI policies of Kuwait. In other words, upon the acceptance of the Kuwaiti FDI policies, the MNC would then proceed with the license application. Therefore, this stage aims to examine main policies that would attract or discourage MNCs in the Gulf region from investing in Kuwait.

6.5.1 Survey results on Kuwait's FDI policies

The data was collected in the form of participants' responses to the questions in the survey (See appendix B). The presentation of the survey results will cover the Kuwaiti FDI policies that are attractive and unattractive to MNCs from the perspectives of MNCs' nationality, type of industry, and size of investments.

- **Attractive Kuwaiti FDI policies for MNCs**

This section will present the attractive FDI related policies of Kuwait based on MNCs in the Gulf region. The overall findings, as shown in table 39 below, highlight three dominated FDI related policies of Kuwait, which are:

a) Taxation policy in Kuwait (51%)
b) Government incentives for foreign investor's policy (22%)
c) Financial and monetary policies in Kuwait (20%)

Table 39 Frequency and Percentage of the attractive FDI related policies in Kuwait

FDI policy	Frequency*	Percentage
Kuwait FDI law and regulation	0	0
Financial and monetary policies in Kuwait	52	20 %
Trade liberalisation and tariff policy	13	5 %
Kuwaiti government privatisation policy	4	2 %
Specialised zone's policy	3	1 %
Kuwaiti taxation policy	136	51 %
Government investment incentives policy	58	22 %
*** Policy is considered attractive, if the frequency is greater than 40 (e.g. 15 %)**		

The results point to differences related to the attractiveness of FDI policies based on MNCs' nationalities. This is because while all MNCs from different countries had chosen Kuwait’s taxation and government investment incentives to be the most attractive FDI related policies in Kuwait, the North American MNCs added trade liberalisation and tariff policy on their list as well. However, The European MNCs and Asian MNCs chose the financial and monetary policies as less attractive factors. Same results were obtained when looking at MNCs from the industrial sector perspective. While all groups chose Kuwait's taxation policy, group (A) Financial, and group (C) Services selected the financial and monetary policies and government incentives. On the other hand, group (B) Petroleum, and group (D) Trade selected government incentives. Finally, based on MNCs' size of investments, the results show that there is no difference related to the attractiveness of FDI policies. Other FDI related policies, such as, trade liberalisation and tariffs, government privatisation policy and specialised zone were less attractive policies for MNCs. For full details of MNCs findings, based on their unique characteristics, please refer to Appendix (M).

- **Unattractive Kuwaiti FDI related policies for MNCs**

This section will present the unattractive FDI related policies of Kuwait perceived by MNCs in the Gulf region. The overall findings, as shown in table 40 below, highlight three key FDI related policies of Kuwait, which include:

a) Kuwait FDI policy (35%)
b) Kuwaiti government privatisation policy (27%)
c) Kuwait specialised zone's policy (20%)

Table 40: Frequency and Percentage of the unattractive FDI related policies in Kuwait

FDI policy	Frequency*	Percentage
Kuwaiti FDI policy	92	35 %
Kuwaiti taxation policy	2	1 %
Trade liberalisation and tariff policy	6	2 %
Financial and monetary policies in Kuwait	35	13 %
Kuwaiti government privatisation policy	71	27 %
Specialised zone's policy	54	20 %
Government investment incentives policy	6	2 %
***policy is considered attractive, if the scored frequency is greater than 40 (e.g. 15 %)**		

From the results, we find that based on MNCs' nationalities as a perspective, there are minor differences related to the unattractiveness of FDI policies. The North American and European MNCs had been discouraged by Kuwaiti FDI policy, such as, the government's privatisation policy and specialised zone policy. The Asian MNCs regarded the financial and monetary policies, the FDI policies and specialised zone's policies in Kuwait as additional unattractive features of the country. The differences concerning the unattractiveness of FDI policies in Kuwait between MNCs from the industrial sector perspective were also found. Group (A) Financial, and group (D) Trade both chose the Kuwaiti FDI policies, specialised zones, and government privatisation policy as unattractive. Group (B) Petroleum, and (C) Services regarded the Kuwaiti FDI policy, government privatisation policy and Kuwaiti specialised zone policy as unattractive. Finally, based on MNC's size of investments in the Gulf region, the results also show differences in views amongst MNCs concerning the unattractiveness of FDI policies. For instance, MNCs with small investment sizes chose Kuwaiti FDI policy, special zones policy, and financial and monetary policies; whereas, MNCs with large investments sizes opted for Kuwaiti FDI, government privatisation policy, and specialised zones policy.

Other FDI related policies, such as, trade liberalisation and tariffs, Kuwait taxation policy, financial and monetary policies, and government investment incentives policies were found to be less discouraging FDI related policies to MNCs in the Gulf region. For full details of MNCs findings, based on their unique characteristics, please refer to Appendix (O).

6.5.2 Interviews results of FDI policies in Kuwait

The interview results of this stage serve the purpose of explaining and supplementing the survey results. During the interviews, the participants were requested to highlight the policies that influenced their decisions for investing in Kuwait, and elaborate on which policies had discouraged them to do so. In this section, the data and the corresponding results are organised under 'Cluster Five' containing eight themes.

<u>Cluster Five: FDI related Policy</u>

This cluster contains eight designated themes, which are all presupposed and based on FDI related policies that have been discussed in the Conceptual Framework (see Section 5.2). This includes the following: taxation policy, exchange rate policy, cost of capital policy, Kuwaiti privatisation policy, special economic zones policy, trade liberalisation policy, tariffs policy, and investment incentives policies.

- **Theme Nineteen - Taxation Policy**

Based on the results, one of the most attractive FDI policies for MNCs in Kuwait was found to be the taxation policy. The MNCs from a wide range of industries—banking, petroleum and petrochemicals, hotels and resorts, aviation and medical services—interpreted the respective policy as positive. This may be due to the fact there is no personal income tax system in Kuwait, or any other taxes, such as, sales or value added taxes, property taxes. However, the Foreign MNCs engaged in commercial activities in Kuwait are liable to pay corporate tax on their earnings at a flat rate of 15%, but with the incentive of a tax holiday during the first 10 years of their operation. For example, an executive at a leading bank in the Gulf region, when asked the questions about the most attractive FDI related policy, responded:

> *"Kuwaiti taxation is considerably low compared with some Gulf States, taxation for us as a bank it is important, we normally*

> *avoid countries with high taxation rate as these would undermine and reduce profit and growth margin in profit and revenue" Source: interview with an executive of MNC in the Gulf region - MNC-AG-9*

The respective statement suggests that the taxation policy is viewed as a key motive for MNCs in the Gulf region to invest in Kuwait. It, subsequently, reflects upon the success of the Kuwaiti government's strategy in providing tax break for 10 years to new foreign investors in attracting MNCs. A financial manager at an international bank currently operating in Kuwait asserted:

> *"What really firm or decision regarding investing in Kuwait was the new taxation policy in Kuwait, not only because low taxation rate, but because Kuwaiti government had exempt the banks from taxes for six consecutive years starting from the year of operation" Source: interview with an executive of MNC in the Gulf region -MNC-KW-3*

In tandem with these positive comments, then, the IMF report (2011) also reads that Kuwait does not tax individual income. In practice, foreign-owned firms are the only businesses that are subjected to the corporate income tax; which is a flat 15%, while there is no value-added tax (VAT) or sales tax.

- **Theme Twenty - Exchange Rate Policy**

The exchange rate policy, as part of the Financial and Fiscal policies, was pointed out as an attractive FDI related policy by MNCs in the Gulf region. The exchange rate movements and exchange rate uncertainty appear to be an important institutional location factors that MNCs take into consideration in their decision to invest abroad. The MNCs—especially, from the banking and financial investments industry—concentrate on two issues: the level of the exchange rate, and the volatility of the exchange rate. Kuwait has legislated in a number of monetary regulations, along with the exchange rate regulation. The Kuwait exchange rate is based on undisclosed weighted basket of international currencies from its major trade and financial partners globally. The purpose of which is to protect the purchasing power of the national currency and containing inflationary pressures in the local economy. The Executives from many banks, as participants of this study, praised the exchange rate regulations in Kuwait. It is evident in the following statement made by a senior manager of a leading Bank:

> *"Kuwait had applied financial laws in a professional manner as per the standards of banking industry, for instance if the bank*

> *look at the exchange rate, you will find out that Kuwait had set the local currency exchange rate to be determine by the international markets exchange rate fluctuations, therefore it is not harshly imposed by the government or the state bank" Source: interview with an executive of MNC in the Gulf region -MNC-AG-11*

A similar point of view about the attractiveness of the exchange rate policy in Kuwait is presented by a senior manager of a financial investment company:

> *"Exchange rate volatility has a direct damaging effect on our investments, and even the assessments made by Kuwaiti financial investments and banks in Kuwait, from financial point of view, in banking industry exchange rate volatility generates uncertainty as the variance of profits rises and its net present value falls ..... Over all the current exchange rate policy of the central bank in Kuwait which is based on linking the Kuwaiti exchange rate to a basket of currencies appear to be secure and preferable. Source: interview with an executive of MNC in the Gulf region -MNC-AG-14*

Consequently, based on the above statements, the exchange rate policy in Kuwait appears to be attractive for the banking and investment MNCs, as this policy aims to containing inflationary pressures in the local economy.

- **Theme Twenty One - Cost of Capital Policy**

Another attractive financial regulation, as part of the financial and Fiscal policies, in Kuwait was found to be the free flow of capital flow. The Interest rates in Kuwait are low, and consistent with Kuwaiti government's policy toward interest rate. The aim is to provide Kuwait with a higher degree of free capital mobility. This financial regulation is critically important to a number of financial and investment MNCs in the Gulf region, because cost of capital has important implications for their capital budgeting. For example, MNCs in the host countries, where the cost of capital is high, are inclined to decline new investment projects. Hence, a senior executive at a financial MNC in the Gulf region stated that:

> *"the central bank in Kuwait has taken many steps along with other monetary authorities in the Gulf region to lower the cost of capital in the region, it is very obvious that the GCC economic policy toward the cost of capital is to be consistent and in line with the American policy of cost of capital which is linked to the United States Federal reserve bank" Source: interview with an executive of MNC in the Gulf region -MNC-AG-12*

This statement suggests that the effective monetary regulations in Kuwait had attracted the attention of financial and investment MNCs in the Gulf region. The same participant further highlighted the importance of cost of capital for foreign banks and investment companies as well as for investors, who chose to re-structure their capital by lending from the host country banks:

> *"The cost of capital is important financial factor for banks, and investment companies, also it's important for investors that borrows from the host country banks to finance their projects, ... Central Bank of Kuwait is not controlling the interest rate ...Central Bank of Kuwait monitor the interest rate fluctuation and set up a lower limit for local interest rate fluctuation ... This is a professional financial practice by Central Bank of Kuwait, which does attract many banks and financial companies to Kuwait to seek financial justice per se ! " Source: interview with an executive of MNC in the Gulf region -MNC-AG-12*

The statements above indicate the effective performance of Kuwait in adopting and implementing financial regulations, which encourages international banks and investment companies to consider Kuwait as a location for their investments. In support of these views, World Bank report (2011) on Kuwait's financial regulations indicated that overall the CBK had managed in preserving financial stability. Such stability was achieved by the implementation of strong measures. The respective measures included extension of bank deposit guarantee, bank liquidity injections, reductions in interest rates, and the adoption of a financial stability law. Subsequently, it helped in sustain confidence in the Kuwaiti banking system.

- **Theme Twenty Two - Privatisation Policy**

Among the unattractive institutional location features, which dominated the list was the privatisation programmes. Privatisation is still a debated issue in the Kuwaiti political arena. The parliament is yet to take a decision about the privatisation law, which was submitted to it by the government few years ago (Salih, 2010). This indicates that privatisation is not on its list of priorities. Moreover, the sharp increase in oil prices during the last three years, generating huge surpluses in the public budget, has made privatisation a less attractive issue. The privatisation process in Kuwait is moving very slowly due two reasons. First, political pressures coming from both the parliament and the civil society associations, both of which demand guarantees of fair, transparent, and efficient procedures in implementing privatisation programs. Second, employees and labour unions reject privatisation plans, as they fear losing their jobs and/or the generous system of benefits that currently exists provided by the government as the employer. Thus, until this matter is resolved, privatisation policy in Kuwait is regarded as an unattractive factor for majority of MNCs in the Gulf region. For instance, most of the petroleum and petrochemical felt reluctant in investing in Kuwait, due to the absence of privatisation projects, which offers an opportunity for foreign investors. A senior manager at a petroleum MNC in the Gulf region mentioned that:

> *"Petroleum sector is the heart of Kuwait economy, however the Kuwaiti government had lay blanket ban on the privatisation of oil and gas production, oil refineries .... And even technical services to the petroleum industry, I am pretty sure that the Kuwaiti government do not want any foreign company to operate in the petroleum sector, mainly as the petroleum sector consider national wealth for all Gulf states governments. However, we are operating here in Saudi Arabia and I don't see, on personal level, why foreign companies cannot operate in Kuwait....It's a mystery though!" Source: interview with an executive of MNC in the Gulf region -MNC-AG-6*

In the same context, the majority of financial investment MNCs in the Gulf region considered the delays in initiating privatisation programmes as a significant factor preventing them from considering investing in Kuwait:

> *"When observing the Kuwaiti market, there is a problem with the privatisation in most sectors in Kuwait .... Other Gulf countries such as Bahrain and Dubai had taken the lead in the privatisation process, sadly Kuwait left behind, few newspapers had published news about the Kuwaiti government intention to privatise the stock exchange to be similar to any Bahraini stock exchange, till now we have not seen any movement by the Kuwaiti government to deliver this project. . . How our company can invest in Kuwait if the Kuwaiti government are in full control of the services health, education, media . . ." Source: interview with an executive of MNC in the Gulf region -MNC-AG-12*

The statements above underline the importance of the availability of privatisation projects in attracting foreign investors and MNCs in the Gulf region to invest in Kuwait. This phenomenon was also brought to attention by a local consultant in Kuwait, who stated that:

> *"In 2004, the government approved a part of the privatisation program, privatisation in Kuwait involves both the reduction of the government's stake in some existing public sector companies, and new opportunities for the private sector to invest in strategic industries previously supported by government funding, based on previous plans that took in major sell offs in the telecommunications, energy, postal, shipping interests, ports and utilities sectors. However, few of these ambitious proposals have translated into results. The Kuwaiti privatisation program has been delayed on many fronts, not least of which has been*

> *opposition within the country's parliament" Source: Interview with local consultant in Kuwait - CON_KW_1*

Many other consultants in Kuwait provided similar responses about the lack of privatisation programmes, as deterrence for MNCs to choose Kuwait as a FDI destination. Hence, the information provided by these interviewees suggests that privatisation programmes in Kuwait is a clear unattractive policy, which discourage MNCs from investing in Kuwait.

- **Theme Twenty Three - Special Economic Zones Policy**

Similarly, as it was found in the case of the privatisation policy, another source of discouragement for MNCs in the Gulf region was the lack of a Special Economic Zones (SEZ) in Kuwait. The SEZ offers a particular set of trade incentives to MNCs, who choose to relocate to it. Many countries employ their own terminology of SEZ, such as, Export Processing Zones, industrial free zones, and free economic zones. The Special Economic Zones usually provides MNCs with economic benefits, such as, tax holidays, reduced tax-rates, and duty-free imports. The majority of trade and financial services MNCs in the Gulf region pointed out the importance of having a SEZ in Kuwait, in order to attract further investments:

> *"The company have noticed that there is no real actual free trade zone in Kuwait, it's a bit surprising that a country like Kuwait with strategic geographical location does not any free trade zone! In the company of the business operation is merely importing and re-exporting the goods and commodities using free trade zones, and in the absence of free trade zone will not be interested to consider Kuwait as an investment location" Source: interview with an executive of MNC in the Gulf region -MNC-AG-23*

Likewise, from the banking and investment MNCs' point of view, SEZ is considered an advantage—especially, concerning the global trend of the offshore banking. A Branch Manager at an offshore bank in the Gulf Region, stated:

> *"As a bank functioning on the basis of offshore operation, major attraction to the bank is offshore banking facilities either offshore or can be at a free trade zones, because the banking and financial offshore operations provide more flexibility and less monitoring by the monetary authorities in a host country. We had chosen to be in Bahrain; because Bahrain is offshore financial centre in the Gulf region ... We even started offshore Islamic banking in Bahrain! And we have not considered Kuwait for the same reason" Source: interview with an executive of MNC in the Gulf region -MNC-AG-14*

Based on the data collected through interviews, the following conclusion was formulated: the absence of SEZ would greatly discourage a number of MNCs in the Gulf region to invest in Kuwait.

This phenomenon is not limited to the banking and financial investment MNCs, rather is valid for MNCs active in other sectors, such as, trade MNCs. This is because an industrial special zone provides benefits, such as, an export processing platform with minimum customs duties and paperwork. The following quotation is a part of an interview with a senior manager from a trading MNC in relation to SEZ:

> *"In Dubai there is full designated port called Jebel Ali Free Zone, this port is duty free under Customs Authorities supervision and provide infrastructure facilities, including land, power, and water, at low rates, and telecommunication facilities, as well as on-the-spot customs clearance for imports and exports....That is what attracts trade companies to Dubai, you can see companies from South America, Africa, Europe all the way to Japan in Jebel Ali Free Zone" Source: interview with an executive of MNC in the Gulf region -MNC-AG-23*

Emphasising on the advantages that Jebel Ali in Dubai is offering (such as, 100% foreign ownership, no customs duty, 0% income and corporate tax, no labour restrictions, no currency restrictions), the participant is communicating the fact that a lack of an effective SEZ in Kuwait discourages trading MNCs from considering to invest in Kuwait. Although, the Kuwaiti government attempted to establish SEZ in Kuwait as a measure to provide incentives and other advantages to the MNCs, the attempts seem to have failed. The reason being: when SEZ was established in 2000, most of the occupiers turned out to be local companies pushing MNCs aside. Here is a statement by a consultant on the subject:

> *"In 2000 the ministry of commerce and industry established free trade zones in Kuwait, to attract foreign trading companies to invest in Kuwait with the privately-owned Kuwaiti real estate company to operate, manage Kuwait free trade zone at Shuwaikh Port, interest in the free trade zone was reportedly strong, with about 90 % of the available space leased to local companies, and that was not the objective of establishing free trade zones, as a result foreign investor could not find space in Kuwait free trade zone! In 2007 the ministry of commerce and industry had takeover the project and pull down the trade zone" Source: Interview with local consultant in Kuwait - CON_KW_4.*

The statement suggests that the absence of an effective regulation for operating and establishing SEZ in Kuwait was a major contributing factor for the project to fail. Therefore, there is a need to have an effective law for regulating the SEZ in Kuwait.

- ### Theme Twenty Four - Trade Liberalisation Policy

The objective of a Trade liberalisation policy is to remove trade barriers, and facilitating trade flow into and out of the host country. However, it appears that certain laws and regulations in Kuwait act like trade barriers, that is, limiting trade activities in Kuwait. This was highlighted by a local consultant in asserting that trade barriers in Kuwait were in the form of harsh administrative regulations on foreign companies in Kuwait:

> *"A trade barrier can be in the form limiting product or service that is traded. In Kuwait the trade barrier take the form of administrative nature, such as rules and regulations, a clear example is the law imposed on foreign banks and limiting them to open one branch only, that is of course a trade barrier been established to protect the local banks in Kuwait from foreign competition" Source: Interview with local consultant in Kuwait - CON_KW_6*

For the banking MNCs, in regards to Kuwaiti trade liberalisation policy, there was a common denominator in that they were all discouraged from entering due to the restricted and complicated licensing processes, and banking regulations. To illustrate the discouragement of the licensing process, consider the following statement by a bank manager said:

> *"The bank was not allowed to open more than one office in Kuwait ...in Bahrain and Saudi Arabia I am free to open many branches. we have more than 10 offices in Saudi Arabia, in Bahrain, which is much smaller country in size compared to Kuwait we have 4 offices ..." Source: interview with an executive of MNC in the Gulf region -MNC-AG-8*

Hence, the trade liberalisation process in Kuwait still falls below the expectations, when it is compared to other countries in the GCC region; especially, for trading MNCs despite the existence of bilateral investment treaties. The trade barrier, in the form of imports quota, has discouraged some of the MNCs to operate in Kuwait. This point was emphasised by a senior manager of an Asian Trading MNC, who said:

> *"Through our business with Kuwaiti companies, we have noticed that Kuwaiti companies request to split one shipment to a few smaller shipments, having discussing this with the Kuwaiti companies, it has become clear to us that the custom authorities in Kuwait has imposed import quota, which we consider it as restriction on the amount of good that can be imported. For our company which operate in Dubai, there is no import or export quota on goods, this is why it is a bit surprising that Kuwait has import quota" Source: interview with an executive of MNC in the Gulf region -MNC-AG-21*

Based on the evidence presented, it is then concluded that the trade liberalisation policy in Kuwait is one of the sources that discourages MNCs from investing in Kuwait.

- **Theme Twenty Five - Tariffs Policy**

Throughout the interviews conducted with the participants, no data about Tariff Policy emerged.

- **Theme Twenty Six - Investment Incentives Policies**

The government's incentives for foreign investors has attracted a number of MNCs to Kuwait; especially, MNCs with industrial investment projects. The incentives as per the Kuwaiti FDI Law 8/2001 include income tax exemption for 10 years from starting actual operation. In addition, incentives were also provided in the form of privileges supplied under bilateral treaties (BITS) on the protections of investments and the exemption of double taxation and full exemption from customs duties on imports. The following statement by a senior manager of an Asian trade MNC emphasises upon the significance of the respective law:

> *“for any company that would like to build a distribution warehouse in Kuwait it is important to consider the customs duties could affect the rate of return on a project. However in the case of customs duties exemption for few years, that would be encouraging to consider investment in Kuwait” Source: interview with an executive of MNC in the Gulf region -MNC-AG-22*

In addition to the incentive policy, there are industry-specific policies also, which were referred to during the interviews with executives at various MNCs. For example, it appears that the airline MNCs were attracted to consider Kuwait a possible location based on the Kuwaiti government's incentives in subsidising the fuel aviation prices. Hence, a discount on the aviation fuel price was viewed as additional savings, increasing their profit margin, relieving the stress on the passenger tickets and cargo transportation prices; subsequently, offering the airlines operating in Kuwait price leadership and competitive advantage. In one of the interviews, a General Manager of an international aviation MNC expressed the following:

> *"The discount on aviation fuel at Kuwait airport is a great incentive to attract international aviation companies to Kuwait, as the discount will generate a saving margin for our operations, the discount is just in time with escalating fuel prices .....I would*

imagine that would open the appetite of many international aviation companies in the region" Source: interview with an executive of MNC in the Gulf region -MNC-AG-19

As touched upon previously, under the theme Legal System, it is worth mentioning again that the Kuwaiti FDI law also functions as an incentive per se. The Kuwaiti FDI law allows the MNC to appeal to the Kuwaiti court system if penalties imposed cancellation of its FDI license, and in some cases override the Kuwaiti government's decision. In addition, the respective safety mechanism imbedded in the FDI law offers additional security for the foreign investors against confiscation of their assets in Kuwait. A Managing Director of an international bank in the Gulf region placed emphasis on the importance of this particular feature during the interview, and said:

".. a very important clause of Kuwaiti FDI law to us is "arbitration right", I mean if the Kuwaiti government decide to cancel the bank license and start the liquidation process of the assists, the law give the Bank the right to objects Kuwaiti government decision, and the court of law may "rule out" the cancellation of the license and the liquidation " interview with an executive of MNC in the Gulf region -MNC-AG-9

Hence, the investment incentives provided by the Kuwaiti government and FDI law appear to be acceptable and promising from the point of view of the MNCs. The respective incentives do result in encouraging MNCs to consider Kuwait as a destination for their future investments.

6.5.3 Stage summary

This stage presented the result of analysed FDI policies in Kuwait by highlighting as to which Kuwaiti FDI policies are attractive and unattractive for MNCs in the Gulf region—in the context of the perspective of MNCs' nationality, industry type, and size of investments in the Gulf region.

The survey results show that there are three dominating attractive FDI related policies in Kuwait, which include taxation policy, government incentives policies, and financial and monetary policies. Based on MNCs nationalities and industrial sectors, the results indicate that there exist differences concerning the attractiveness of FDI policies. However, based on the MNCs’ size of investments in the Gulf region, the results indicate that there is no difference in relation to the attractiveness of FDI policies. Furthermore, the survey results show that MNCs in the Gulf region are being discouraged by Kuwaiti FDI policy, most importantly, by the government’s

privatisation policy and Kuwaiti specialised zone's policy. Based on MNCs nationalities, MNCs industrial sectors, and MNCs size of investments in the Gulf region the results show that there are differences between the unattractiveness of FDI policies.
The interview results show that all MNCs in the Gulf region (from different nationalities and from a wide range of industries) had confirmed that taxation policy in Kuwait is the most attractive FDI related policies in Kuwait. All MNCs regardless of nationality, industry type and size of investments in the Gulf region, considered the Kuwaiti government's incentives to be attractive. The results also illustrate financial and investment MNCs in the Gulf region (of different nationalities) had stated that the Kuwaiti exchange rate policy is an attractive FDI related policy. However, MNCs from other industries did not make any mention of this policy at all. Similarly, the results show that all banking and financial investment MNCs (of different nationality) in the Gulf region and Kuwait were attracted to the cost of capital policy. However, other MNCs from different industrial sectors did not mention this policy.

The results confirm all MNCs in the Gulf region, regardless of their nationalities and industry type, found the Kuwaiti government's privatisation policy to be the most unattractive FDI related policies in Kuwait. This is mainly because of absence of any privatisation policy in Kuwait. Also, the results confirm that all MNCs in the Gulf region; especially, banking, financial investment and trade MNCs (regardless of their nationalities) had indicated that the Kuwaiti trade liberalisation policy is unattractive FDI related policies due to certain laws and regulations, such as, trade quota. Similarly, the results indicate that all of the trade and financial services MNCs in the Gulf region (regardless of their nationalities or their size of investments) clearly stated that Special Economic Zones is an unattractive FDI related policy, because of the limitations and dysfunctional nature of the free trade zone in Kuwait. However, none of the MNCs provided any input regarding tariff policy in Kuwait.

6.6 Stage Four - analysis of the FDI licensing Process

This final stage aims to investigate whether the high rejection rate of FDI license applications in Kuwait is due to a dysfunctional FDI licensing process, or it is due to unidentified influence(s) on the licensing processes itself. Based on the evidence gathered so far and the formulated propositions, it is argued that institutions in Kuwait could influence the FDI licensing process. They can also restrict inward FDI by rejecting FDI applications through institutional arrangements. Hence, this section will attempt to provide an answer to the following research question:

- **Are there institutional obstacles in obtaining FDI approval in Kuwait and if so are these obstacles related to key strategic objectives and characteristics of MNCs?**

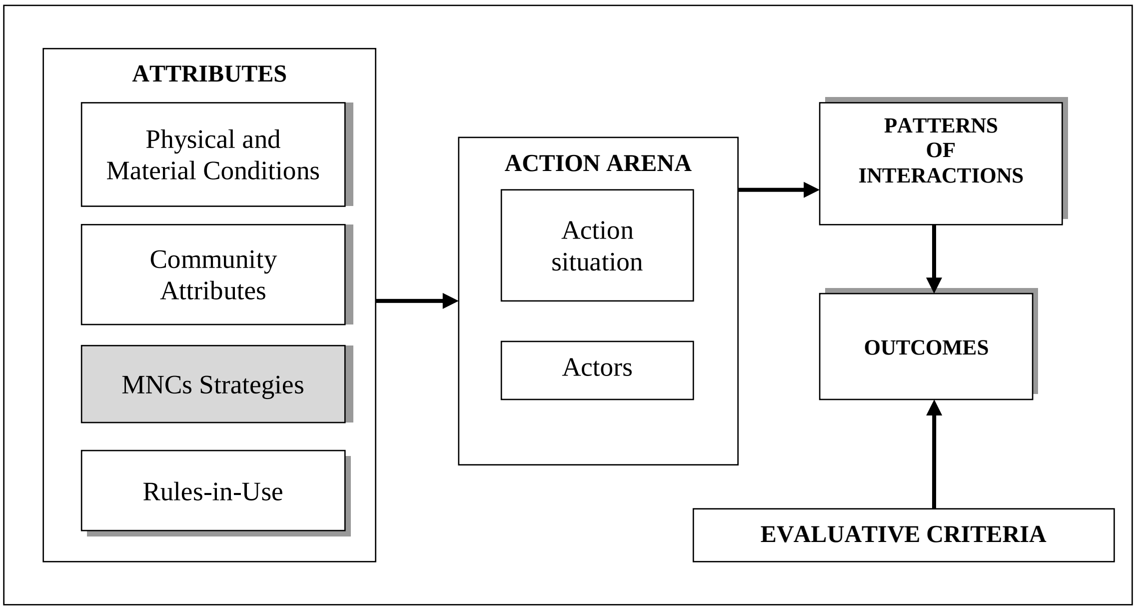
In order to find an answer to the above question, we focus our attention on the Kuwait's FDI licensing process. It is proposed that Kuwait FDI license process could be an important factor in determining the level of inward FDI and potentially explain the low FDI level in Kuwait.

The rationale behind such course is based on the reviewed literature and the theories articulated in the conceptual framework. The existing literature and theories insinuate that Kuwaiti policy makers are concerned about the possible disadvantages of inward FDI. The foreign MNCs may influence the performance of the local firms negatively, causing potential instability of the local market. Therefore, these policy makers may attempt to influence the formal institutions to limit inward FDI by creating obstacles that would result in rejecting MNCs' FDI applications license.

Theoretical Tools

The IDA framework, that is, Polski and Ostrom (1999) approach for policy analysis (as a diagnostic tool) is used to evaluate the policy outcomes. The analysis of the data will be based on the specially modified IDA framework in this study (see figure 26 below).

Figure 26 - Revised IAD Framework adopted for this study



Polski and Ostrom (1999) suggested that the policy analysis ought to be based on empirical observation of past and present events. They recommend that policy analysts take care to maximise the validity and reliability of their analysis by using generally accepted investigation procedures (outlined below). They further stress the importance of analysing each component in the order that makes the most sense for a particular policy analysis project. Therefore, based on the analysis strategy suggested by Polski and Ostrom (1999), the policy analysis of the FDI licensing process in Kuwait will consist of the following steps:

1. Defining the Policy Analysis Objective.
2. Analysing Physical and Material Conditions.
3. Analysing Community Attributes.
4. Analysing Rules-in-Use.
5. Analysing MNC strategies.
6. Analysing Outcomes.
7. Evaluating outcomes.

6.6.1 Defining the policy analysis objective

The first step in the analysis process is to define the policy objectives through providing answer to the first step of the policy analysis process recommended by Polski and Ostrom (1999) by articulating a set of tailor-made questions for this study. The questions may include: a) what is the Kuwaiti FDI policy-licensing objective; b) how do observed outcomes compare to policy objectives; c) which outcomes are satisfactory;

which are not; d) who is involved with FDI licensing process; and e) what is happening in the policy action arena?

The answers to the above questions are presented in Table 41 below.

Table 41 - Policy Analysis Objective and Analytic Approach

Question	Answer	Interpretation
What is the FDI licensing policy objective?	The Kuwaiti FDI licensing policy's objectives is to assess and evaluate all FDI license applications, and to grant approvals for all applications that fulfil the requirements as per the FDI law.	The general objective of the FDI licensing policy in Kuwait is to fairly assess the FDI application of any foreign investors, and to take a decision based on the FDI law and regulations in Kuwait.
How do observed outcomes compare to policy objectives?	The FDI licensing policy outcome would be accepting the application, rejecting the application or result in the application withdrawal by the investor	• Accepting the application - in this case FDI license will be issued. • Rejecting the application - in this case the investor will seek alternative location. • Applications withdraw by the investor - in this case, the investor will also seek alternative location.
Which outcomes are satisfactory?	If the outcomes of the policy objectives are met, then the it is satisfactory	• If the application is accepted, then the outcome is fulfilling the policy objectives. • If the application is rejected, or the application has been withdraw by the investor then the policy objective is not met.
Who is involved with the FDI licensing process?	Identifying the actors involved in the policy process, along with their interests and their influence on the policy process.	• MNCs - (FDI application owner) • KFIB - staff • KFIB - Investment Committee • Competent authorities in Kuwait
What happens in the policy action arena?	The actors assess the FDI license application under the institutional arrangement.	FDI application is assessed by the investment committee in accordance to the prevailing FDI laws and regulations.

Source: KFIB, 2012 and FDI law 8/2001

6.6.2 Analysis of Physical and Material Conditions

In order to understand as to how physical and material conditions influence the policy process in Kuwait, it is essential to identify what they exactly mean. The IAD framework identifies four types of goods and services, which include: 1) public goods, 2) toll goods, 3) privet goods, and 4) common pool resources.

In this study, the focus will be limited to public goods, such as, transportation, roads and public utilities, and common resources, such as, oil reserves and other natural resources like fisheries. These two types are in the ownership of the government on behalf of the Kuwaiti citizens, and are, in fact, open to FDI, as illustrated in the table 42 below.

Table 42: Example of Public and common goods in the context of Kuwait

Type of Physical and Material Conditions in this study	Examples of Physical and Material Conditions in Kuwait	Open to foreign investors
Public goods	Transportation, communication, roads and public utilities sector	Partially restricted to investments as per the Kuwait FDI law
Common resources	Natures resources (Fisheries, Oil and gas)	Mainly restricted to investments as per the Kuwait FDI law

The influence of these resources on policy decision-making is determined by the proportion of the public's ownership of these resources. For example, privatisation programmes can be viewed as a policy adopted by governments to dictate the transference of the ownership of a certain publicly owned resource to the private hands. However, if the Kuwaiti government would attempt to privatise part of the public sector and common pools, there is a possibility of public resistance. In support of this possibility and view, a local consultant said:

> *"because of low population in Kuwait and high state income from selling oil and gas, the Kuwaiti government had full control over all the services and public goods like roads, hospitals, education, electricity, and most of the public utilities, similar to the socialist system in some countries, but without imposing any type of taxes .... Although privatising these public services and goods services will result in additional income to the state and improving the quality of the services, the public sector will be reluctant to agree with the government in privatising these public services and goods" Source: Interview with local consultant in Kuwait - CON_KW_2*

The above statement shows that even though the Kuwaiti FDI law permits foreign investment in some public goods, yet applications for FDI in these sectors could face rejections, even if the FDI license application would be satisfactory in fulfilling all the requirements. According to KFIB's published data on FDI applications by sectors, all applications for investing in the public goods sector, such as, electricity, water and communications have been rejected by the foreign investment committee (see table 43 below).

Table 43 - List of rejected FDI application in public goods

MNC	Nationality	Type of investment	Reason of rejection
Sumitomo corporation	Japan	Sea water desalination and power generation	Ministry of E&W rejection
Sumitomo corporation	Japan	Sea water desalination and power generation	Ministry of E&W rejection
L.X Ericsson	Sweden	Creating a Telecommunication hub	Commercial project , there is no add value
Gulf electronic Tawasul	USA	Creating a fibre optic telecommunication hub	Commercial project , there is no add value
Nokia	Finland	Provide infrastructure telecommunication and engineering services	Commercial project, there is no add value

Source: KFIB (2012)

According to KFIB documents, in case of Sumitomo Corporation, the rejection of proposed project was based on a recommendation issued by Ministry of electricity and water. Although, the demand for electricity and water in Kuwait is increasing by 8% annually, compared to an average of 3% in GCC countries, the Kuwaiti Ministry of electricity and water is planning an extensive development plan to add 10,000 MW, nearly doubling its generation capacity by 2015 (MEW, 2012). Hence, despite the possible future shortage of electricity and water in Kuwait, the Ministry of electricity and water rejected all the seawater distillation and power generation projects proposed by foreign investors.

The reasons given for rejections by the investment committee are based on a formal justification: that the proposed project was rejected by the competent authority (i.e., the Ministry of Water and Electricity). Hence, it was decided that the project did not add any value to the country since it was regarded as purely commercial. However, this reason seems to be inconsistent with the country's needs for such facilities. It is evident from the discussions with local consultants, who indicated that part of the reason for the rejection was that these services were considered public services and the government was careful and restrictive in granting any approval for projects that involved public sectors. One consultant mentioned:

> *"the official justification of rejection these projects is shallow, Ministry of electricity and water rejecting project that will increase the electricity and water capacity as we are right now suffering from short production of electricity in Kuwait during the summer and everybody noticed that electricity cut out in some part of the country " Source: Interview with local consultant in Kuwait - CON_KW_6*

The second case, when the ministry of communication rejected all the telecommunication projects, claimed again that:

a) The projects were purely commercial.
b) There was no benefit (referring to new technology) to the country.

However, this was not consistent with the fact that the ministry of communication is unable, until now, to integrate the telecommunication infrastructure in using modern methods such as fibre optics. In an interview with a senior member of the ministry of communication, it was stated that the ministry is unable to integrate the state communication infrastructure due to the lack of available experience in planning, constructing and using modern telecommunication technologies such as the fibre optics (Alwatan, 2011).

6.6.3 Analysis of Community Attributes

This involves analysing the attributes of a community aims to investigate as to whether or not they affect the decision-making process of FDI license applications. The objective of analysing community attributes is to investigate as to whether or not participants (e.g., investment committee members, government officials) within a small community share a common set of values and interact with one another. Also, if they do, then, how multiplex set of arrangement these interactions are and take place.

In this study, the community attributes analysed are focused on decision-makers in the investment committee, who share a common set of values and norms based on the culture of the Kuwaiti community. These decision makers formulate the body, which is responsible for taking decision about acceptance or rejection of FDI license application.

Ostrom (2005) argues that investigating a community and its cultural factors is a difficult and complex process, since it encompasses an array of factors such as social, cultural, and economical factors, their weighting and interactions. The attributes of a community that affects a policy action situation includes the norms, and the extent to which participants' values, beliefs, and preferences affect the policy outcomes Polski and Ostrom (1999). Polski and Ostrom (1999) recommend that policy analysts make an effort to understand the cultural context of the policy-making activity, as participants themselves understand it. They recommend the use of Thomson and Freudenberger (1997) description of key community attributes, which include: 1) historical factors, such as, population and settlement history, conflict history; 2) social factors, such as, ethnicity and language, family structure, cast system and other social divisions; 3) economic factors (such as, livelihood strategies and stratification); and 4) cultural factors. This study focuses on the cultural factors, since the Kuwaiti community is tightly knitted and the culture has a strong influence on all economic activities.

This section will present the results from the analysis of two key attributes of the Kuwaiti community (the culture and economic factors), and the way they possibly influence the FDI licensing process.

In regards to the cultural factors, such as, religion, traditions and the community's value system, the ordinary citizens generally believe in the teachings of Quran (Islam's holy book), which calls for and promotes brotherhood and community bound. The respective teaching manifests in practice in that it sets boundaries, and calls for every member of the community to protect other members from possible outside threats. Hence, cultural factors could play a role in protecting other committee members from harm as part of the *social obligation* participants feel towards the rest of the community members and hence, in this context, it is argued that a committee member would be socially obliged to protect other committee members (e.g., local companies and businesses).

Subsequently, if foreign MNCs were perceived as a threat to local companies and businesses through unfair competition—since many would see the privileges in the form of incentives given to MNCs, which may not be extended to the local firms—then, it would be natural to find resistance in the local community towards MNCs entering Kuwait.

Such resistance is intangible, invisible, and extremely difficult to prove. However, during a discussion with a local consultant, he indirectly hinted on the existence of aggressive behaviour of committee members toward foreign MNCs. The consultant also argued that the absence of information regarding the possible benefits and contribution of foreign MNCs to the local economy—creating jobs for the locals, and their commitment towards the community through the corporate social responsibility—might be a reason for this behaviour towards foreign MNCs. In consultant's words, then:

> *"Obviously Kuwaitis don't have any idea of the potential benefits of foreign MNCs to the local economy, and the laws that protect the local businesses, this is because the inherited beliefs that foreign investors are here to make money only.... Therefore the Kuwaiti community sympathise with other Kuwaiti businessmen who claim a threat and possible damage to their businesses because of foreign MNCs presents in the Kuwaiti market....Yet there is positive side of having foreign MNCs in the Kuwaiti markets, but unfortunately because of the culture and social norms the community members sympathy overlooked these benefits" Source: Interview with local consultant in Kuwait - CON_KW_1*

Another consultant asserted that:

> *"Kuwaiti companies trying to pass a message to the ordinary citizens that if the government allowed MNCs into Kuwait, it would be a direct threat to the companies, and as a result the company's performance will drop, and that will affect the share value in the stock exchange market" Source: Interview with local consultant in Kuwait - CON_KW_4*

Yet another consultant added:

> *"I have noticed in many occasions local companies would informally pass a message to the general public that the existence of foreign MNCs would reduce the market share, and that would affect the company shares value at Kuwait stock exchange, and in this case companies might need to restructure themselves through lowering the cost(e.g. terminating employee contracts) in order to sustain their expenses ..." Source: Interview with local consultant in Kuwait - CON_KW_7*

Another further emphasised that:

> *".. The community under the pressure of the national companies will start to fear the existence of foreign MNCs, though they are not fully aware that there is advantages of having MNCs in Kuwait such as creation new job opportunities, although MNCs usually hire local employees and especially Kuwait we have strict laws towards the percentage of national Labour, but local national companies had decided not to share this positive side with community members ... " Source: Interview with local consultant in Kuwait - CON_KW_5*

Hence, it can be stated that culture (as an attribute of a community) does, in fact, influence the FDI licensing process through informal institutions. This, subsequently, places pressure on the policymakers to adhere to the local community's concerns, when approving FDI licenses to foreign investors.

This may be particularly valid due to Kuwait's small community size. The community bond was the main reason for Kuwait's existence on the map functioning as a protecting shield for the rest of the community members from any external threat or danger. In support of this argument, the following statement by a local consultant is worth considering:

> *"Kuwait is a very small country and community as well, the population of Kuwait is less than 1 million and I would say that the community is very close to each other and everyone knows everyone because of the cultures of the Kuwaiti community...."*
> *Source: Interview with local consultant in Kuwait - CON_KW_2*

The same consultant continued:

> *"The Kuwaiti government protecting the commercial interest of the Kuwaiti people and its restriction of foreign ownership rights in Kuwaiti assets .... There are many examples of this practice, however evidence are intangible ... good example for your research is to review the rejection reasons of some FDI projects"*
> *Source: Interview with local consultant in Kuwait - CON_KW_2*

Culture also plays a profound role in people's sense of ownership of public and common resources Ostrom (2005). The Kuwaitis, in general, believe that many public sectors services should not be sold by the government to local or to foreign investors. None of the basic services, such as, electricity or water have been privatised so far in Kuwait (Sartawi, 2012).

The health care system in Kuwait is similar to the NHS in the United Kingdom, where the Kuwaiti citizens do not need any private health insurance, as the government provides free healthcare. When the government announced the privatisation of some parts of the healthcare services in 2004, the local Kuwaitis resisted the idea. Subsequently, some political parties organised conferences and gathering to inform the Kuwaiti government about their opposition to the idea (Alwatan, 2006). The result was the suspension of privatisation schemes within the health sector.

In short, the Kuwaitis believe that the healthcare sector ought to be run by the government, and must remain gratis. Such attitude was clearly highlighted by a number of local consultants. In that regard, the following statement is worth considering:

> *" ...if you go to any government hospital, it will take you two weeks to get MRI or CT scan free of charges, and this is not available in any part of the world except in rich countries. Even in some Western countries, you need to pay for the services. If such a service is privatised whether through local or international investor the population believes that the free provision will suffer and therefore objections will break out putting pressures on policy makers to maintain the current position ..." Source: Interview with local consultant in Kuwait - CON_KW_4*

While the local community's primary excuse is loss of jobs, it could however be speculated that local companies are prone to indirectly using job losses as an excuse. By painting themselves as the champions for the local community, gaining support and putting pressure on policy makers, when reviewing any foreign investment applications to curb foreign companies into Kuwait. However, in reality they may have a different agenda.

6.6.4 Analysis of Rules-in-Use

The concept of 'Rules-in-use' is central to the model of analysis of institutions in (Ostrom, 2011). The Rules-in-use are shared and normative understandings regarding what a participant in a particular action situation must or must not, or may or may not do (Crawford and Ostrom, 2005). They are defined as *"shared understandings that refer to enforced prescriptions about what actions (or states of the world) are required, prohibited or permitted"* (Ostrom, 1999: 50).

When conducting analysis of rules-in-use, the objective is to know what these rules are, who adheres to them, and why (Polski and Ostrom, 1999). Hence, the analysis generally begins by looking at: 1) what these rules are; 2) what is the source of each rule in relation to the FDI licensing policy; and 3) how do these rules affect elements of the action situation of a policy process?

According to (Ostrom *et al.*, 1994), there are seven types of action arena rules that are usually considered, when using the IAD framework in institutional analysis. They are: Position rules, Boundary rules, Authority rules, Aggregation rules, Scope rules, and Information rules. However, it is important to understand that not all rules are applicable to every policy situations, and the analysis should only consider the rules that affect the process (Polski and Ostrom, 1999). Therefore, this study focuses on two sets of rules: the general rules of FDI policy in Kuwait (see chapter 5), and the rules of the actors' interaction in the action arena. Both aim to analyse the Kuwaiti FDI licensing policy through the use of the IAD framework in considering the position rules, boundary rules, authority rules, and information rules. We begin by reviewing the position rules.

i. Position rules

Position rules specify a set of positions and the way participants enter these positions (Ostrom, 1994). Therefore, when examining the position rules of an action arena, the objective will be to identify each participant, and the position (or positions) he or she holds. In addition, position also state whether there is a defined number or limits of the members of participants who hold a position.

In this study, the position rules should be able to determine the number of members of the Kuwaiti investment committee, their positions in the committee, and other positions they hold in other organisations. In accordance with the Kuwaiti FDI law, The Foreign Capital Investment Committee was formed under the chairmanship of the Minister, the formation of which was issued pursuant to an order by the Council of Ministers, with the head of the KFIB acting as the General-Secretary of the Committee. Thus, it would be useful to understand the original position of the committee members prior to their appointment at the committee. This will help in determining the interaction between the committee members in the later stages. The core argument of this section is to demonstrate that some participants, due to their original positions and prior to the appointment as a member of the investment committee, might be biased due to conflict of interest regarding FDI applications.

Table 44 (below) provides detailed information about current positions of committee members (Please note that the names of these committee members have and their organisations they are affiliated with have been removed due to the confidentiality clause of the ethical practice of the study).

Table 44 Present Foreign Capital Investment Committee members and their positions

Current position	Position at committee
Minister of Commerce and Industry	Chairman of Committee
Deputy Minister of Commerce and Industry	Deputy Chairman of Committee
General Manger of the General Administration of Customs	Member of Committee
Assistant Secretary General of the Council of Ministers.	Member of Committee
Deputy Governor, Central Bank of Kuwait	Member of Committee
Assistant Undersecretary of Tax Affairs, Ministry of Finance	Member of Committee
Vice Chairman, 123 General Trading & also *Member of Kuwait Chamber Of Commerce*	Member of Committee
General Manager of 123 Trading company, also *Member of Kuwait Chamber Of Commerce*	Member of Committee
Managing Director of 123 Securities	Member of Committee
Chairman & Managing Director of the 123 consultancy Company	Member of Committee
Chief of Kuwait Foreign Investment Bureau	General-Secretary of Committee

Source: KFIB (2013)

As shown in the table above, it is notable that 4 members are holding executive positions in the leading local firms simultaneously with some members, who hold additional positions at, for instance, Kuwait's Chamber of Commerce. This raises concerns about the objectivity of these members, when evaluating FDI license applications submitted by foreign MNCs.

ii. <u>Boundary rules</u>

The boundary rules can be thought of as exit and entry rules. They specify which participants enter or leave, as well as frequency for such entries and exits. In the context of this particular study, the boundary rules are less important than the committee members are. The members have been chosen by a council of ministers as per the Kuwaiti FDI law 8/2001 stating: *"The formation of which shall be issued pursuant to an order by the Council of Ministers"* (FDI law 8/2001: 4).

On the subject of selection criteria for nominating and appointing of committee members and its process, Kuwait's Minister of Commerce, who is also the Chairman of the Foreign Capital Investment Committee, stated:

" as guided by the Kuwaiti foreign investment law and its amendments the committee members shall include experts representing the private sector as well as representatives of Kuwait Chamber of Commerce, and are the competent authorities such as central bank of Kuwait and Minister of Finance ... usually since I am the Minister of commerce and trade and the chairman of the committee, I would nominate a list of names to the council, then after a discussion the council approved or disapproved the nominee, in case of any disapproval the council will suggest a substitute " Source: Interview with KFIB executive in Kuwait - KFIB_KW_1

The above statement points to the fact that the Council of Ministers in the Kuwaiti government is the body, which sets the boundary rules for the investment committee. Also, that there are no written rules for the selection criteria of the investment committee members, suggesting the existence of informal rules (e.g., norms, social capital and social networking), when selecting the committee members. This is particularly true in case of the Chamber of Commerce representatives and the Kuwaiti private sector representatives, which potentially can give rise to conflict of interest. During further discussions with two local consultants in Kuwait, it was clearly indicated that the criteria of selecting and appointing a new committee members or dismissing one is being administrated by the Kuwaiti FDI law 8/2001. The respective law gives exclusive rights to the Council of Ministers to decide upon appointments or dismissals of its members. Both consultants, in principle, agreed that the decision of selecting the members would be influenced by community factors, such as, informal networks, and political parties. However, it is extremely difficult to prove the direct influence of these community groups on the decision of appointing committee members, since their powers are intangible. The consultants believed that these members informally represent the Kuwaiti Chamber of Commerce's views and concerns, when evaluating FDI applications license. This further directs to a conflict of interest, which may affect their ruling in a biased way:

"Appointing a investment committee member who is nominated by the Chamber of Commerce is indirect act by the government toward protecting local businesses and industries ..." Source: Interview with local consultant in Kuwait - CON_KW_3

During a discussion with other local consultants regarding the same subject, it was insinuated that the appointment of Foreign Capital Investment Committee members would influence the decision process regarding FDI application license, as those numbers also represent top local MNCs:

> *"This is unethical within the business community, if you compare this to Western countries, you cannot appoint a member at a committee who would take decision on application or licence of his future possible competitor....the outcome is already predicted in this case.... But what can I say, this is why we are in Kuwait still at third world country mentality" Source: Interview with local consultant in Kuwait - CON_KW_2*

Based on the data, we can then conclude that there is little to be said about the process of appointing or dismissing a committee member.

iii. Authority rules

The authority rules refer to the actions that participants may take in any given position in accordance with a set of rules, which govern and give authority to the committee members, when evaluating the FDI applications during the licensing process. Therefore, it is essential to understand the scope of authorities granted to these participants by the current FDI law in the action arena.

In the case of policy process, there are three key participants: 1) foreign capital investment committee members, 2) KFIB ordinary staff, and 3) government competent authorities. All of whom are empowered by the FDI law 8/2001 based on their positions held in the policy process action arena. Table 45 (below) provides details of the level of authority given to each participant based in his position stated by the FDI law.

Table 45- Authority rules linked to participant positions

Participants position	Authority link to this position
Foreign capital investment committee members	
• Members of the committee including the chairman of the committee	• Evaluating, assessing and granting approval or rejecting the license. • Returning the application to the investor for clarification about the project.
KFIB Staff	
• Ordinarily KFIB staff	• Receiving the application from the investor, ensuring that all the necessary information is provided
Competent Authorities	
• Governmental agencies (such as: Ministry of Energy, authority of industrial affairs, authority of environmental affairs)	• Providing technical recommendations on submitted projects by foreign investors (the recommendations are not compulsory to adhere to by the committee members).

Source: KFIB (2011)

Based on the above information, it is obvious that the power of authority rules is with the investment committee. The role of the KFIB's staff is limited to that of administrators in processing and receiving the documents from investors.

Likewise, the competent authority's role is to provide technical recommendations on the project without any authority to influence the decision about the acceptance or the rejection of the FDI application license. Whereby, the technical recommendations provided are only about the type of a specific project. For example, for medical and pharmaceutical FDI licensing application, the Ministry of Public Health will provide a technical recommendation about the proposed FDI project in the backdrop of the prevalent standards and regulations of the ministry of health, as a competent authority.

The rationale behind existence of the competent authority providing recommendations is the limited experience of the staff at KFIB in technical assessment for various projects. This is highlighted in the statement below by an executive from KFIB:

> *"we approach the competent authorities to receive a technical report about certain FDI projects for example will approach the Ministry of Public health regarding any medical and pharmaceutical project or the Ministry of electricity and water regarding any project in the electricity or water infrastructure, and the Ministry of oil regarding any project in the petroleum or petrochemical sector "* Source: *Interview with KFIB executive in Kuwait* - *KFIB_KW_6*

However, investment committee members are not obliged to follow the recommendations provided by the competent authority:

> *"the competent authority recommendation is not compulsory to the committee at up to the committee accepted or rejected the recommendation ... there were cases the competent authority recommend not to proceed with FDI project, and the committee decided proceed with the FDI license to the foreign investor, and other cases where the competent authority had recommended to proceed with the FDI project, however the committee decided to reject the FDI license application" Source: Interview with KFIB executive in Kuwait* - *KFIB_KW_5*

Another senior manager at KFIB said:

> *"Upon the request of the foreign investment committee, a request would be sent to the competent authority to provide a technical recommendation for specific FDI project, once the reply received by KFIB staff, it will be attached with the application license for the committee review, the committee is not obliged to consider the competent authority recommendations, however the committee will deal with the competent authority recommendation with caution" Source: Interview with KFIB executive in Kuwait* - *KFIB_KW_3*

However, according to a local consultant, there seems to be no clear guidelines for the investment committee regarding how to use this regulation for accepting or rejecting FDI application, he states:

> *"the current FDI law does not say much about mechanism of handling the competent authority recommendation for FDI projects ... It has been noticed in many occasions investment committee do not take into the account the recommendation of the competent authority, however it appears that investment committee use these recommendations to justify rejection of FDI projects..." Source: Interview with a local consultant in Kuwait - CON_KW_2.*

According to the same consultant, it is extremely difficult to prove that the investment committee would actually have used the competent authority's recommendations for rejecting projects. However, the basis of this argument is that most of the FDI projects rejected by the investment committee are public good projects (such as, the water distillation projects and the power stations) with added commercial value to the country.

Since all local consultants shared the same view, it would be reasonable to consider the possibility of using the competent authority's recommendations to justify the rejection of a number of FDI projects by the investment committee in Kuwait.

iv. Information rules

The information rules refers to the amount and the type of information available to the participants in an action arena, and is an important part of any policy process action situation since the information available to each participant would influence the process's outcome. The applicant (foreign investor), the competent authority, and the KFIB are required to supply information specified by FDI law 8/2001 to the foreign investment committee in order to make a decision regarding FDI application. Along with the specified information, such as, the FDI license application, the foreign investor is also required to submit supportive documents. The respective documents should encompass the *type of the investment activity and the purpose of the same* and *headquarters and management centre of the applicant*. Table 46 (below) lists the required information and data to be submitted by the investor, along with the FDI license application.

Table 46 - Required information for FDI application

Required information by MNCs to provide with FDI application licenses
▪ Contact details (postal address, telephone and fax numbers, e-mail, if any). ▪ Type of the investment activity and the purpose of the same. ▪ Headquarters and management centre of the MNC. ▪ Official verified copies of the memorandum of association and articles of association of the MNC. ▪ Work plan(s), including details about sources of finance, total paid up capital, raw materials, local and foreign marketing, and the economic, environmental, and social impact of the investment project on the state. ▪ Specific timetable for completion of the investment project. ▪ Qualifications and potentialities of the investor to execute the investment project. ▪ Statement of the national and foreign man power, along with the percentage of each within the prospective of MNC or investment project. ▪ The orders relevant to the import of the requirements of the investment project.

Source: KFIB & FDI law 8/2001

Once the foreign investor submits the application, the KFIB reviews the application to ensure that all necessary documents are provided. The applicant, then, receives a receipt, which includes the number and date of the application. The date is considered as the date, when the documents are completed and submitted by the applicant.

Equally, information rules deal with the process of exchanging and transmitting the information between participants in the policy process. According to Ostrom (1994), IAD framework information rules can be classified into four categories: 1) channel of the information flow, 2) frequency and accuracy of the communication, 3) subject of the communication, and 4) language of the information.

In the case of Kuwait, the information rules encompass the type of information the committee members possess about FDI applications. This involves: how the information is being transmitted and exchanged to and among the committee members, who provides this information, and how accurate the information is. Throughout the policy process two channels are used for information flows between the committee and the foreign investor. These are the KFIB staff and the competent authority. The KFIB staff functions as the first point of contact, which involves receiving the application through communicating the status of each application to the investment committee members through official channel, such as, memos and letters.

6.6.5 Analysis of MNCs' strategies

The aim of this section is to analyse and present the available options for foreign MNCs to conduct business in Kuwait. In the past, according to KFIB legal advisory section (KFIB, 2012), the foreign MNCs could not engage in any commercial activities in Kuwait or establish a branch in except through a Kuwaiti agent. However, in an effort to attract foreign investment, in April 2001 the Parliament passed Law No. 8/2001 with an objective of regulating Foreign Capital Direct Investment. The respective law provides exception to the general rule; whereby, the foreign investors could conduct business in Kuwait by permitting 100% foreign ownership of a business entities in certain approved sectors (please see chapter 5 for these sectors). Hence, a foreign firm may enter, and conduct business in Kuwait in the following ways:

A. Establishment of a Kuwaiti company in the form of limited liability company (referred to as a WLL), or a Kuwaiti shareholding company.

B. Entering into a joint venture agreement.

C. Appointment of a local commercial agent.

D. Appointment of a commercial representative.

When comparing these entry options with each other, we can notice significant differences. These differences can influence MNCs entering strategy into Kuwait. The main differences between these entry modes are based on four key parameters, which include:

1) Capital needed to establish business.

2) Permitted sectors to perform business operations.

3) Ownership ratio.

4) Tax rate.

Table 47 (below) provides a summary of the key differences of the available entry modes for MNCs.

Table 47: Summary of the key differences of the available entry mode

	Capital needed to establish the company*	**Open sectors for business to foreigners**	**Allowed Ownership percentage for foreigner**	**Tax rate**
Limited Liability Company (WLL)	10, 000 KD	ALL	49 %	2 %
Closed Joint Stock Company ("KSC Closed")	40, 000 KD	ALL	49 %	2 %
Joint Venture	10, 000 KD	ALL	49 %	2 %
Commercial Agent	5,000 KD	ALL	49 %	0 %
Commercial Representative	5,000 KD	ALL	NIL**	0 %
Establish a company under FDI law (8/2001)	50, 000 KD	Restricted to FDI sectors only	100 %	15 %

* Indicts Minimum Capital needed to establish a company (1 KD = 3.4 US$)
** A commercial representation agreement is not registered with the Ministry of Commerce and Industry

a) Capital needed to establish the company

According to the Kuwaiti FDI law, a minimum paid capital of 37,500 KD is required to establish a public joint stock company, and a minimum of KD 7,500 is required to establish a closed joint stock company (Al Sharrah, 2003). Therefore, it is obvious that MNCs would pay the highest capital, when entering Kuwait through FDI law (e.g., independency). However, MNCs will pay much less by opting to enter Kuwait with a local partner; which would have a discouraging effect on MNCs.

b) Open sectors for business to foreigners

While the general rule puts no restrictions on any sector for conducting business for Kuwaiti established company (WLL and KSE) or a joint venture, the Kuwaiti FDI law puts some restriction, which limits the foreign MNC to 13 sectors, as stated by the published list of these sectors by the Council of Ministers Resolution No. 1006/1 of 2003 (Al Kateeb, 2010). For the list of these sectors, see Figure 22.

Consequently, in order for a MNC to invest in these restricted sectors, it must jointly collaborate with the Kuwaiti partner. The respective measure makes the option for MNCs to enter Kuwait less attractive.

c) Ownership

Except for the Kuwaiti FDI law No. 8 of 2001, which grants an exception to the commercial law, and allows foreigners to own up to 100% of business entities in some sectors (provided a license is issued by the KFIB), the Kuwaiti commercial law dictates that foreign firms are restricted to own only up to 49% of shares in a WLL and KSC (Al Kateeb, 2010). However, the company's business activity cannot be within the banking or insurance industry. There are further restrictions imposed in the case of a commercial agent company where only Kuwaiti nationals or firms may act as distributors. However, in the case of commercial representative foreign company pursuant to a "commercial representation agreement," to represent its business interests in Kuwait. A commercial representation agreement is not registered with the Ministry of Commerce and Industry, as it is an agreement between Kuwaiti nationals or firms with a foreign firms. These restrictions render foreigners as a minority shareholders, which may jeopardise the foreigners' power and control of the company and have a discouraging effect on MNCs choosing Kuwait for FDI (Al Sharrah, 2003).

d) Taxation

Whilst individuals (Kuwaiti or foreign nationals) are not subjected to income tax, the Kuwaiti companies are subjected to social contribution, that is, Zakat (tax according to the Islamic Sharia principles) as well as contribution to the Kuwait Foundation for the Advancement of Science. Under the Zakat Law No. 46, all Kuwaiti shareholding companies are to pay 1% of their net annual profit to the governmental agency called 'Bayt-e-Zakat' (charity organization). The same rate is payable to Kuwait Foundation for the Advancement of Science. However, according to the income tax law No. 3 for the year 1955, with recent amendment issued to the Income tax law No. 2 for the year 2008, the foreign firms engaged in commercial activities in Kuwait are subjected to income tax of a 15% flat rate tax on earnings of above 5, 250 KD per year (Al Sharrah, 2003). The implication of this tax prejudice towards foreign commercial entities, seeking to avoid taxation, is that they are forced to joint ventures with local partners. Hence, rendering them as minority shareholders, which as earlier pointed out may discourage them to enter to Kuwait through FDI.

Based on this information, a number of rules regulating business activities in Kuwait are identified, which provide options for foreign national (private or corporate) to conduct business. Some of these options expose foreigners to high transaction costs.

Consequently, it negatively influences MNCs to choose FDI as an entry mode into Kuwait.

During the interviews, the local consultants argued that because of the Agency Law in Kuwait, a considerable number of MNCs had selected a Kuwaiti agent, rather than a direct entry mode as FDI:

> *" ... The agency law is one of the oldest commercial laws in Kuwait, established in the 1950s, at that time the oil was not yet explored in commercial quantities ... Basically Kuwait was poor ... and because of that the government had issued this law to enhance the performance of local companies, right now there is no need for this law and this law has become an obstacle for economic development in Kuwait, it is an obstacle because not all international companies can enter into Kuwait by themselves since they may already have an agent (company) representing them in the Kuwaiti market "Source: Interview with local consultant in Kuwait - CON_KW_2*

Another local consultant in Kuwait supported the above point of view by adding:

> *"International companies usually select appropriate choice for entering Kuwait and because of the economic cost their choice of entering Kuwait usually through a Kuwaiti agent or representative ..." Source: Interview with local consultant in Kuwait - CON_KW_1*

A number of executives at foreign MNCs in the Gulf region confirmed above statements by indicating that their companies did not need to be in Kuwait in order to provide their services, as they already had an agreement with a local Kuwaiti agent in Kuwait:

> *"long time ago before the FDI law in Kuwait, the company entered Kuwaiti market through a local Kuwaiti agent according to the Kuwaiti commercial law, the local agent provide these services in Kuwaiti market in return for a part share of the net profits ... this evergreen contract with the Kuwaiti local agent is why this company is not interested to be in Kuwait" Source: interview with an executive at petroleum MNC in the Gulf region - MNC_AG_2.*

The data indicates that the current entry modes significantly influence MNCs in terms of choosing other entry mode over FDI entry mode to Kuwait. However, it is not possible to measure empirically the respective results due to the unavailability of data from Ministry of trade and commerce. There is a lack of data particularly in the case of foreigners present in Kuwait through a local agent.

6.6.6 Analysis Outcome

The analytical process often focuses on the policy outcomes—especially, negative or undesirable outcomes. Ostrom (2011) emphasises that the analysis should start with viewing all possible outcomes of the policy. The policy analyst should always take negative outcome seriously, and enquire as to why this negative or undesirable outcome occurred. In the context of FDI licensing policy in Kuwait, the analysis should focus on negative or undesirable outcomes of the FDI licensing process. The analysis needs to examine the following questions: why FDI application was rejected, or why some FDI applications were withdrawn by a foreign investor. There are three kinds of outcomes for FDI licensing application in Kuwait: 1) acceptance of the FDI application, 2) rejection of the FDI application, and 3) application withdrawal by the investor. Occasionally, outcomes are clear and straight forward, such as, in the case of accepting the FDI application or when rejecting the FDI application with sensible and justified reasons. However, in many cases the outcomes are not straightforward, as actors in the action arena did not provide clear results.

Where a FDI license application is approved, the process begins with the KFIB obtaining the Minister of Commerce & Industry's official approval, informing the applicant and relevant authorities with the developments concerning the proposed project. Simultaneously, the publishing of ministerial resolution in the official state gazette is undertaken. The next step is to send out memos to the Ministry of Commerce & Industry to help in facilitating the commercial license procedures. Finally, the relevant authorities are addressed regarding the privileges granted to the MNC. According to KFIB, there have been fourteen application approvals and eight rejections of the FDI projects since 2004.

In case of a negative outcome (i.e., rejection) of the FDI application, reasons for the rejection must be provided and justified in writing to the applicant as per the Kuwaiti FDI law 8/2001. The respective law does not grant the right to appeal, as the decision by the investment committee is final and binding. However, the applicants have the right to reapply for the same project after one year from the date of rejection.

The third scenario is where the FDI application is withdrawn by the applicant. This outcome is considered odd and unusual, since generally the investor is not expected to withdraw voluntarily the application.

In total, four FDI applications have been withdrawn after six months of expecting a decision. This implies that the long processing time had caused the investor to lose interest. Table 48 below provides details of the withdrawn FDI applications. The data indicates that in most of cases, on average, the investor had waited for more than six months before deciding to withdraw the application. A few FDI applications are still under process for almost eight months.

Table 48 - FDI application that had been withdraw by the investor

MNC	Nationality	Type of investment	Application date	Withdrawn Date	Investment Volume US $
BT International	UK	Tele-communications	25/5/2004	20/12/2004	100,000,000
IAP services Inc.	USA	Transportation and logistics	18/12/2004	29/6/2005	11,508,000
Credit Suisse	Switzerland	Banking	12/3/2008	26/7/2009	51,000,000
Penta Master	Malaysia	IT & Tele-communications	11/1/2009	6/9/2009	3,668,000

Source: KFIB Data (2012)

When the BT Middle East and North Africa headquarters in Dubai was contacted to enquire as to why the company had withdrawn their application from Kuwait, a senior manager of global business development department responded:

> *"The company withdraw the application for establishing a business in Kuwait, at this stage I only can say that the company had decided to shift its investments to Oman" Source: Statement made by senior manager of BT Middle East and North Africa).*

The respective statement suggest that BT international had decided to shift their investments from Kuwait to another destination after waiting for 7 months (unfortunately, the researcher was unable to contact the rest of the above MNCs to enquire about the reasons for withdrawing the applications). The current FDI law states that the license application must be decided within a maximum period of 8 months from the date of submission by investment committee. However, there may be a possibility for the assessment period to be extended, if it is needed and justified by the chairman of the investment committee. Consequently, it makes the entire process extremely lengthy. This, of course, will deter the foreign investors from applying for a FDI license in Kuwait. The following statement serves as an evidence for the preceding argument:

> *"The procedures starts with KFIB receiving the applications, complete the same in conjunction with concerned authorities, and submit to Investment Committee for deciding within a grace period not exceeding 8 months from the application date ... 8 months is a long time for any foreign investors to wait for his application to be accepted or rejected ... If you compare this with other Gulf countries like Bahrain, the license process takes up to 7 days for the investor to receive the acceptance or rejection ... In Kuwait it seems to be endless process... Of course with a dim law that wall justify this lengthy process ... no wonder would not see any foreign investments in Kuwait" Source: Interview with local consultant in Kuwait - CON_KW_2*

The views of these participants suggest that the current FDI licensing policy needs to be amended—in terms of making it more effective—in order to avoid application withdrawals by investors.

6.6.7 Evaluating outcomes

The institutional analysis evaluates the policy outcomes that are being achieved under alternative institutional arrangement. The objective of evaluating the policy outcome is to analyse the gap between policy intentions and actual outcomes. This is achieved by means of using the IAD framework to highlight the factors that contribute to widening or reducing the gap between policy intention and outcomes (Ostrom *et al.*, 1994).

Although, analysts may use various evaluation criteria, IAD framework suggested a generic set of evaluation criteria. The institutional analyst may evaluate the outcomes that are being achieved by applying the criteria to the outcomes. The central criteria for evaluating the policy outcome are to investigate whether the outcomes had met the FDI licensing policy objectives. The suggested criteria used by IAD in evaluating policy outcomes are 'economic efficiency', 'fiscal equivalence', 'redistribution equity', 'accountability', 'conformance to values of local actors', and 'sustainability' (Polski and Ostrom, 1999, Ostrom, 2005). In this study, the analysis will focus on economic efficiency, accountability, and conformity to general morality due to their relevance to FDI licensing process.

- **Economic efficiency**

Economic efficiency is determined by the magnitude of the net benefits associated with an allocation of resources (Ostrom, 2005). Thus, an outcome is technically efficient, if the marginal cost of producing a unit is equal to the price. However, many policy issues do not lend themselves to strict economic evaluation, because there are no observable market price goods or services, or at least its value cannot be exactly measured. Hence, in this study the economic efficiency is defined as the economic benefits and gains by the country (e.g., Kuwait), when a FDI project is approved.

- **Accountability**

Accountability refers to the extent to which government officials are held accountable to the general public concerning allowing the use of public facilities and natural resources (Ostrom *et al.*, 1994).

- **Conformity to general morality**

According to Ostrom (2007) conformity to general morality refers to the evaluation of the way the outcomes fit the general values and norms of a society's moral code. Further pertaining to questions, such as, 'are the foreign investment committee members able to deceive and go undetected to obtain very high payoffs; are those who fail to conform to the rules being penalised (Polski and Ostrom, 1999)?

In order to apply the evaluation criteria to the policy outcomes, the FDI licence application process should examine a negative or undesirable outcome and apply these evaluation criteria. In other words, to investigate whether the policy makers were promised high payoffs, when rejecting an FDI license application. These payoffs are not necessary of materialistic nature, particularly in a country where the materialistic payoffs are less important, due to the community's culture and norms and wealth, as in Kuwait. Hence, in case of Kuwait, payoffs can take other forms, such as, social acknowledgement, respect, and complements by other community members. Alternatively, those who fail to conform to the rules of morality or honour their commitments may be penalised by the local the community.

6.6.8 Example of evaluating of outcomes

L.X Ericsson is a MNC based in Sweden, which specialises in advanced communication technology. In 2005, the company applied for a FDI license with the aim of creating a telecommunication hub in Kuwait using advanced ground and wireless communication network. Investing in telecommunication sectors is considered a common pool resource in Kuwait. The FDI law permits investment in the communication sector.

From the point of view of economic efficiency, it seemed quite clear that the proposed project would bring numerous economic benefits, such as, knowledge transfer of advanced technology as well as jobs for the locals to Kuwait. Furthermore, it would be more efficient to establish and manage advance communication networks by a private company than the government, which lacked the necessary technology and skilled labour in this field. If the government attempted to run this project itself, it would have had to first secure the required technology, and then provide trainings to the current employees in the telecommunication sector in terms of building and managing the communication hub-something that seemed to be both time and resource consuming.

Although, the respective sector is considered as common pool, and is open to foreign investors. However, despite the obvious economic benefits, L.X Ericsson's application was rejected by the investment committee. The rejection was based on the recommendations of the competent authority, that is, the Ministry of Communication.

Theoretically, an argument can be made regarding the accountability of foreign capital investment committee members in approving the FDI access to the public goods. The respective project would have facilitated improvement of the usage and performance of the telecommunication sector in Kuwait; whereby, contributing to the job creation and employment, and bringing various other economic benefits to the country. The evidence to preceding claims is offered in the statements by the interviewees. However, being a public sector project, there would be less accountability to the foreign capital investment committee members.

In the aftermath of this negative outcome, concerns regarding the accountability of the investment committee members in rejecting the respective application were evident, as emphasised by the following statements:

> *"Until now I don't know why the investment committee had rejected Ericsson project! There is numerous question marks on the committee decision! Obviously something happen during the discussion and I am pretty sure it's not in line with Kuwaiti FDI policy ..." Source: Interview with local consultant in Kuwait - CON_KW_6*

Another consultant stated:

> *"I remember this incident had been reported in the newspaper, some officials at the Ministry of communication had announced that the rejection was conditional, however the investment committee decision remain until this date under question" Source: Interview with local consultant in Kuwait - CON_KW_4*

In order to get other side of the story as well, a short interview was conducted with a senior manager at the Ministry of Communication regarding the rejection of this particular application. During the interview, the manger declined the request of audiotaping the interview, as well as discussing the details of providing technical opinion to the foreign investment committee at KFIB. However, he briefly stated that:

> *"We received a request from the investment committee at KFIB, requesting a technical recommendation regarding a foreign multinational company who wish to invest in the telecommunication infrastructure in Kuwait, we had reviewed the project proposal and the document provided by this company regarding the project, a meeting was held between their senior management of telecommunication sector at the Ministry, and the Ministry decided to recommend that there is no added value for this project, and it seems to be based on pure commercial bases, therefore the ministry recommendation was not to consider this project" Source: statement by a senior official at the Ministry of Communication in Kuwait*

The information provided by all the participants in regards to L.X Ericsson case suggests that the economic efficiency was not the reason for rejecting the FDI application. It also directs to the fact that the investment committee had used competent authority's recommendation to justify their decision. Consequently, the issue of morality concerning the investment committee members was raised about the motives behind rejecting an economically viable project. A local consultant believed that the foreign capital investment committee's decision was not based on any criteria under the current FDI law. The committee had to take this decision because of other reasons, as evident from the statement below:

> *"I think the project was rejected because of conflict of interest with local MNC ..... because some local MNCs believe that we have the right to this project more than E*ricsson!" Source: Interview with local consultant in Kuwait - CON_KW_3

Another local consultant added:

> *"this project was the talk of the street for a few weeks after the announcement made by the foreign investment committee to reject the investment proposal by this company.... Although the investment committee try to justify the reason behind such rejection however it appears from my point of view that the general public are not convinced by the justification provided by the investment committee...On a personal level I believe without any doubt this project was rejected because of hidden interests!" Source: Interview with local consultant in Kuwait - CON_KW_*

The statements indicate that the foreign capital investment committee rejected the respective project because neither it failed to fulfil the criteria concerning FDI Law nor that it was purely commercial, but for some other reasons, which were never disclosed by the committee. It is still worth noting that not all the rejected cases are similar to the case of L.X Ericsson. Some of the rejected cases have been properly justified according to the FDI laws. However, the high rejection rate of FDI applications still exists. In total, there were 8 FDI license application submitted to KFIB, all of which did manage to fulfil the formal requirements stated by the Kuwaiti FDI law (see table 49 below).

Table 49 - List of rejected projects by KFIB in Kuwait since 2004

No	Foreign investor	Nationality	Project classes	Reason of Rejection
1	Sumitomo Corporation	JAPAN	Seawater distillation station	Rejected based on Ministry of Electricity & Water recommendations
2	Sumitomo Corporation	JAPAN	Power generation station	Rejected based on Ministry of Electricity & Water recommendations
3	Gulf electronic	USA	Advance IT services & Internet Facility	Such services exist already in the local Market (rejected by investment committee)
4	MDC Communications Corporation	USA	Advance IT services & Internet Facility	Such services exist already in the local Market (rejected by investment committee
5	American Dental Centre	USA	Dental health and care	No add value for the country (rejected by investment committee)
6	Combined Shipping Company	UK	Provide passengers charter transportation & provide Marine logistic	Such services exist already in the local Market (rejected by investment committee)
7	Nokia Corporation	Finland	Telecommunications network equipments, solutions and services	Such services exist already in the local Market (rejected by investment committee)
8	Sony Ericsson Mobile Communications AB	Sweden	Telecommunications network equipments, solutions and services	Such services exist already in the local Market (rejected by investment committee)
9	Redington, FEZ	USA	Repair microelectronics	No add value to the country (rejected by investment committee)

Source: KFIB Data (2012)

On evaluating these cases, according to the economic efficiency, accountability, and conformity to general morality criteria, it appears that all of these proposed projects did fulfil the requirement to obtain FD license, yet they were rejected without any proper justification. This suggests that there exists a gap between the FDI policy intention and the actual outcome in Kuwait.

Table 50 -Summary of the applying the IAD evaluation criteria on the rejected FDI applications in Kuwait

No	Project	Official justification of rejection	Economic Efficiency*	Accountability**	conformity to general morality***
1	Seawater distillation station	Ministry of Electricity & Water recommendations	High	Intermediate	Intermediate
2	Power generation station	Ministry of Electricity & Water recommendations	High	Intermediate	Intermediate
3	Advance IT services & Internet Facility	Such services exist already in the local Market (**rejected by investment committee**)	Intermediate	**High**	**High**
4	Advance IT services & Internet Facility	No add value for the country (**rejected by investment committee**)	Intermediate	**High**	**High**
5	Dental health and care	No add value for the country (rejected by investment committee)	Low	Intermediate	Intermediate
6	Passengers charter & Marine logistic	No add value for the country (**rejected by investment committee**)	Intermediate	**High**	**High**
7	Telecommunications network equipments, solutions and services	Such services exist already in the local Market (**rejected by investment committee**)	Intermediate	**High**	**High**
8	Telecommunications network equipments, solutions and services	Such services exist already in the local Market (**rejected by investment committee**)	Intermediate	**High**	**High**
9	Repair microelectronics	No add value to the country (rejected by investment committee)	Low	Intermediate	Intermediate

* High = High economic benefits to the country, Intermediate = Intermediate economic benefits to the country, Low = Low economic benefits to the country
** High = High accountability by the public, Intermediate = Intermediate accountability by the public, Low = Low economic accountability by the public.
*** High = High payoff, Intermediate = Intermediate payoff, Low = Low payoff.

6.6.9 Stage Summary

This stage aimed to investigate whether the high rejection of FDI applications in Kuwait is due to an ineffective policy implementation or due to of unidentified influence on the policy implementation process by the informal institutions. Hence, this stage postulated that the Kuwaiti formal and informal institutions might restrict inward FDI by rejecting FDI applications through informal arrangements. This, consequently, results in a low inward FDI into Kuwait. The conclusions have been reached by means of using the Institutional Analysis and Development (IAD) framework as a technique for FDI policy process diagnosis and analysis.

The results were based on the general objective(s) of the FDI licensing policy in Kuwait. It stipulated that FDI applications must be objectively assessed for their acceptance or rejection; whereby, the criteria for acceptance or rejection of the FDI application is based on the current Kuwaiti FDI law 8/2001. The respective law advocates three kinds of outcomes for FDI licensing application in Kuwait: 1) Acceptance of the FDI application, 2) Rejection of the FDI application, and 3) Application withdrawal by the investor.

The analysis shows that only occasionally outcomes may be clear and straightforward by providing sensible and justifiable reasons. However, between 2004 and 2011, there were 24 FDI applications filled, eight of which were rejected by KFIB and four others withdrawn by the investor. The data accounts for almost 50 % of the applications; an undesirable outcome from policy point of view, and a sign of a glitch with the policy.

The results of the physical and material attributes highlight that even though the Kuwaiti government has opened parts of the public sector for foreign investments in Kuwait, still all FDI applications for these public sector investment projects have been rejected—despite having fulfilled the formal procedures. Therefore, it is argued that all FDI applications made for investment in the Kuwaiti public sector are being rejected. It is due to an unarticulated protectionism policy exercised by the Kuwaiti government; something that seems very counterintuitive for economic diversification.

Furthermore, the results from analysing the community attributes show that cultural factors, such as, religion, traditions, and community's value system are manifested in practice and strongly influence the behaviour of individuals in the community. The members of the community are committed to protect other members (e.g., community public sectors, local companies, and businesses) from possible outside threats, for instance, by not granting FDI licenses to the foreign MNCs.

The analysis of rules-in-use reveals that most of them are followed without proper guidelines concerning their implementation. This, subsequently, results in arbitrarily made decisions. It further raises concerns about the objectivity of the evaluating committee, when submitting the FDI license application. Thus, the analysis of the action arena rules indicate that implementation of FDI licensing process concerning the rules-in-use is surrounded by ambiguity. Consequently, it results in an inadequate implementation of the rules-in-use, which, in return, affects the outcome of FDI licensing process policy.

The results also reveal that the FDI option for foreign MNCs to enter into Kuwait is not attractive, when compared with other FDI entry modes for MNC. The reason is that the current Kuwaiti commercial law makes it difficult for the foreign MNCs to enter Kuwait through FDI.

The evaluation of the outcomes identified the gap between policy intentions and actual results; whereby, the FDI application rejection rate by KFIB is 38%. The analysis points out that all of these projects had fulfilled the requirement to obtain FD licenses, yet they were rejected. It, consequently, creates a wide gap between the FDI policy objectives in Kuwait and the actual outcome.

Therefore, based on the above evidence, it is argued that the high rejection rate of FDI license applications in Kuwait is due to the unsuccessful policy implementation and external influences, which is directly linked to both formal (laws and regulations) and informal institutions (implementation of these laws) in Kuwait. Hence, it can be concluded that the Kuwaiti institutions are, in fact, restricting inward FDI through institutional arrangements, resulting in low inward FDI into Kuwait.

6.7 Chapter Summary

The purpose of this chapter was to present, analyse, and discuss the data obtained from the survey and interviews with the aim of validating the propositions and providing answers to the formulated research questions. The chapter was divided into five sections. The first section covered stage one of the conceptual framework (MNCS' awareness of and Familiarity with Kuwait with Kuwait). Section two, corresponding to the second stage of the conceptual framework, continued in a systematic way in order to cover MNCs' strategic factors divided into three sub-sections. The FDI Policies in Kuwait was covered in the third section, whilst corresponding to the conceptual framework. Section four covered the issues concerning FDI licensing, and the outcomes of FDI licensing policy in Kuwait. In order to adopt properly triangulation process, the date from reports, archives, and governmental documents were also used.

CHAPTER SEVEN

DISCUSSION, RECOMMENDATIONS AND POLICY IMPLICATIONS

CHAPTER SEVEN: Discussion, Recommendations and Policy Implications

7.1 Introduction

This chapter presents a discussion of findings, in the context of existing research on the impact of institutions and government policies in attracting inward FDI, and the major factors influencing FDI. The chapter proposes a number of recommendations for policy makers and MNCs, while presenting the study's theoretical and methodological contributions; subsequently, suggesting a direction for future research. Finally, it discusses the limitations of the study.

The study seeks to answer the research questions systematically by the way of propositions emerged from the four different stages outlined in the conceptual framework. The first research question is, however, not connected to the conceptual framework, rather the answer to this question is to be found in chapter five (i.e., Kuwait in Context). The answer to the fourth research question is in the form of recommendations made for the Kuwaiti government that can bring about institutional changes to Kuwait's with the view of improving the FDI inflows to Kuwait.

7.2 Research Question One

"What are the key characteristics of Kuwait's FDI policy, institutional systems, and locational factors that influence FDI decisions?"

The first research question seeks to cast light on the way Kuwait's FDI policy is formulated and implemented, and further explores its effect on FDI inflow into the country. The answer to this question is primarily descriptive in nature, and largely emerges from the secondary data (see Chapter 5). These policies are designed and implemented with the aim of putting Kuwait's economy on a trajectory rather than its continued reliance on its oil reserves, avoiding depletion, and preventing other negative side effects, such as, the Dutch Disease, having the country living off on its capital and avoiding volatility in revenues.

However, judging from the outcomes of the FDI inflow level along with a careful study of these characteristics, it appears that Kuwait's FDI policies are inadequate; particularly, in regards to policies of the FDI licensing as well as privatisation policy. The respective policies seem to be contradictory to government's agenda, and publicly announced strategy for economic diversification. It can also be posited that Kuwait's culture being very traditional in its essence. The culture heavily influences the institutions, with the implication that the informal institutions have gained a disproportioned weight on the formal institutions and hence affecting the inflow of FDI within a protection framework.

7.3 Research Question Two

The second research question is divided into five sub-questions derived from the conceptual framework. The data to answer these questions was obtained from surveys, interviewers as well as the secondary sources. The secondary data is, however, limited due to poor information regarding FDI in the region.

7.3.1 Research Question Two (a)

"What is the knowledge level of MNCs in the Gulf region of Kuwait as investment location and how does this relate to nationality, Industry, and size of investments in the Gulf region?"

The question is focused on MNCs' familiarity and awareness, when considering Kuwait as a potential destination. The findings in this section were focused on the MNCs' familiarity and awareness about Kuwait as influencing factors in their decision-making process, as a potential destination.

The findings suggest that most MNCs in the Gulf region are, in fact, familiar with Kuwait (familiarity refers to MNCs' knowledge about Kuwait's existence) as a potential location for their FDI. The findings indicate no significant difference, when looking at the MNCs' from nationality and size of investments perspective. However, from the industry type perspective, we find that MNCs from services group are less familiar with Kuwait. It, subsequently, leads to the conclusion that this particular group may not be interested in exploring Kuwait as potential location for their investments. The findings can be interpreted as the unattractiveness of Kuwait for this type of MNCs. Although, some information is available, which may be able to explain such lack of familiarity and interest among services group about Kuwait. However, further studies are needed in order to identify underlying reasons behind such deficiencies.

The findings also show that almost that all MNCs in the Gulf region had limited awareness (awareness refers to MNCs' exposure to appropriate information) about Kuwait and its investment opportunities, FDI related law and regulations. This study, based on the results and the findings, argues that such low level of awareness is strongly linked to the poor performance of the KFIB mainly. However, this is not to imply that KFIB's poor performance is the only reason for such low level of awareness. Other reasons include a lack of rigorous environmental scanning by the MNCs. There may also be poor reputation about a particular destination due to past historical events that may contribute to MNCs' low level of awareness about Kuwait

The main identified root cause for low level of awareness relates to KFIB's lack of efficiency and its administrative and financial attachment to the Ministry of Trade and Commerce. In addition, the limited resources allocated to allow the KFIB to operate effectively increase this problem. KFIB's under-performance was verified with Global Investment Promotion Benchmarking (GIPB) index of the World Bank, which found its performance as very weak in promoting, marketing investments in Kuwait GIPB (2012). Furthermore, KFIB performance was also under additional criticism in the UN-ESCWA report on FDI (2010) when its performance was compared with other GCC's IPA performance such as the UAE (Dubai), Bahrain and Saudi Arabia.

IPAs' underperformance is identified as the main reason for the low level of awareness among MNCs about potential locations for their FDI. It is also noted in other studies, which examined the effectiveness of IPAs in attracting FDI in a number of developed and developing countries (Morisset, 2003, Morisset and Andrews-Johnson, 2004, Harding and Javorcik, 2007, Harding and Javorcik, 2011). Also, Wint and Williams (2002) suggest that it's critical that promotional agencies in developing countries adopt a functional promotional policy. Therefore, establishing competent IPA in line with the host country's policy in marketing itself to attract FDI is important.

However, it appears that the efficiency of IPAs is directly related to a genuine intention and efforts made by the government with a view of economic diversification. Hence, if such genuine intention is missing, then IPAs will inevitably be inefficient and fail in their mission.

Kuwait is no exception to this rule. By analysing Kuwait's unique and short IPA history, it, then, emerges that the trigger for the formation of an IPA (KFIB in this case) in the country was a desperate measure to counter the faltering oil prices. This sent shockwaves throughout the government; hence, forced them to look for alternative sources of revenues and economic suitability. For instance, establishing of KFIB in 2001 was a reaction to the sudden drop in oil prices 1999, following the sudden increase of oil prices in 2004. It, therefore, appears that the Kuwaiti government become less motivated in developing KFIB as a dynamic IPA. This suggests that Kuwaiti government’s real agenda was more of a steady stream of income rather than development. Hence, as soon as oil revenues picked up in 2004, the pursuit of economic diversification through an effective IPA cooled down.

This study finds that MNCs are familiar with Kuwait; however, this does not translate effectively to being aware about its investment opportunities. This implies that poor level of investment promotional efforts by KFIB may have a significant negative impact on FDI inflow into the country. Thus, these findings verify other empirical studies investigating the critical role of investment promotion in attracting FDI (Wells and Wint, 1990, Head *et al.*, 1999, Rajan, 2004, Lim, 2008). Subsequently, it may be concluded that a country's failure to position itself as an attractive FDI destination may, partly, be due to a lack of its effective IPA.

The findings, supported by the existing literature, reveal that despite MNCs' familiarity with Kuwait, there is a lack of adequate awareness about its investment opportunities and FDI laws and policies. The evidence, therefore, enables the following proposition:

“Kuwait is suffering from low inward FDI because a number of MNCs have never considered Kuwait as FDI destination due to unfamiliarity and unawareness with Kuwait as investment location”.

The acceptance of the respective proposition was based on the answer to the formulated research question above. Thus, the low inward of FDI into Kuwait is partly due to the lack of MNCs' awareness about the country's investment opportunities, and FDI laws and policies, highlighting that KFIB is not performing effectively as IPA.

7.3.2 Research Questions Two (b)

"What are the major factors that MNCs find attractive/unattractive in Kuwait and how does this relate to nationality, industry, and size of investments in the Gulf region?"

The answer to this research question is found within the findings related to this sub-question focused on MNCs' internal environment factors, which influence their FDI decision-making process, when considering Kuwait as a potential destination.

The findings showed that the majority of MNCs' strategic motivation for investing in the Gulf region were market seeking, followed by efficiency seeking, and last (to a lesser degree) resources seeking. The presence of market-seeking MNCs in the Gulf region is confirmed by other studies (Wheeler and Mody, 1992, Trevino *et al.*, 2002, Dunning and Lundan, 2008a). The findings indicate that new markets are the predominant motive for MNCs to invest in developing countries (Nunnenkamp and Spatz, 2004).

The identification, analysis, and subsequent findings about the existence of efficiency-seeking MNCs in the region is yet another contribution to other studies investigating the efficiency factors, such as, production cost, transportation and general low cost of doing business as motivations for MNC's to FDI (Dunning, 1998, Aggarwal, 2002, Bevan *et al.*, 2004). Such evidence seem to be particularly valid in the case of MNCs' active within the petroleum, manufacturing and financial services industries in the Gulf region (Anwar, 2003, Mellahi *et al.*, 2011, Tadros, 2011).

The findings also show a lesser presence of resource seeking MNCs, since the Gulf region's main resources include oil and gas but these resources are nationalised and hence off limit for foreign investors (Nassir, 1975). Such findings can be supported, when contrasting the Gulf region with other regions such as Africa and South East Asia where there is a higher level of presence of resource seeking MNCs. The respective regions have now opened their natural resources for FDI (Luciani, 2005, Marcel and Mitchell, 2006).

The findings, however, do not support previous studies, which examined other potential discouraging factors, such as, countering competition, avoidance of collusion with a stronger competitor or existence of strategic alliance, sister companies and subsidiaries for MNCs from choosing a host country (Kogut and Chang, 1991, Hennart and Park, 1994, Tseng, 2005, Kogut and Zander, 2003). This study found no evidence to support the argument that MNCs refrain from FDI in Kuwait to avoid collusion with a competitor, or the presence of sister companies and subsidiaries.

7.3.3 Research Questions Two (c)

"What are the Kuwaiti location factors that are attractive / unattractive for MNCs and how does this relate to nationality, industry, and size of investments in the Gulf region?"

The answer to this research question is found within the findings related to this sub-question focused on MNCs' external environment factors (e.g., non-institutional location factors) as influencing factors in their FDI decision-making process, when considering Kuwait as a potential destination. The findings identified how the external environment (e.g., non-institutional location factors) of Kuwait, such as, geographical location of Kuwait, market factors, cost factors, location risk and efficiency factors had influenced the MNC’s decision-making process. This finding confirms previous studies, which examined the importance of geographical location in attracting MNCs to a host country (Mudambi and Navarra, 2002, Rodrik *et al.*, 2004, Mudambi, 2007, Cheng, 2008, Mudambi, 2008, Meyer *et al.*, 2011). The findings concerning market factors show that all MNCs agreed that market factors in Kuwait are in general unattractive, deterring market-seeking MNCs from investing in Kuwait. Many studies find a positive impact of market factors in attracting inward FDI (Blomstrom and Kokko, 2003, Tahir and Larimo, 2004, Kok and Ersoy, 2009, Kang and Jiang, 2012). However, further investigation is needed in order to identify which particular market factor is discouraging MNCs in the Gulf region from investing in Kuwait.

As far as the cost factors in Kuwait are concerned, the findings imply MNCs' mixed views. All MNCs from the petroleum and petrochemical, banking, financial, and healthcare industries consider cost factors to be an attractive location feature of Kuwait, while trading MNCs perceive them as unattractive. This confirms prior empirical studies, which show the positive impact of cost factors in attracting large amounts of FDI inflows (2002, Wheeler and Mody, 1992, Buckley and Casson, 1998, Nunnenkamp and Spatz, 2004). Consistent with MNCs' from various industries, and the nationality perspective, we find the same trend in that they also expressed different views about the attractiveness of the cost factors in Kuwait. For instance, the American MNCs considered the cost factors attractive; while, the Asian MNCs regarded them as unattractive. However, these findings contradict other studies, which suggest that the American MNCs (generally with advance technology holding intellectual property rights) may choose to direct their FDI into high-cost countries rather than low-cost countries, as these countries can provide better protection for their intellectual property (Pugel, 1981, Janeba, 2002).

As far as the location risk of Kuwait is concerned, the findings indicated mixed views among MNCs within the petroleum, financial and investment, and hospitality industries from different nationalities. While these MNCs considered the location risk factor of Kuwait to be minimal, others such as the trade and aviation MNCs were of a contrary view. Although, no clear indication occurred on why location risk factors were regarded as insignificant for these MNCs, it could speculate that perhaps these MNCs believe that the presence of the NATO forces in the Gulf region has made the region safer. This view is supported by evidence found in Euromoney Country Risk (ECR), which put Kuwait and all other GCC countries at Tire Legend as 2 in the scale of 5, while the surrounding countries to the region such as Iraq, Iran, Yemen and Jordan were ranked 5 (Tire Legend ECR, 2013). Hence, the finding in this study extends the existing empirical studies about the influence of country risk of MNCs' location choice (Moosa, 2002, Janeba, 2002, Luo, 2009), and point out that the existence of military allies' bases such as NATO could make a location more secure in the view of MNCs.

The findings related to the social and cultural amenities emphasise that MNCs in the Gulf region have been discouraged from investing in Kuwait. For example, hospitality and aviation MNCs found the restriction on providing entertainments activities and serving alcohol as an unattractive location factor, as well as the social un-acceptance for local women to work in private companies mingling with foreign employees. The important role of culture and social factors in influencing MNCs' choice of a location for their FDI found in this study, is also noted in other empirical studies done (Kogut and Singh, 1988, Shane, 1994, Bénassy-Quéré *et al.*, 2007). They argue that developing countries with radical social and cultural behaviour may be discouraging FDI (Hergueux, 2012).

Finally, the findings regarding the efficiency factors show a contradiction, as the survey results illustrate that the majority of MNCs found efficiency factors to be quite a discouraging feature of Kuwait. However, the interview findings point out that efficiency factors were indeed seen as an attractive location feature of Kuwait. Hence, the findings about efficiency factors remain unclear and uncertain with the potential explanation that MNCs did not understand the questions about efficiency factors in the survey. Whereas, in the interviews, it appeared easier to articulate the question and elaborate on it, when it was necessary.

7.3.4 Research Questions Two (d)

"What are the Kuwaiti institutional factors that are attractive/unattractive for MNCs and how does this relate to nationality, industry, and size of investments in the Gulf region?"

The answer to this research question is found within the findings related to this sub-question focused on MNCs' external environment factors (e.g., institutional location factors) as influencing factors in their FDI decision-making process, when considering Kuwait as a potential destination. The findings of this sub-question focused on MNCs' external environment factors (e.g., institutional location factors) as influencing factors in their decision-making process, when considering Kuwait as a potential location.

The findings illustrate that the legal system is an attractive institutional location factor of Kuwait in the views of all MNCs from different nationalities, industrial sector, and investments size. This could be linked to the fact that the Kuwaiti legal system is a blend of British common law, French civil codes law and Islamic legal principles (Al Matar, 2011). Therefore, the respective system is alien to most MNCs, given their experience of operating in common law and civil codes legal systems. In addition, the reliability of Kuwait's legal system, judicial independency, and non-prejudice—among locals and expats—is revealed in the Global Competitiveness Report 2012 putting the country's legal system at 32 among 144 countries. This finding corroborate previous studies, indicating that the existence of a robust legal system has a positive impact on a MNCs selection process of a host country (Perry, 2000, Globerman and Shapiro, 2003, Bevan *et al.*, 2004, Campos and Kinoshita, 2007, Pajunen, 2008).

The findings also show that Kuwait's property protection law is looked upon positively by almost all MNCs in the Gulf region. This view may be based on the fact that private property in Kuwait is guaranteed by the government, and the court system enforces contracts efficiently, albeit with some delays, and that expropriation in Kuwait is highly unlikely (Miller *et al.*, 2013). Moreover, the ability of individuals in Kuwait to accumulate private property is secured by clearly defined laws that are enforced by the Kuwait legal system evident in Kuwait being ranked 29 out of 144 countries in terms of investor protection in the Global Competitiveness Report 2012. This confirms research done by others (Knack and Keefer, 1995, Morisset and Neso, 2002, Li and Resnick, 2003, Pierpont and Krueger, 2007), which suggests a positive relationship between property rights protection and increased FDI inflow.

The findings also confirm the importance of bureaucracy (such as, lengthy procedures and the level of complexity when issuing business licenses and permits, excessive requirement and lengthy procedure when hiring foreign labour) as a discouraging factor for FDI. The sampled MNCs perceived high transaction costs arising from such bureaucratic systems as negative. In support of this finding, the Global Competitiveness Report (2012) highlighted that 21% (the highest percentage) of the most problematic factors for doing business in Kuwait is government bureaucracy. The findings are in line with studies conducted by (Tanzi and Davoodi, 2000, Stein and Daude, 2001, Bitzenis, 2006), which placed an emphasis on bureaucracy as a significant barrier to FDI. This finding, however, is stands in contrast with others (Campos and Kinoshita, 2007, Busse and Hefeker, 2007) positing that good bureaucratic quality is a strong signal of favourable investment environment for many foreign investors.

Finally, the findings show that corruption is another discouraging institutional location factor. The foreign investors, in general, do not want to invest in a corrupt business environment since corruption creates uncertainty in the context of the costs of doing business. These findings opposes the empirical studies that argue that corruption has a positive impact on FDI flows (Wei, 2000, Glass and Wu, 2002, Egger and Winner, 2005), but agrees with others that corruption has a negative impact on attracting FDI (Habib and Zurawicki, 2002, Grosse and Trevino, 2005, Woo and Heo, 2009). However, since many MNCs avoided providing comments on this factor - due to the sensitivity of the subject—additional data would be needed to reach a firm conclusion about the influence of corruption on FDI in the GCC region.

Based on the findings, supported by the literature and the subsequent reasoning, there is some support for the view that perceived institutional problems connected to bureaucratic systems and corruption adversely affect FDI to Kuwait. Thereby, providing support for the following proposition:

"Perceived problems with institutional factors exert a negative influence on MNC's wiliness to locate in Kuwait"

The acceptance of the above proposition was based on the answer to the formulated research question above. Therefore, the low volume of inward FDI into Kuwait is partly due to problems with a number of location factors and institutional factors, which makes Kuwait less attractive to MNCs in the Gulf region.

7.3.5 Research Question Two (e)

"What are the Kuwaiti FDI policies and that are attractive/unattractive for MNCs and how does this relate nationality, industry, and size of investments in the Gulf region?"

The answer to this research question is found within the findings related to this sub-question focused on Kuwaiti FDI policies as influencing factors for MNCs in their FDI decision-making process, when considering Kuwait as a potential destination. The findings of this sub-question focus on Kuwaiti FDI policies as influencing factors on MNCs' decision-making process.

The findings revealed a number of attractive FDI related policies in Kuwait, such as, taxation, government incentives, financial and monetary policies, with insignificant differences concerning their attractiveness from MNCs' nationalities, industries, and size of investments as a perspective. The findings showed that a high majority of MNCs in the region were overall favourably disposed to the taxation, government investment incentives, and financial and monetary policies in Kuwait.

There is, however, no doubt that high tax rate deters MNCs from choosing a location for their investments, as it reduces the profitability of the investments. For instance, the findings show that some banking and financial investments MNCs in the Gulf region prefer to invest in Bahrain, because of the availability of offshore banking, which facilitates tax avoidance to various degrees. However, when the Kuwaiti government reduced the tax rate levied on foreign MNCs from 55% to 15% in 2004, it only increased FDI inflow marginally. Therefore, the findings confirm the studies that suggest that low tax rate has only limited impact in attracting FDI (Slemrod, 1990, Morisset and Pirnia, 2000, De Mooij and Ederveen, 2003, Azémar *et al.*, 2007, Bellak and Leibrecht, 2009).

The findings related to the Kuwaiti government incentives policy show that many MNCs looked positively upon the Kuwaiti government's incentives policy, such as, tax breaks (up to ten years), absence of custom charges for products relating to the FDI projects, and freedom of employing whatever number of labour needed for a FDI project (KFIB, 2012). These findings corroborate the empirical studies that advocate the positive affects of investment incentives in attracting inward FDI (Zhang, 2001, Blomstrom and Kokko, 2003, Cass, 2007, Buettner and Ruf, 2007, Lim, 2008).

The findings also show that the majority of MNCs in the Gulf region perceived the Kuwaiti financial and monetary policies, such as exchange rate and cost of capital to be attractive. The findings clearly point towards the Kuwaiti government's efforts to keep a stable exchange rate and cost of capital which reduces foreign MNCs' exposure to financial risks providing them with an opportunity to draw a long-term financial strategy (Ali, 1999). This is particularly important for the banking sector MNCs. These findings add to the existing studies (Auerbach, 1990, Dewenter, 1995, Goldberg and Klein, 1998, Butler and Joaquin, 1998, Kiyota and Urata, 2004, Desai *et al.*, 2006), which assert that a stable monetary and financial policies make the location more attractive to MNCs, by providing empirical evidence that financial and monetary policies do, in fact, attract banking and financial investments MNCs into the Gulf region.

The findings also revealed a number of unattractive FDI policies including privatisation policy, specialised zone's policy and trade liberalisation policy in Kuwait. The findings illustrates that the Kuwaiti government's privatisation policy was regarded as unattractive among MNCs. The sampled MNCs perceived the Kuwaiti government is not overly serious on privatisation , since the government still dominates all the public sector projects in Kuwait (Sartawi, 2012). These findings resonate with the World Bank report in 2005, which asserted how Kuwait's privatisation policy remained inadequate and points out to a serious need for a clear strategy to improve implement this policy. This raises two points. Firstly, oil revenues may permit the government to continue to hold its control over service sectors in Kuwait. This is true especially for public utilities, which continues to suffer from low productivity, continuous losses, and disguised unemployment. Secondly, it also reflects the government's fear of MNCs increase of power potentially leading to loss of government control over important strategic sectors (Tavares and Young, 2005). This resonates with a small number of prior studies arguing that dysfunctional privatisation programs have negative impact on FDI inflow (Sinn *et al.*, 1997, Hartenek, 1995, Amerighi and De Feo, 2008). However, few studies have considered the effect of an insufficient privatisation policy on FDI inflows in developing countries, particularity involving countries that suffer from Dutch Disease. Thereby, this study adds to the existing literature suggesting that effective privatisation plays a significant role in attracting FDI inflow for developing countries.

Trade liberalisation policy in Kuwait was found to be unattractive, particularly for the banking, financial investment, and trade MNCs, as there are many restrictions on the trade and foreign business operations in the country. An example is provided by the executives at the banking MNCs, such as, not allowing personal banking services by foreign banks in Kuwait, which is a clear evidence of the restrictions put on MNCs' trade activities in Kuwait. The findings also show that there are a number of trade barriers, such as, trade quota and restrictions out on MNCs for some trade activities in Kuwait, leading to a discouragement for the MNCs to invest in Kuwait. This supports the works of (Zhang, 2001, Asiedu, 2006, Wacziarg and Welch, 2008), when showing the important role of trade liberalisation in attracting FDI.

An equally unattractive FDI policy for MNCs from trade, banking and financial sectors was the absence of Special Economic Zones (SEZ) policy in Kuwait. The SEZ offers benefits such tax incentives, simplified export procedures, and exemptions from various trade restrictions (Graham, 2004). The findings show that all trade, banking and financial MNCs were discouraged to invest in Kuwait by the current state of SEZ in the country, mainly because local (national) companies of have occupied the majority of the areas, including the designated areas for foreign MNCs. In addition, Kuwait free trade zone is less efficient compared with other GCC countries such as Jebel Ali Free Zone in Dubai and Special Logistic Zone in Bahrain. This findings is in line with studies which underline the positive effect of SEZ on attracting FDI (Rajasekaran, 2002, Aggarwal, 2006, Farole, 2011, Wang, 2012).

Based on these findings, supported by the literature the study finds support for the proposition but that taxation, macroeconomic and FDI incentives policies do not appear to be adversely affecting the FDI. Hence, the following proposition:

"Kuwait receives low inward FDI because many MNCs considering investment in Kuwait are dissuaded by government policy obstacles connected to FDI policies."

The acceptance of the above proposition was based on the above discussed answer to the research question of this stage. Hence, the low volume of inward FDI into in Kuwait is partly due problems with a number of FDI related policies, which makes Kuwait less attractive to MNCs in the Gulf region.

7.3.6 Research Question Three

"Are there institutional obstacles to obtaining approval for FDI in Kuwait and if there are, how do these related to key strategic objectives and the major characteristics of MNCs?"

This question pertained to investigate whether the high rejection rate of FDI license applications in Kuwait was due to an ineffective policy implementation or due to unidentified influences on the policy implementation process. This question was answered through an examination of FDI licensing process in Kuwait by using a revised and adjusted IAD framework (see chapter three) as the diagnostic instrument for FDI licensing process at KFIB. The analysis evaluated the IAD framework components, such as, 'external factors', 'outcomes' and 'evaluating outcomes', searching for potential linkage between them and the external variables. It was achieved by focusing on a particular class of outcomes, and subsequently, enabled the analysis to identify relevant patterns of interaction with external variables, as suggested by Polski and Ostrom (1999). Thus, the discussion of the IAD framework will consist of the discussion of IAD components 'external factors', 'outcomes', and 'evaluating outcomes'

- **<u>External factors (Attributes)</u>**

The findings about physical and material conditions (identified as resources that provides and produces goods and services) are attributed to the Kuwaiti FDI law 8/2001, which opens up FDI projects for MNCs to invest in. The findings show that even though the Kuwaiti government has opened part of the public sector for foreign investments in Kuwait, still all FDI license applications for these public sectors had been rejected. It was done so, despite the fact that all the formal procedures and requirement had been fulfilled by the applicants. This phenomenon indicates that such categorical rejection of FDI license applications may be because investments in the public sectors are fully dominated by the Kuwaiti government, and that the government wishes to keep its total monopoly for such investments—pointing towards protectionism.

The findings also indicate that privatising part of the public sectors could not be possible without efficient privatisation programmes. Hence, it appears that privatisation is not on the government's list of priorities. For instance, the privatisation law introduced to the parliament in 1995 is still being debatable in the parliament. One could speculate that sharp increase in oil prices during the last five years generating vast surpluses in the state coffers (from 8,402 Million US$ in 2004 to 118,335 Million US$ in 2012 (CBK, 2013), has made privatisation a less important and acute issue. Consequently, it has resulted in providing very few opportunities for foreign investors.

With regard to the community attributes, the findings show that culture factors, such as, religion, traditions and the community's value system. The prime example is that in Kuwait the ordinary citizens generally believe in the teachings of Quran, which calls for and promotes goodwill, and a strong community bond. Such teachings are manifested in practices in that it sets boundaries, and calls for every member of the community to protect other members from possible outside threats. In this context, it is argued that investment committee members would be socially obliged to protect other community members engaged in local business from foreign MNCs. The foreign MNCs are perceived as a threat that could potentially weaken the local companies. This results in resistance in the local community towards MNCs entering Kuwait. For example, although, the Kuwaiti government has opened up only a part of public sector for foreign investments, yet many community members described this as *"a robbery of the county's wealth"* (Al-Yaqout and Ghanem, 2010).

The findings also clearly demonstrate as to how community attributes can informally influence the enforcement mechanisms of the FDI licensing process. Such influences would take the form of the social capital, norms, and the fears of being accused of not protecting other community members. Therefore, this study argues that informal institutions are a powerful force, which through a set of rules complements the formal rules in increasing or reducing the costs of the enforcement of the FDI license application process. Hence, this finding further extends the study conducted by Raiser (2001), which theoretically investigates the role of informal institutions in economic transition by providing evidence of the informal institutions' role in influencing the economies of developing countries. Thereby, the formal institutions were found to play a negative role in the economic development of Kuwait by sabotaging the FDI licensing process.

In addition, the findings on rules-in-use raised a deep concern about their functionality. For instance, position rules raised a concern about possible conflict of interest among some members of the FCIC, as they hold senior posts in a local MNC in Kuwait, raising the question about their objectivity, when processing FDI applications. Similarly, about the boundary rules, which dictates that the appointment or the dismissal of FCIC members is set by the Council of Ministers of the Kuwaiti government as per the FDI law 8/2001? This implies that there is little to be said about the process of selecting a committee member, appointing a new member, or dismissing a committee member, creating a monopoly of power within FCIC.

In conclusion, the analysis of the action arena rules indicate that the implementation of FDI licensing process rules-in-use is being executed with no clear guidelines and is surrounded by ambiguity. This, consequently, results in an inadequate implementation of the rules-in-use. In turn, it affects the FDI licensing process policy outcome negatively, which further suggests the crucial role of informal institutions in the enforcement mechanism of the formal rules, including the former rules governing the assessment of the FDI licensing process in Kuwait.

The findings related to MNCs' strategies indicate that FDI as an entry mode is the least attractive option for MNCs (as discussed in section 6.6.5) compared to other options, such as, joint ventures, appointment of a local commercial or appointment of a commercial representative. This creates a basis for the argument that the commercial laws in Kuwait are discouraging MNCs from choosing FDI over other entry mode option, pointing to formal institutional obstacles (e.g., formal rules). Therefore, there is a need to reconsider the current Kuwaiti commercial law; whereby, making it more attractive for MNCs to enter the Kuwaiti through FDI. Hence, the findings further add to Meyer's (2001) study, which examines the role of institutions play in MNC’s entry mode choice by providing empirical examples from GCC and MENA regions regarding the effects of institutions on entry mode choice. The underdeveloped institutions can drive up the transaction costs of MNCs' choices of establishing FDI versus other options, such as, joint venture with a local partner or appointing a local commercial agent.

- **Outcomes**

There are three kinds of outcomes for FDI licensing application in Kuwait: 1) acceptance of the FDI application, 2) rejection of the FDI application, and 3) application withdrawal by the investor. Occasionally, outcomes may be clear and straightforward such as, in the case of accepting FDI application or sometimes when rejecting the FDI application with sensible and justified reasons. During the last 8 years, 24 FDI license applications had been submitted; whereby, 8 applications were rejected by FCIC and 4 were withdrawn by the investors. Therefore, based on the policy objectives, it could be argued that 50% of the outcomes are undesirable. The overall findings suggest that the current FDI licensing process needs to be reformed in order be more effective justifying the rejected FDI applications. It also needs to concentrate upon replying to the potential investors in shorter time in order to prevent application withdrawals by the applicants.

- **Evaluating outcomes**

The objective of evaluating the policy outcome is to analyse the gap between policy intentions and actual outcomes (Ostrom *et al.*, 1994). This study focused more on the undesirable outcomes of the FDI license process—the rejection of the FDI application by the investment committee at KFIB. The available data for the last eight years shows eight FDI applications were rejected by the investment committee. When examining these cases using the suggested evaluation criteria for economic efficiency, accountability, and conformity to general morality, the findings suggest that all of these projects had fulfilled the requirement to obtain FD license. The evaluation criteria are discussed below.

For the purpose of this particular study, the economic efficiency was defined as the economic benefits and gains, when a FDI project is approved. In other words, considering the following: if a FDI project is approved, what would be the economic efficiency of having this project compared to the lost opportunity, when rejecting it? The findings show that two projects with high economic efficiency had been rejected—the grounds for rejection being a recommendation made by the Ministry of electricity and water. A closer look at these projects reveals the projects were within the public services (electricity and water). The reasons behind this are grounded in protectionist agenda on part of the Kuwaiti government, which subsequently implies a contradictory governmental policy in relation to FDI.

The accountability refers to the extent to which the policy officials are held accountable to the general public's concerns about permitting foreign investors to use or own public facilities and natural resources. This is deeply rooted and linked to Kuwaiti culture and tradition as already discussed in the previous chapter. Likewise, conformity to general moral codes, as evaluation criteria, examined whether or not the policy makers had been promised or obtained high payoffs by the community members for acting as gatekeepers through using their powers in the informal institutions protecting the interests of other community members. Such payoffs do not necessary need to be of material in nature; especially, when considering that in a rich country like Kuwait, the need for material benefits does not play a vital role as generally people enjoy a high standard of material life. The type of benefits may be intangible, such as, social acknowledgement, respect and compliments given by other community members, or on the other side, it can be to avoid punishment in the form of feelings of guilt and shame when failing to conform to the rules, honouring their commitments to the local community. Hence, it is not surprising that all the projects with high level of accountability and conformity to general moral code have been rejected by the investment committee itself, even though none of these applications received negative feedback from the respective competent authorities (such as Ministry of electricity and water). This provides further evidence regarding the power that the informal institutions exert over the outcomes of the FDI license application. These findings are also explored in other studies indicating that informal institutions shape the performance of formal institutions in important and often unexpected ways (Stokes, 2003, Helmke and Levitsky, 2004). Therefore, the findings stress that ineffective formal rules (i.e., FDI law), when not enforced systematically, create different outcomes that are not logical or justifiable, when evaluating FDI applications.

Hence, the high rejection rate of FDI applications in Kuwait is, at least, due to the weak formal institutions and policy implementation. Subsequently, it opens the door for strong influence by the informal institutions that often have a protectionist agenda.

It is important to note that due to a lack of available studies on this issue, makes this part of the study a valuable contribution to the field of international business with regard to the role of decision-making by host country's institutions regarding FDI licence applications. Consequently, these findings suggest that informal institutions in Kuwait play a critical role in rejecting some of the FDI applications. Thus, based on these findings and reasoning, it is, then, logical to accept the following proposition:

"Kuwait receives low inward FDI because of institutional shortcomings affecting FDI entry approval."

The acceptance of the above proposition was based on answer to the research question of this stage discussed above. Hence, low volume of inward FDI into Kuwait is partially due institutional obstacles to obtaining approval for FDI in Kuwait, which had made Kuwait less attractive to MNCs in the Gulf region.

Table 51 - Summary of research questions findings

No.	Research Question	Key Findings
1	What are the key characteristics of Kuwait's FDI policy, institutional systems, and MNC location factors that influence FDI decisions?	The key characteristics of Kuwait's FDI policy seem to be geared towards facilitating FDI with policies, such as, taxation policy and full ownership rights for MNCs, where both formal and informal institutions play a role in this endeavour. However, since Kuwaiti culture is very traditional in its essence, it is heavily influencing the institutions, with the implication of the informal institutions having a disproportioned weight on the formal institutions. Hence, affecting the inflow of FDI within a protection framework.
2(a)	What is the knowledge level of MNCs in the Gulf region of Kuwait as investment location and how does this relate to nationality, Industry, and size of investments in the Gulf region?	All MNCs in the Gulf region are, in fact, familiar with Kuwait as a potential location for their FDI, but not aware of its investment opportunities, Kuwaiti FDI regulations, and other FDI related policies. Low level of awareness is strongly linked to the low performance of the KFIB in marketing and promoting investment opportunities in Kuwait.
2(b)	What are the major factors that MNCs find attractive/unattractive in Kuwait and how does this relate to nationality, industry, and size of investments in the Gulf region?	The motivation for the majority of MNCs' for investing in the Gulf region is market seeking, followed by efficiency seeking, and resources seeking. No evidence was found to support that MNCs refrain from FDI in Kuwait to avoid collusion with a competitor, or the presence of sister companies and subsidiaries.
2(c)	What are the Kuwaiti location factors that are attractive/unattractive for MNCs and how does this relate to nationality, industry, and size of investments in the Gulf region?	The geographical location of Kuwait is the key attractive location factor of Kuwait. However, market factors and social and cultural amenities were unattractive location factors. MNCs have mixed views regarding the attractiveness of location factors, such as, cost factors, country risk factors, and efficiency factors in Kuwait.
2(d)	What are the Kuwaiti institutional factors that are attractive/unattractive for MNCs and how does this relate to nationality, industry, and size of investments in the Gulf region?	The legal system and private property protection law in Kuwait were the main attractive institutional location factors of Kuwait. However, bureaucracy and corruption were generally regarded as unattractive institutional location factors by MNCs.
2(e)	What are the Kuwaiti FDI policies and that are attractive/unattractive for MNCs and how does this relate nationality, industry, and size of investments in the Gulf region?	Taxation policy, government incentives, financial, and monetary policies (such as, the exchange rate, cost of capital) in Kuwait were the most attractive FDI related policies in Kuwait. However, privatisation policy, Special Economic Zones (SEZ) policy, and trade liberalisation policy in Kuwait were generally unattractive FDI related policies in Kuwait.
3	Are there institutional obstacles to obtaining approval for FDI in Kuwait and if there are, how do these relate to key strategic objectives and the major characteristics of MNCs?	The high rejection rate of FDI applications in Kuwait is at least partly due to weak formal institutions and policy implementation, which opens the door for strong influence by the informal institutions that often have a protectionist agenda.

7.4 Research Question Four

"Can institutional changes to Kuwait's FDI policy and institutional systems be identified, which may improve FDI inflows to Kuwait?"

The following section will present the answer to the fourth research question in the form of recommendations for the Kuwaiti government with the view to improve Kuwait's ability in attracting inward FDI. This section also provides recommendations for the foreign investors (e.g., MNCs) regarding how to utilise their investments, and take advantage of the opportunities present in the form of available investment projects in Kuwait.

7.4.1 Recommendations for the Kuwaiti government

The following section, based on the analysis of the results and an extensive evaluation of the findings, aims to provide recommendation in order to overcome the existing obstacles in attracting FDI and strengthening Kuwait's position in the Gulf region.

A greater attention needs to be paid in attracting inward FDI in Kuwait by formulating a comprehensive strategic plan, which will result in facilitating FDI in Kuwait immediately. The proposed plan needs to be underpinned in clear premises and policies in order to increase foreign investor's confidence in the seriousness of the Kuwaiti government's intention and its commitment in encouraging inward FDI flow to Kuwait. Such strategic plan should encompass the following:

1. The analysis of the results indicated that MNCs in the Gulf region are having limited awareness about Kuwait investments opportunities and FDI regulations. Thus, the Kuwaiti government should reform KFIB with new investments promotion strategies. Since, the absence of an effective IPA not only increases the investor's transaction cost of gathering information, but may also constitute a reason to eliminate a location during the selection process (Harding and Javorcik, 2011). There are numerous reports and studies suggesting a number of strategies to make IPA more efficient. The examples of these strategies include: image building (Wells and Wint, 1990), investment generation (Young *et al.*, 1994), information distribution (Head *et al.*, 1999), and investment services (Morisset, 2003, Rajan, 2004). This is in addition to using the advisory services from agencies, such as, UNCTAD's investment policy reviews series. This

series has produced about 35 country studies available for host countries government to help to establish effective investment promotion agencies, and to identify specific policies and strategies for attracting and benefiting from FDI (UNCTAD, 2011). Other reports and studies such as the Foreign Investment Advisory Service (FIAS) “How to Promote FDI? The Regulatory and Institutional Environment for Attracting FDI " by Sun (2002) , "Investment Promotion Agency Performance Review" by Multilateral Investment Guarantee Agency (2006), and "FDI Policy Instruments: Advantages and Disadvantages" by (Bartels and de Crombrugghe, 2009) are available to assist in efforts to strengthen fair competition, and promote FDI. The Kuwaiti government therefore has access to a variety of existing reports and studies to help it to devise and implement more effective IPA. The Kuwaiti government should also perhaps consider reforming KFIB into an independent agency in order to market and promote investment opportunities in Kuwait. The reports of UNCTAD, the World Bank and other UN agencies as well as the work of academic researchers provides a good starting point to help Kuwait to develop more effective IPA.

2. There are number of shortcomings and limitations in the current FDI law 8/2001 in Kuwait, which were identified through the data collected from the interviews with senior managers at MNCs in the Gulf region. Subsequently, it calls for certain amendments to the current FDI law in order to make Kuwait more attractive to foreign investors. Example of such amendments are:

   a) Amendments to articles of the FDI law in relation to the opening of the petroleum and petrochemical sectors, as MNCs in the Gulf region consider the petroleum and petrochemical sectors to be an attractive sector in Kuwait for FDI. Thus, the Kuwaiti government should consider amending the article, which prohibits FDI in the upstream oil sector (e.g., exploration or production). Such amendment ought to allow foreign companies to invest in upstream oil sector, which would result in the foreign investor(s) to providing advanced technology for exploration and production while complying with the constitution in regards to the protection of natural resources (such as oil and gas). The Kuwaiti government might wish to consider the Saudi Arabian experience in permitting FDI in the petroleum and petrochemical sectors. The FDI Law in Saudi Arabia was reformed in

1982 to permits foreigners to invest oil sectors (Almahmood, 2011), which resulted in an increase of FDI inflows into this type of industry (UNCTAD, 2012).

b) Kuwait should consider removing the articles in the FDI law that imposes restrictions on MNCs investment activities. An example is the law prohibiting foreign banks from providing personal and retail-banking services. Another is restrictions on recruiting non-locals in foreign banking and financial investments. Various studies, such as, (Golub, 2003) Van Horen have highlighted that liberalisation of the banking sector, permitting foreign banks presence, can benefit domestic banks in the improvement of the corporate governance structure , availability of funds for capital, infusion of advanced technology and the introduction of new banking products. Furthermore, looking at the successful experience of Singapore in becoming a hub for banking and financial investment in the ASEAN region, it is clear that its success in this endeavour was mainly due to Singapore granting qualified foreign banks full licenses including retail banking (Bin, 2003). The Kuwaiti government should aim to become more aligned with other GCC countries, such as, UAE (Dubai) and Bahrain in liberalising the banking sector, duplicating their success. The proposed measures will result in Kuwait benefiting from foreign MNCs' experience and expertise in the banking and investment sector. Subsequently, it will also assist in the promotion of a reasonable competitive business environment between the local and foreign banks, which will lead to leverage for Kuwaiti banking sector globally.

c) Consider reducing the 6 months waiting period for the FDI licence application evaluation by FCIC through amending the article in the FDI law regarding the licence application evolution period to become similar to other GCC countries such as UAE (Dubai) and Bahrain. The current waiting period is very lengthy. The findings have confirmed that a number of foreign investors had withdrawn their FDI application license from KFIB, and chose another country in the region for their investments. Other studies (Emery *et al.*, 2000b, Morisset and Neso, 2002) confirm that excessive administrative barriers to FDI licence application affect the attractiveness of host county.

Thus, it is anticipated that Kuwaiti government’s consideration of the removal of excessive administrative restrictions for the FDI licence application would enable Kuwait to become more attractive to MNCs in the Gulf region and worldwide.

d) Consider amending the article related to the investment licenses process, as the current FDI licensing process is unclear, and curbs foreign investors’ initiatives to invest in Kuwait. Thus, Kuwaiti government needs to refer the experience of other countries, such as, UAE (Dubai) and Bahrain, in dealing with FDI license process efficiently. The amendments would provide clear procedures for obtaining FDI license in Kuwait, and remove the centralisation of FCIC and its oversight over KFIB. The respective measures may reduce the role of informal network in influencing FDI decision-making process.

3. There are number of challenges regarding the attractiveness of the location factors in Kuwait, as it has been highlighted by MNCs in the Gulf region. Hence, in order for Kuwait to become more attractive to foreign investors, the Kuwaiti government needs to investigate whether changes can be made to improve the attractiveness of these factors :

a) The Kuwaiti government should focus on assessing the current characteristics of the Kuwaiti market, as majority of MNCs in the Gulf region had considered the Kuwaiti market factors is very discouraging location factor. The traditional market related factors, such as, market size, market growth, level of competition, and purchasing power generally remains the most dynamic determinant for locating market-seeking MNCs. The studies on market has provided supporting evidence that market factors are significant in attracting FDI inflows (Wheeler and Mody, 1992, Luo, 2003, Tseng, 2005, Kok and Ersoy, 2009, Kang and Jiang, 2012). Therefore, the Kuwait government is strongly recommended to investigate what are specific Kuwait's market factors that are discouraging MNCs from investing in Kuwait, in order to overcome this discouragement and become more attractive for market seeking MNCs.

b) The Kuwaiti government should consider reducing the level of corruption in government agencies that deal with foreign MNCs in Kuwait. The evidence in this study, along with other empirical studies (Wei, 2000, Habib and Zurawicki, 2002, Ali *et al.*, 2010), point out that corruption in a host country is negatively related to FDI inflow. In this context, the literature suggest that when a host country's government fights and reduces corruption, it is likely to receive more FDI from countries that actively discourage corruption (Cuervo-Cazurra, 2006). Thus, the Kuwaiti government needs to reinforce the efforts in fighting corruption, by adopting the 'anti-corruption policy' on national level basis (Huther and Shah, 2000).

c) Likewise, the Kuwaiti government needs to examine the current level of government bureaucratic procedures. The unnecessary bureaucracy often results in isolating economic initiatives and developments, which can include FDI related activities in this case. Thus, the Kuwaiti government should target to reduce unnecessary bureaucratic procedures by consider assessing the current level of bureaucratic procedures, and then choose to adopt anti-bureaucracy policies suggested by the World Bank Group and IMF (Cunningham and Schneider, 2001).

4. The findings in this study point out to number of FDI polices (such as, SEZ and privatisation policies) that are discouraging MNCs in the Gulf region to invest in Kuwait. Hence, in order for Kuwait to become more attractive to MNCs in the Gulf region and worldwide, the Kuwaiti government should explore changes which would improve the attractiveness of these policies:

a) The Kuwait government needs to pay close attention to the current privatisation policy prohibiting the privatisation of public sector projects to foreign investors. Nearly all MNCs in the Gulf region consider this policy very discouraging. This recommendation is in lieu of evidence gathered in this study, which suggest that privatisation has a significant positive effect on FDI flows, and is in line with other studies (Holland and Pain, 1998, Kalotay and Hunya, 2000, Carstensen and Toubal, 2004, Marcin, 2008). The literature points out that privatisation experience in Central and Eastern European countries (CEECs) provides sufficient evidence that effective privatisation policy increases inward FDI (Rojec, 2005). Therefore, a policy implication is that efficient privatisation policy, which removes the resections on foreign investments in public sectors in developing countries, results in attracting the FDI flow (Boubakri *et al.*, 2009). Thus, the Kuwaiti government is strongly encouraged to investigate whether changes in the form of amending the current privatisation policy can be made to the current privatisation policy in order to make Kuwait more attractive to MNCs and their FDI.

b) Since, the level of Tariff barriers are highest in Kuwait in the Gulf region and pose a serious obstacle for FDI inflow, the Kuwaiti government should consider reforming the current trade policy. Evidence has shown that MENA countries (such as, Egypt, Morocco, Jordan), with an effective trade liberalisation policy, were better in attracting more inward FDI than other countries with regard to FDI flows ESCWA. Thus, as a critical policy measure, the liberalisation of trade has a significant and positive impact on FDI flows to MENA countries (Onyeiwu, 2003). Similarly, the GCC countries, such as, UAE (Dubai) and Bahrain were better in attracting more inward FDI than other countries with regard to FDI flows, due to the effective trade liberalisation policy (Hussein, 2009). Therefore, it is expected that the removal of trade protection and barriers can attract more inflow of FDI into Kuwait.

c) The Kuwaiti government should also reconsider the current Special Economic Zones (SEZ) policy, as the absence of an effective SEZ policy in the country was highlighted by many MNCs in the Gulf region to be yet another vital discouraging factor for their FDI. The evidences has shown a positive effect of SEZ on attracting foreign direct investment (Rajasekaran, 2002, Aggarwal, 2006, Farole, 2011, Wang, 2012). In case of China and India, both have been successful in attracting FDI, because of adopting effective special economic zones policies (Graham, 2004). Amendments to Kuwait's SEZ policy could be explored from other successful SEZ, such as, Jebel Ali Free Zone in Dubai and Special logistic zone in Bahrain (ESCWA, 2004).

5. The Kuwaiti government needs to close the gap between foreign investors and the local community. The findings from examining community attributes' influence over FDI policy licensing process (highlighted in the IAD framework discussion section) point out that local community is socially obliged to protect other community members' business interests. In that regard, the foreign MNCs are perceived as a threat that would potentially weaken the local companies, and the local community shows resistance to their entry into Kuwait. Although, some of the economic policies in Kuwait have been changed (such as, taxation policy), which are aimed at attracting inward FDI, the institutions that implement these policies still exists. Thus, the Kuwaiti government is urged to educate the local community in Kuwait, in an attempt to eliminating the perception that MNCs are a direct threat to local businesses. Therefore, the Kuwaiti government (perhaps through KFIB) should consider a special programme targeting the local businesses; whereby, educating them about the benefits gained, such as, technology transfer, new management skills (leading to increasing the local businesses productivity), and reducing their overhead costs among other benefits.

7.4.2 Recommendations for foreign investors (MNCs)

The following recommendations are formulated for the MNCs, as they are considered important actors in the FDI process:

1. The MNCs, who wish to consider investing in Kuwait, are encouraged to take initiative in keeping contact on a regular basis with KFIB; especially, if the investment promotion agency is performing weakly in marketing and promotion of various investment opportunities. Even though, it could be argued that such initiative taking would cause high transaction cost for the MNC, the trade-off for lack of keeping in touch with KFIB would most probably result in a lost opportunity. Furthermore, MNCs are encouraged to take advantage of the consultancy services provided by UNCTAD/World Bank group regarding information about the investment climate, and the availability of future potential investment opportunities in Kuwait.

2. The MNCs should attempt to understand Kuwait's institutional environment, and the way both formal and informal institutions interact with each other in the country (e.g., rules of the game) in order to avoid high transaction costs. It is suggested that MNC employ locals during their assessment process of evaluating the Kuwait as a potential host country for their FDI.

3. The MNCs should also organise workshops and training sessions for their expat staff in Kuwaiti culture and protocol. The findings from examining community attributes indicate that the senior managers at MNCs in the Gulf region may have cultural differences resulting in misunderstandings about the ways in which institutions (e.g., KFIB) function in Kuwait. This is particularly important for senior executives, who deal with KFIB and other institutions as well as different governmental bodies.

Table 52 below, provides a summary of key policies and recommendations for the Kuwaiti government based on the confidence level of the study results.

Table 52 - Summery of key policies and recommendations

Research question	Key Finding	Policy implications	Literature	Managerial recommendations
I - Based on results with high level of confidence				
2(a)	MNCs in the Gulf region is not aware of Kuwait investment opportunities and other FDI related policies	Policy makers in Kuwait should consider adopting effective policy to promote and market Kuwait	(Wells and Wint, 1990) (Morisset, 2003; Rajan, 2004). (Harding and Javorcik, 2011).	The Kuwaiti government should explore how to reform KFIB with new and clear investments promotion strategies to be as effective as other IPA in the GCC region.
2(b)	MNCs in the Gulf region is not motivation and less presence of resource seeking MNCs	Policy makers in Kuwait need to consider opening other sectors in Kuwait for FDI.	(Li et al. 2003, Nunnenkamp and Spatz, 2004, Dunning and Lundan, 2008, Tadros, 2011).	The Kuwaiti government should take steps toward amending the current FDI law (8/2001), which prohibits petroleum and petrochemical sectors in Kuwait for FDI.
2(c)	Market factors and social amenities is a key discouraging location factor	Policy makers in Kuwait is encouraged to pay close attention to some location factors that caused MNCs to not invest in Kuwait	(Blomstrom and Kokko, 2003; Tahir and Larimo, 2004; Kok and Ersoy, 2009; Kang and Jiang, 2012).	The Kuwaiti government might seek to study what are the specific Kuwait's market factors that are discouraging MNCs from investing in Kuwait.
2(d)	Bureaucracy is major discouraging location institutional factor	Policy makers in Kuwait should examine and assess the current level of government bureaucratic procedures	(Cunningham and Schneider, 2001, Tadros, 2011).	Kuwaiti government should consider exploring how to reduce unnecessary bureaucratic procedures by adopt anti-bureaucracy policies suggested by the World Bank Group and IMF
2(e)	Privatisation policy is major discouraging MNCs in the Gulf region to invest in Kuwait.	Policy makers in Kuwait need to investigate and examine the effectiveness of the current FDI related policies, which had discouraged MNCs in the Gulf region to invest in Kuwait	(Kalotay and Hunya, 2000; Carstensen and Toubal, 2004; Marcin, 2008). (Rojec, 2005). (Boubakri et al., 2009).	The Kuwaiti government is encouraged to re-assess the current privatisation policy in comparison to other GCC countries, in order to make Kuwait more attractive to MNCs and their FDI.

3	The findings point out that local community is socially obliged to protect other community members and foreign MNCs are perceived as a threat to the local companies, the local community shows resistance to their entry into Kuwait	Policy makers in Kuwait need to investigate and examine the possible weakness in the formal FDI law, and the Kuwaiti government needs to close the gap between foreign investors and the local community.	(Seyoum, 2012)	The Kuwaiti government should consider reducing the 6 months waiting period for the FDI licence application evaluation by FCIC. The Kuwaiti government is should consider programmes that targeting the local businesses to educating them about the benefits of FDI which leads to increasing the local businesses productivity.
II- Based on results with <u>less</u> level of confidence				
2(b)	Limited motivation for efficiency seeking MNCs to invest in Kuwait.	Policy makers in Kuwait need to consider opening other sectors in Kuwait for FDI.	(Emery et al., 2000b; Morisset and Neso, 2002)	The Kuwaiti government should consider removing articles in the FDI law that imposes restrictions on MNCs investment activities such as prohibiting foreign banks from providing personal and retail-banking
2 (c)	Cost factors, country risk factors and efficiency factors in Kuwait.	Policy makers in Kuwait need to explore what location factors had discouraged MNCs to invest in Kuwait	(Wheeler and Mody, 1992; Moosa, 2002; Janeba, 2002; Nunnenkamp and Spatz, 2004, Luo, 2009)	The Kuwait government should adopt an ongoing policy to examine and assess what location factors did or can discourage MNCs from investing in Kuwait and suggest possible solutions.
2 (d)	Corruption is a discouraging location institutional factor	Policy makers in Kuwait should look into location institutional factors had caused MNCs to not invest in Kuwait	(Huther and Shah, 2000). (Wei, 2000; Habib and Zurawicki, 2002; Ali et al., 2010) (Cuervo-Cazurra, 2006).	The Kuwaiti government should consider reinforce the efforts in fighting corruption, by adopting the 'anti-corruption policy' on national level basis.
2 (e)	Special Economic Zones (SEZ) policy and trade liberalisation policy is discouraging MNCs in the Gulf region to invest in Kuwait.	Policy makers in Kuwait is encouraged to examine the the current FDI related policies, which had discouraged MNCs to invest in Kuwait	(Rajasekaran, 2002; ESCWA, 2004; Graham, 2004, Aggarwal, 2006; Farole, 2011; Wang, 2012). (Onyeiwu, 2003)(Hussein, 2009).	The Kuwaiti government should explore amending Kuwait's SEZ policy to be successful policy such as, Jebel Ali in Dubai and the logistic zone in Bahrain. In addition, the Kuwaiti government might consider reforming the current trade policy, to be better in attracting more inward FDI similar to other GCC countries.

7.5 Contributions of the study

This study is amongst the first to be conducted in Kuwait, which examines the reasons behind a low FDI inflow into the country. It is also a platform for future investigation about how institutions influence governments' FDI policies. Hence, provides a number of contributions theoretically, empirically, and methodologically.

7.5.1 Theoretical Contributions

A number of gaps regarding theoretical knowledge have been identified during the course of the respective study. The gaps are related, in particular, to International Business and FDI in terms of the role of institutions in influencing FDI oriented policies by the Kuwaiti government. These gaps demonstrate much of what has been ignored in International Business, in the context of inward FDI.

1. Firstly, within the context of NIE and FDI, Grosse and Trevino (2005) used NIE to examine the relationship between FDI inflows and location factors in Central and Eastern Europe (CEE), by linking the NIE with organisational decision making to FDI. However, for the most part, the formal institutions have been analysed and evaluated *independently* of informal institutions. In other words, most studies in International Business regarding institutions have largely focused on formal institutions such as property rights, justice and judicial system, corruption and political rights and civil liberties (Grosse and Trevino, 2005, Bénassy-Quéré *et al.*, 2007, Pajunen, 2008, Ali *et al.*, 2010) without considering the role of informal institutions as potential determinants of economic activity. A study by Peng (2002) recognises the importance of informal institutions interaction with formal institutions, and their effects on organisations in the context of emerging markets. It is, thus, important to integrate informal institutions into existing FDI. As a result, these studies have not explored the interactions between formal and informal institutions in the context of FDI sufficiently, making the application of NIE in studying the informal institutions in the context of FDI limited. This study, however, focused more on the relationship between formal and informal institutions by investigating the influence of both informal and formal institutions on inward FDI. Hence, making it one of the first studies, which examines the influence of

both informal and formal institutions on inward FDI? Thereby, the study provides theoretical contributions in terms of improving our understanding of the relationship between formal and informal institutions in the context of FDI.

2. Secondly, even though the NIE has been used for policy analysis (see Kherallah and Kirsten, 2002; Shah, 2005); for example, Kherallah and Kirsten (2002) had used NIE application to agricultural policy in developing countries, and Shah (2005) had used NIE to examine India’s Water Policy); the NIE has not been used to examine the effectiveness of a host country's FDI policy. This study engages in exactly that, that is, it uses NIE to examine the effectiveness of a host country's FDI policy, and its implication of inward FDI flow. Hence, the research makes yet another theoretical contribution to the field.

3. Thirdly, the development of the conceptual framework, as a useful tool and guide for investigation of inward FDI flow into a host country, was a major theoretical contribution of this study. The conceptual framework, entailing a number of key theories in International Business, explains the motivation, process, and evaluation of FDI locational and institutional factors. The conceptual framework addressed the lack of sufficient and systematic investigation in incorporating institutional theory and transaction cost theory, when examining MNCs' location choices (Galan *et al.*, 2007, Pajunen, 2008). In addition, the conceptual framework provided a firm basis to investigate as to how institutions can influence inward FDI flow to a host country. It also offers a more holistic understanding of how host country institutional system function in attracting or discouraging FDI inflow.

4. Fourthly, the research on institutions and FDI inflows (Grosse and Trevino, 2005, Trevino *et al.*, 2008, Seyoum, 2012) have overlooked as to how host country institutions can shape FDI policy. This was mainly because of the inherent difficulty of analysing institutions Ostrom (2007, 2011). Hence, a significant contribution of this study to the International Business discipline is the use of Institutional Analysis and Development (IAD) framework, as an interdisciplinary tool for evaluating policies' effectiveness in the context of a host country's institutional system. This was done through and after adjusting the IAD formwork to fit the nature of International Business research, thereby

rendering the endeavour a unique and key theoretical contribution to the field. In addition, the successful application of the IAD framework to the Kuwaiti context implies that it would be valuable in future for it to be used for other countries in evaluating their FDI policies; albeit with adjustment for each case and setting.

5. Fifthly, the Institutional Analysis and Development (IAD) framework was used as a systematic approach, when diagnosing and analysing policy processes and outcomes in the context of institutions, in order to use effectively IAD framework in examining the policy processes and outcomes (e.g., the gap between policy intention and outcomes). However, there is a need to adjust the IAD framework exogenous variables to suite the nature of the investigation. For instance, additional exogenous variable, 'Physical Characteristics', was added to the original IAD framework for analysing the microbiological policy (Hess and Ostrom, 2006), and 'Political Economic ' for the analysis of forestry policy (Clement and Amezaga, 2009). Thus, this study added 'MNCs strategies' to the original IAD framework to suite the nature of the investigation. Hence, enriching the IAD framework by adding 'MNCs' Strategies' variable to effectively examining FDI policies is another theoretical contribution of this study.

7.5.2 Empirical Contributions

This study has also contributed regarding FDI in the context of institutions for developing countries; especially, MENA and GCC regions. This has been achieved by presenting a holistic study in the understanding of institutional system's role in encouraging or discouraging inward FDI flow. These empirical contributions include:

1. Providing empirical evidence for the important role of an effective IPA for host countries in the MEAN and GCC regions as indicated by previous studies (Wells and Wint, 1990, Morisset, 2003, Morisset and Andrews-Johnson, 2004). Further suggesting that countries, who suffer from low inward FDI, should examine their FDI promotion programs, and to consider establishing effective IPA to undertake marketing efforts in attracting FDI. Furthermore, this study is the first of its kind that examined the low performance of KFIB in Kuwait, as

highlighted by GIPB (2012) and UN-ESCWA (2010). Subsequently, it contributes towards providing an in-depth analysis of the causes of this low performance.

2. The study was among the first studies to investigate the motive of MNCs to undertake FDI in the Gulf region. It showed that the motivation for majority of MNCs' investing in the Gulf region are market seeking, followed by efficiency seeking MNCs, and a lesser degree of presence of resources seeking MNCs. Which is notable, as the Gulf region is a cluster of the world's largest oil and gas production and reserves. Furthermore, previous studies have only examined the motive for FDI based on individual country in Gulf region, such as, the case of Oman (Mellahi *et al.*, 2003). Hence, this study contributes further in terms of providing empirical evidence of the key motive of FDI for MNCs in the Gulf region.

3. This study is novel in that it provides empirical evidence of the Kuwaiti location factor assessments made by MNCs in the Gulf region. Subsequently, it lends support to other studies (Mudambi and Navarra, 2002, Rodrik *et al.*, 2004, Mudambi, 2007, Cheng, 2008, Mudambi, 2008, Meyer *et al.*, 2011), which emphasis on the importance of geographical location factors in attracting MNCs to a host country. The findings also show that the market factors in Kuwait are generally seen as unattractive by MNCs, deterring market-seeking MNCs from investing in Kuwait. Yet again, it provides an additional empirical evidence to previous studies (Blomstrom and Kokko, 2003, Tahir and Larimo, 2004, Kok and Ersoy, 2009, Kang and Jiang, 2012) that examine the role of market factors in attracting inward FDI.

4. This study provides empirical evidence for a number of institutional factors that influence FDI inflow to a host country. For example, the study shows that that the legal system is an attractive institutional factor, which contributes to the literature by examining the positive impact of the legal system on MNCs' selection process of a host counties (Perry, 2000, Globerman and Shapiro, 2003, Bevan *et al.*, 2004, Campos and Kinoshita, 2007, Pajunen, 2008). In addition, empirical evidence was obtained, which demonstrated that the private property protection law is an attractive institutional factor. The respective law, after all,

contributes to the literature confirming the positive relationship between property rights protection and increased FDI inflow (Knack and Keefer, 1995, Morisset and Neso, 2002, Li and Resnick, 2003, Pierpont and Krueger, 2007). Furthermore, this study provides evidence that bureaucracy is a discouraging institutional factor for FDI flow into a host country. Further contributing to the studies that consider bureaucracy a discouraging institutional factor (Tanzi and Davoodi, 2000, Stein and Daude, 2001, Bitzenis, 2006). Also, empirical evidence was generated confirming that corruption is a discouraging institutional location factor, which further added to the existing studies and literature which considers corruption as a discouraging institutional factor (Habib and Zurawicki, 2002, Grosse and Trevino, 2005, Woo and Heo, 2009).

5. This study also contributes to the body of knowledge by providing empirical evidence about a number of FDI policies that influence FDI inflow to a host country. For example, the study provides evidence that effective government investment incentives policy can have positive impact on inward FDI flow, urther adding to the existing empirical studies, which posit the positive affects of investment incentives in attracting inward FDI (Zhang, 2001, Blomstrom and Kokko, 2003, Cass, 2007, Buettner and Ruf, 2007, Lim, 2008, Yamin and Sinkovics, 2009, UNCTAD, 2011). Moreover, this study provides evidence that unsuccessful privatisation policy can deter FDI flow into a host country, thereby contributing to the empirical studies, which concludes that dysfunctional privatisation programs have negative impact on FDI inflow (Sinn *et al.*, 1997, Hartenek, 1995, Amerighi and De Feo, 2008). in addition, the study provides evidence that the absence of Special Economic Zones (SEZ) policy can have a negative impact on FDI flow into a host country. Thus, the study contributes to the empirical studies which underline the positive effect of Special Economic Zones in attracting FDI (Rajasekaran, 2002, Aggarwal, 2006, Farole, 2011, Wang, 2012).

6. Finally, research on institutions addresses the relationship between institutions and economic performance, with some recent studies focusing on the effect of institutions on the investment flows. For instance, Seyoum (2012) explores the role of informal institutions in investment flows, as well as the relationship between formal and informal institutions in the context of FDI flows. Seyoum

(2012) concludes that there is a positive relationship between both informal and formal institutions and inward FDI flows. However, Seyoum (2012) fails to explain how this relationship influence inward FDI flow into a host country, may be because the intervention were based on disaggregated data from selective countries. By examining both formal and informal institutions in host countries influence on inward FDI flows, this study contributes to the general body of knowledge by providing empirical evidence that low performance of some countries in inward FDI flows is mainly attributed to the scope of institutions intervention in the economy and FDI policy.

7.5.3 Methodological Contribution

This study contributes to the field of International Business. For example:

1. Previously, International Business studies have been dominated by a single method approach, mostly quantitative, with limited qualitative approach; whereby, only a few studies have used a mixed method (Hurmerinta and Nummela, 2012). In this study however, the use of the qualitative mixed methods (Johnson *et al.*, 2007) proved to be not only effective, but also quite novel. It was successfully demonstrated that the objective and subjective methods used are effective for answering the formulated research questions, which involved the complex phenomenon of a host country's institutions influence on FDI policy performance.

2. The study made yet another methodological contribution in its use of qualitative mix approach, and deductive method in the investigation of the role of a host country's institutions and FDI policy. Whereas, the previous studies have used the qualitative method combined with deductive approach, or qualitative data combined with inductive approach (Piekkari and Welch, 2006).

3. The survey and interviews are used simultaneously in almost all mixed method approach. Only few studies have taken a different direction by first using a survey to examine the target population, and follow that by interviews to gain an in-depth data about the subject of the research (Birkinshaw, 2004). Thus, this

study is one of the first studies to have adopted the respective methodological approach in examining the effectiveness of FDI policy of a host country.

7.6 Limitations of the study

Although, the aforementioned discussion and conclusions provide a rich insight into FDI and institutions, they should be evaluated against the following limitations. In addition to the limitations presented above in Chapter Four (i.e., Section 4.10, Methodological Limitations), several other limitations exist:

1. First, the lack of the secondary data and previous studies in regards to FDI in GCC countries and poor FDI national databases was the main limitation of this study. This limitation made it extremely difficult to gain access to adequate set of panel data about FDI in the Gulf region. Therefore, it was unusually difficult to refer to other studies regarding FDI in Kuwait, and in the GCC, in general. In addition, all the present studies (Mina, 2007, Faras and Ghali, 2009) about FDI in Kuwait and Gulf region are based on secondary data obtained from UNCTAD/ World Bank database centres.

2. Another limitation is the limited number of interviewees in comparison to the number of participants in the survey. This was mainly because many MNCs in Kuwait and Gulf region (as well as government officials) hesitated to participate in this study, due to the sensitive nature of the study.

3. Third, the generalisability and transferability of this study may prove to be yet another challenge; hence, another limitation, as this is the first study of its kind in the context of Kuwait. Findings and analytical generalisations drawn from case studies no matter how carefully sampled and researched clearly deserve healthy caution. It is arguable that institutional system in Kuwait is similar to that of Dubai or Saudi Arabia; hence, the solutions and recommendations presented in study may not be applicable to other two countries. The challenge of generalisability and transferability is also valid in the method of enquiry used in this study. It may be so that a different method and research design is suitable for their research settings, which may be dictated by a modified conceptual framework.

7.7 Recommendations for future research

This study suggests a number of directions for future research. The first direction would be a study related to the influence of some locational factors for MNCs' decision, when choosing a host country. More specifically, further investigation is needed in order to identify which particular market factor is discouraging MNCs in the Gulf region from investing in Kuwait. Additionally, future research should explore the influence of radical social and cultural behaviour such as religion in developing countries in terms of attracting or discouraging flow of inward FDI. The second direction of future research should aim to address the role of the bureaucracy in developing countries that aim to attract FDI, and how much of an obstacle poor bureaucracy is in a world of advanced and efficient communication technology. Likewise, further studies should be conducted about the influence of corruption in attracting or discouraging inward FDI for the GCC region. One might also wish to investigate whether the recent 'Arab Spring' political movement in the MENA region has reduced the level of corruption related to the economic development and international trade.

Finally, future research should focus on exercising the use of IAD framework in countries experiencing low inward FDI flow, particularly those countries from developing and least developed regions. Furthermore, it is recommended that other studies test the generalising of the IAD framework application to other locations that suffer from low inward FDI flow. In addition, further attempt needs to be made to develop the revised IAD framework by using the mathematical modelling techniques to assess FDI license applications process of a host country.

7.8 Summary

The findings regarding the impact of institutions and government policy in attracting inward FDI into Kuwait have been discussed above. Furthermore, major factors influencing FDI were also discussed. The Chapter provided a number of recommendations for policy makers and MNCs along with presenting the study's contributions, that is, theoretical, methodological, and practical. Finally, it critically discussed the limitations of the study, and suggested various directions to further research in the future.

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Appendix

Appendix A

Appendix A - Sample Access Letter to Chambers of Commerce and Industry

BRADFORD UNIVERSITY School of Management

EFMD EQUIS ACCREDITED

Accredited by Association of MBAs

Mr. Ebrahim Ahmed Al Lengawi
Chief Executive Officer
Bahrain Chamber of Commerce & Industry
Kingdom of Bahrain

Professor Arthur Francis
BSc(Eng) ACGI CCMI FBAM
Dean

11th May 2010

Dear Mr. Al Lengawi

Please note that Mr. Salah Alawadhi is presently researching for his Doctor of Philosophy (PhD) Degree at Bradford University School of Management, UK. As an essential part of his research Mr Alawadhi is gathering information from Multinational Corporations in the GCC Arab States. This research will enable him to provide an evaluation of the effectiveness of the inward Foreign Direct Investment (FDI) policy of Kuwait and GCC States. The results of the research will help to increase the understanding of how best to develop policies and systems which are ideally suited to the requirements of investing companies.

The research is governed by the ethical policies of the University of Bradford which guarantees the complete confidentiality with regard to any information you provide. Such information will not be conveyed to any commercial or consultancy organizations or any other third parties.

As a token of appreciation for your kind assistance of Mr. Alawadhi you will receive a summary of the findings of his research. You may find the research findings interesting and beneficial for future economic developments in the Gulf Cooperation Council (GCC).

If you have any queries about this research, please contact me at any time Telephone on +44 01274 234389 or fax +4401274 235680 or e-mail F.McDonald@bradford.ac.uk

Best wishes,

Frank McDonald

Frank McDonald

Professor of International Business
& Associate Dean, Research

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Appendix B

Appendix B - Actual research survey which was sent to MNCs in the Gulf region

BOS Home | About BOS | Contact Us

Bradford Centre for International Business Research, Bradford University School of Management

UNIVERSITY OF BRADFORD
MAKING KNOWLEDGE WORK

Welcome

Dear Sir / Madam,

I am a PhD student in Bradford University School of Management, in the United Kingdom. I am presently researching for a Doctor of Philosophy Degree and as an essential part of my research I am presently collecting information about the decisions of companies to invest in Kuwait.

This research is to provide an evaluation of the effectiveness of the inward Foreign Direct Investment (FDI) policy of Kuwait. The objective of the research is to identify the major obstacles to investment in Kuwait that arise from Kuwait's FDI policy. The results of the research will help to increase our understanding on how best to develop policies and systems that are better fitted to the requirements of investing companies.

The research is governed by the ethical policies of the University of Bradford which guarantees the confidentiality of all respondents. These policies require that the identity of companies and people that complete the questionnaire will not be revealed to any third party. Furthermore, the information in completed questionnaires will not be conveyed to any commercial or consultancy organizations nor will any information about your company's decisions and attitudes be passed to any third parties. If you complete the questionnaire you will receive a free summary of the findings. You may find the research findings interesting and beneficial to future corporate developments in the Gulf Cooperation Council (GCC).

If you have any queries about this questionnaire or the research, please contact me at any time or contact my supervisor Frank McDonald, Professor of International Business at Bradford University School of Management. Telephone on +44 01274 234389 or fax +4401274 235680 or e-mail F.McDonald@bradford.ac.uk.

I would like to thank you for contributing your time and effort to answer this survey.

Yours faithfully,

Salah Alawadhi
Doctoral Researcher
Bradford Centre for International Business
University of Bradford
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Data Protection statement

All data collected in this survey will be held anonymously and securely. No personal data is asked for or retained.

The research is governed by the ethical policies of the University of Bradford which guarantees the confidentiality of all respondents. These policies require that the identity of companies and people that complete the questionnaire will not be revealed to any third party.

Cookies, personal data stored by your Web browser, are not used in this survey.

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survey question

1. In order to classify your company in terms of industry, please specify which industry or industries your company operates in ?

2. For better understanding of the decision making process within your company can you please indicated where the survey is been answered by:

- (•) Corporate Headquarter
- ( ) Regional head office
- ( ) Other *(please specify)*:

a. If your company is not the corporate headquaters please specify in which country your headquarters is located ?

b. In which Gulf country is your company based ?

3. Can you please indicate if your company is:

- (•) A wholly owned subsidiary
- ( ) A joint venture
- ( ) Other *(please specify)*:

If your company is a joint venture please specify the nationalities of the partners and the approximate share of ownership of the partners.

4. Does your company participate in regional or corporate headquaters investment decisions in the Gulf region?

- (•) Yes
- ( ) No

if your answer is YES, can you please briefly indicate the role of your company in making decisions about investing in the Gulf region? *(select all that apply)*

- [x] Your company takes the final decision on such investments.
- [x] Your company advises corporate or regional headquarters on investment decisions in the Gulf region.
- [x] Your company makes the decisions subject to the approval of corporate headquarters.
- [x] Other *(please specify)*:

5. What are the major reason(s) for your company's investment activities in the Gulf region?

(select all that apply)

☑ Market characteristics (for example: Market size, Market growth, consumer purchasing power).

☑ Availability of natural resource in the region (such as: Oil, Gas, minerals).
☑ Availability of cost reducing factors (for example: low costs for labour, production, transportation, low taxes and duties).
☑ Availability of strategic assets in the region (such as: financial and capital assets, access to specialist capital and labour assets).
☑ Other *(please specify)*:

6. What is the approximate value of foreign investments of your company in the Gulf region?

10,000,000 US$ or less
10,000,000 to 50,000,000 US$
More than 50,000,000 US$
Other *(please specify)*:

7. Is your parent company a multinational corporation in :

*Please use the following web like for an updated ranking of multinational corporations world wide http://money.cnn.com/magazines/fortune/global500/2010/performers/companies/fastgrowrevs/

◉ The world top 50 multinational corporations
○ The world top 100 multinational corporations
○ Neither of these categories

8. During the process of searching for a location in the Gulf region, was your company familiar with Kuwait as potential investment location ?

◉ Yes ○ No

9. If your company has NOT consider investing in Kuwait, can you please indicate which of the following reasons best describes why ?

(select all that apply)

☑ Your company has little knowledge or awareness of Kuwaiti government policies including investment opportunities, FDI regulations and policies, government investmentincentives.
☑ To avoid confrontation with competitors or strategic alliances that already exists in Kuwait.

☑ Kuwait is not suitable for your company's market development strategies (for example: problems connected to market size, market growth, market structure, and consumer purchasing power).

☑ Kuwait is not suitable for your company's cost efficient strategies (for example, poor availability of labour, tax and duties, production costs, and transportation and distribution costs).

☑ Kuwait is not suitable for your company's strategies for developing natural resources (for example, oil, gas, minerals).

☑ Kuwait is not suitable for your company's strategies of seeking assets (for example, financial and capital assets, access to specialist knowledge and skilled labour assets).

☑ The level of economic risk in Kuwait is too high.

☑ The level of political risk in Kuwait is too high.

☑ The physical infrastructure (transport and logistics facilities, energy, water, IT facilities and telecommunications & multimedia systems) are not appropriate for your company's operations.

☑ Other *(please specify)*:

10. In the previous question, IF any of the following condition such as: physical infrastructure, or strategic assets, or natural resources, or market conditions was a problem for your company to avoid investing in Kuwait. Can you please specify what specific condition(s) is/are the problem?

(for example : if it was market condition, would it be : problems connected to market size, or problems connected market growth, or problems connected market structure, or problems connected consumer purchasing power, or any others problems that is not listed (then please specify).
(Optional)

11. Has your company ever received information(Such as investment opportunities, FDI related rules and regulations) about Kuwait as a location for foreign investments at any trade fairs, investment forums, business conferences, or other sources?

◉ Yes ○ No

12. Has your company ever contacted or been contacted (during business conference or investment forum, or through post, email, phone call, office visit) by the Kuwait Foreign Investment Bureau regarding investment opportunities or FDI related rules and regulations in Kuwait?

◉ Yes ○ No

13. If your company would consider (or has considered) Kuwait as an investment location, which of the following location factors, attracts (or had attracted), your company to invest in Kuwait ?

(select all that apply)

☑ Kuwaiti market characteristics (for example, market size, market growth, consumer purchasing power).

☑ Level of risk (Country risk, Sovereign risk, Political risk) in Kuwait.

☑ Geographical location of Kuwait.

☑ Availability of cost reduction factors in Kuwait (for example, cost of labour and wages, transportation and logistics cost, production cost, business operations cost, cost of raw materials, energy and water and costs of land

☑ Availability of sufficient technological and physical infrastructure (for example, transport and logistics facilities, energy, water, IT facilities and telecommunications & multimedia communication systems).

☑ Accessibility to regional markets and/or global markets (for example, GCC markets, middle-east markets).

☑ Availability of natural resources in Kuwait (for example, oil, gas, minerals).

☑ Kuwaiti foreign investment law and regulations.

☑ Investment incentives for foreign companies in Kuwait.

☑ Social amenities (for example, quality of life, availability of bilingual school, life style . . . . etc)

☑ Other *(please specify)*:

14. In the previous question, IF any of the following location factors such as: market characteristics, natural resources, cost reduction factors, sufficient physical infrastructure would attracts (or had attracted), your company from investing in Kuwait. Can you please specify what that specific factor(s) is ?

(for example : if it was cost reduction factors that discourage your company, would it be cost of labour and wages, or transportation cost, production cost, any others cost that is not listed (in this case please specify). *(Optional)*

15. Which of the following location factors, would discourage (or had discouraged), your company from investing in Kuwait ?

(select all that apply)

☑ Kuwaiti market characteristics (for example, market size, market growth, consumer purchasing power).

☑ Level of risk (Country risk, Sovereign risk, Political risk) in Kuwait.

☑ Geographical location of Kuwait.

☑ Availability of cost reduction factors in Kuwait (for example, cost of labour and wages, transportation and logistics cost, production cost, business operations cost, cost of raw materials, energy and water and costs of land

☑ Availability of sufficient technological and physical infrastructure (for example, transport and logistics facilities, energy, water, IT facilities and telecommunications & multimedia communication systems).

☑ Accessibility to regional markets and/or global markets (for example, GCC markets, middle-east markets).

☑ Availability of natural resources in Kuwait (for example, oil, gas, minerals).

☑ Kuwaiti foreign investment law and regulations.

☑ Investment incentives for foreign companies in Kuwait.

☑ Social amenities (for example, quality of life, availability of bilingual school, life style . . . . etc)

☑ Other *(please specify)*:

16. In the previous question, IF any of the following location factors such as: market characteristics, natural resources, cost reduction factors, sufficient physical infrastructure would discourage (or have discouraged) your company from investing in Kuwait. Can you please specify what that specific factor(s) is ?

(for example : if it was cost reduction factors that discourage your company, would it be cost of labour and wages, or transportation cost, production cost, any others cost that is not listed (in this case please specify).
(Optional)

17. If your company would consider (or has considered) Kuwait as an investment location, which of the following institutional factors, attracts (or had attracted), your company to invest in Kuwait ?
(select all that apply)

- ☑ Legal System (reliability and Judicial independence).
- ☑ Private Property Protection (private property protection and laws against expropriation).
- ☑ Intellectual Property Protection (Intellectual property protection laws and regulation).
- ☑ Corruption (level of corruption, bribery, money laundry).
- ☑ Bureaucracy (government procedures).
- ☑ Labour regulations (government labour laws, labour rights, unions).
- ☑ Other *(please specify)*:

18. In the previous question, IF any of the following institutional factors such as: Legal System, Intellectual Property Protection or Bureaucracy would attracts (or had attracted), your company from investing in Kuwait. Can you please specify what that specific factor(s) is ? *(Optional)*

19. which of the following institutional factors, would discourage (or has discouraged) , your company to invest in Kuwait ?
(select all that apply)

- ☑ Legal System (reliability and Judicial independence).
- ☑ Private Property Protection (private property protection and laws against expropriation).
- ☑ Intellectual Property Protection (Intellectual property protection laws and regulation).
- ☑ Corruption (level of corruption, bribery, money laundry).
- ☑ Bureaucracy (government procedures).
- ☑ Labour regulations (government labour laws, labour rights, unions).
- ☑

Other *(please specify)*:

20. In the previous question, IF any of the following institutional factors such as: Legal System, Intellectual Property Protection or Bureaucracy would discourage (or have discouraged) your company from investing in Kuwait. Can you please specify what that specific factor(s) is ? *(Optional)*

21. If your company would consider (or has considered) Kuwait as an investment location, please select the following FDI related policies that would attract (or have attracted) your company to consider investing in Kuwait ?
(select all that apply)

- ☑ Kuwait taxation policy.
- ☑ Kuwait's financial & monetary policies (for example: exchange rate policy, cost of capital and capital structure).
- ☑ Kuwait FDI law, regulation and policy.
- ☑ Kuwaiti government privatization policy.
- ☑ Kuwait's Specialised zone's (such as free trade zone) policy.
- ☑ Kuwait trade liberalisation and tariff policy (for example: trade liberalization policy, Kuwaiti custom, and GCC tariff policy)
- ☑ Kuwaiti government investment incentives policy.
- ☑ Licensing policy for foreign investors in Kuwait.
- ☑ Other *(please specify)*:

22. In the previous question, IF any of the following FDI related policies such as: Kuwait's financial & monetary policies or Kuwait FDI law, regulation and policy would attracts (or had attracted), your company from investing in Kuwait. Can you please specify what that specific factor(s) is ? *(Optional)*

23. Which of the following investments related policies, would discourage (or has discouraged) your company from investing in Kuwait ?
(select all that apply)

- ☑ Kuwait taxation policy.
- ☑ Kuwait's financial & monetary policies (for example: exchange rate policy, cost of capital and capital structure).
- ☑ Kuwait FDI law, regulation and policy.
- ☑ Kuwaiti government privatization policy.
- ☑ Kuwait's Specialised zone's (such as free trade zone) policy.

☑ Kuwait trade liberalisation and tariff policy (for example: trade liberalization policy, Kuwaiti custom, and GCC tariff policy)
☑ Kuwaiti government investment incentives policy.
☑ Licensing policy for foreign investors in Kuwait.
☑ Other *(please specify)*:

24. In the previous question, IF any of the following FDI related policies such as: Kuwait's financial & monetary policies or Kuwait FDI law, regulation and policy discourage (or has discouraged), your company from investing in Kuwait. Can you please specify what that specific factor(s) is ? *(Optional)*

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Thank you for your time

Thank you for your time, would you please fill the following demographic data

25. How many years has your company operated in the Gulf region ? *(Optional)*

Less than 4 years
From 4 to 8 years
More than 8 years
Other *(please specify)*:

26. Approximately how many employees work for your company in the Gulf region? *(Optional)*

27. What is your current position / job in the company? *(Optional)*

28. Postal and Email address (to receive a free copy of the summary of the research results) *(Optional)*

29. Would you like to participate in future discussion about this research ? *(Optional)*

- (•) Yes
- ( ) No

IF yes, Can you please provide your name and contact details to contact you ? *(Optional)*

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Final Page

I would like to thank you for contributing your time and effort to answer this survey.

Thank you for completing this survey.

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Appendix C

Appendix (C) - Sample Interview Protocols (English)

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INTERVIEW PROTOCOL

Interview language: **English**
Location: **GCC (Saudi Arabia/Bahrain/UAE)**
Participants**:** **MNC's in the Gulf Region**

Introduction & overview:

- Introduction about the research topic, objectives, and why interviewing (warm-up question for 5 min chat to break the ice).
- Inform consent (participant MUST read it).
- Permission for audio record the interview.

Approximate Question

Overview and knowing the company:

- Can you please tell me about your company's business / industry / investment activities in the Gulf region?
  - Why chosen the gulf region?
- Can you please tell me about your company's main-office location and the official nationality of your company (if different from the main-office location), is it same to your office in the gulf region?
- What is the approximate current size of investments in the Gulf region? (in US $)
- Can you share with me how this office (branch) participates in the decision making process, when choosing a new location in the region?
  - Are there any other offices involved?
  - Who make the final decision?

Host country Familiarity and awareness:

- What does your company know about Kuwait? and
  - *What about Kuwait as possible future FDI destination?*

- Can you share with me what information does your company have about Kuwait?

- How did your company usually gather information about investment location?

- Have your company been contacted by any agency in Kuwait regarding the investment opportunities in Kuwait? Or updates on FDI law in Kuwait?
  - *What are these agencies?*
- Have your company been contacted by KFIB?
  - *When was it and what been provided to you?*
  - *How would you rate the service provided to you by KFIB?*

Restrictions of investing in Kuwait:

- What factors determine your company's investment in the Gulf region?
  - *What attracts your company to the Gulf region?*
  - *Would that be linked to your company investment activities and how? Can you please explain?*

- What are the major reason(s) for your company's investment activities in the Gulf region?

Assessment of Kuwait location factors:

- Which location factors attract (or had attracted), your company to invest in Kuwait? <u>(if needed explain the location factors with examples</u>)
  - *Why these location factors? Can you please explain?*
  - *Ask for examples if possible.*

- Which location factors discourage (or had discouraged), your company from investing in Kuwait?
  - *Why these location factors? Can you please explain?*
  - *Ask for examples if possible*

- Which institutional location factors attract (or had attracted), your company from investing in Kuwait? <u>(if needed explain the institutional location factors with examples)</u>
  - *Why these location factors? Can you please explain?*

- *Ask for examples if possible*

- Which institutional location factors discourage (or had discouraged), your company to invest in Kuwait?
  - *Why these location factors? Can you please explain?*
  - *Ask for examples if possible*

Assessment of Kuwait FDI related policies:

- Which FDI related policy attracts (or had attracted), your company to invest in Kuwait? <u>(if needed explain the FDI related policies with examples)</u>
  - *Why these location factors? Can you please explain?*
  - *Ask for examples if possible*

- Which FDI related policy discourage (or had discourage) your company from investing in Kuwait?
  - *Why these location factors? Can you please explain?*
  - *Ask for examples if possible*

- What policies you think the Kuwaiti government needs to take into considerations to attract more investments from the same industry?
  - *Why these policies?*
  - *Ask for examples about attractive polices in the Gulf region if possible*

Evaluation of FDI license process: <u>(ONLY IF APPLICABLE)</u>

- Can you share your company experience with me in applying for FDI license in Kuwait?

- What procedures / requirements were the most problematic, complicated or unclear for your company?
  - *Why? Can you please explain?*
  - *Did you ask for help from KFIB? Were they helpful?*

- Has your company obtained a professional assistance (such as legal, administrative, technical advice) in Kuwait concerning the FDI license application?
  - *How? Can you please explain?*
  - *Did any of these assistances offer or explore with your "other-arrangement" for your company transaction of FDI license?*

- At what point during the process, has your company felt that investing in Kuwait might not be a right decision? OR had your company considered withdrawing the FDI license application?
    - *Why? And can you please explain this to me?*

- Overall, how you would weigh up your company for FDI license in Kuwait?
    - *Did you ask for help from KFIB? Was it helpful?*
    - *How you compare to other Gulf region countries?*

Closing the interview

- Would you like to add/share any other information or any comments related to the subject discussed in this interview?

- Re-assure the confidentiality and the anonymity of the interview content.

- **Do not forget** to take contact details (must include an email- address) and ask permission to send the interview transcript for verification (add or delete parts is allowed)

- **Do not forget** to ask for recommendation/suggestion of another company who were interested in investing in Kuwait to conduct this interview with, and ensure to provide contact details (name, mobile, e-mail address) to contact the potential participant for interview.

- " **Thank you very much for your precious time**"

Attachments:

1. **Prof. Frank access letter** (participant can take a copy if demanded).

2. **Inform consent** (participant must be supplies with a copy).

INFORMED CONSENT FORM

Thank you for agreeing to participate in this study,

This form details the purpose of this study, a description of the involvement required and your rights as a participant.

Information and Purpose:

The objective of the research is to identify the major obstacles to investment in Kuwait that arise from Kuwait's FDI related policy. The results of the research will help to increase our understanding on how best to develop policies and systems that are better fitted to the requirements of investing companies.

You are encouraged to ask questions or raise concerns at any time about the nature of the study or the methods I am using. Please do not hesitate to contact me at anytime at the e-mail address or telephone number that provided to you

Your Participation:

Your participation in this study will consist of an interview lasting approximately less than one hour. You will be asked a series of questions related to the research topic. You are not required to answer the questions. You may pass on any question that makes you feel uncomfortable. At any time you may notify the researcher that you would like to stop the interview and your participation in the study.

Confidentiality:

The interview will be tape recorded; however, your name will not be recorded on the tape. Your name and identifying information will not be associated with any part of the written report of the research. All of your information and interview responses will be kept confidential. The researcher will not share your individual responses with anyone other than the research supervisors.

The researcher and the research supervisors will be the only people who will have access to the interview data (i.e. transcripts) participant is been asked their permission for this form.

Anonymity:

Our discussion will be audio taped to help me accurately capture your insights in your own words. The tapes will only be heard by me for the purpose of this study. If you feel uncomfortable with the recorder, you may ask that it be turned off at any time. For your information, audio tape of the interview will be destroyed once the information has been fully transcribed and anonymised.

Information gathered by you and other participants will be used in writing a qualitative research report. However, direct quotes from you may be used in the paper, your name and other identifying information will be kept anonymous.

Participant rights:

You also have the right to withdraw from the study at anytime. In the event you choose to withdraw from the study all information you provide (including tapes) will be destroyed and omitted from the final paper. There is no penalty for discontinuing participation.

You are free to withdraw from the study at any time.

Once again, thank you for agreeing to participate in this study.

If you have any queries about this research, please contact me at any time or contact the research supervisors:

Prof. Frank McDonald, Professor of International Business at Bradford University School of Management. Telephone on +44 01274 234389 or fax +4401274 235680, e-mail F.McDonald@bradford.ac.uk

Dr. Martin Owens, Lecturer in International Business at Bradford University School of Management Tel: +44 01274 235674 fax +4401274 235680, e-mail M.D.Owens@bradford.ac.uk

Sample of Prof. Frank Access Letter to MNCs in the Gulf region

BRADFORD
UNIVERSITY
School of Management

EFMD EQUIS ACCREDITED
Accredited by Association of MBAs

Professor Arthur Francis
BSc(Eng) ACGI CCMI FBAM
Dean

5 December 2010

To whom it may concern

Dear Sir / Madam,

Kindly note that Mr. Salah Alawadhi is presently researching for his Doctor of Philosophy (PhD) Degree at Bradford University School of Management, UK, and as an essential part of his research Mr Alawadhi is gathering information on Multinational Corporations in the GCC Arab States. This research will enable him to provide an evaluation of the effectiveness of the inward Foreign Direct Investment (FDI) policy of Kuwait and GCC States.

The research is governed by the ethical policies of the University of Bradford which guarantees the confidentiality, the information you provide will not be conveyed to any commercial or consultancy organizations, nor will any information be passed to any third parties.

If you have any queries about this research, please contact me at any time Telephone on +44 01274 234389 or fax +4401274 235680 or e-mail F.McDonald@bradford.ac.uk

Yours faithfully

Frank McDonald

Frank McDonald
Professor of International Business

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Appendix D

Appendix (D) - Sample Interview Protocols (Arabic)

Interview Protocol

Interview language: Arabic
Location: Kuwait
Participants: Consultant

- مقدمة عن موضوع البحث وأهدافه، والسبب في إجراء المقابلات (دردشة لمدة 5 دقائق)
- إبلاغ موافقة (يجب قراءتها من قبل المشارك).
- إذن لتسجيل المقابلة بالمسجلة الصوتية الرقمية .

المقدمة و البداية

- هل تحتاج الكويت اليوم العمل على استقطاب الاستثمارات الاجنبية ؟ و لماذا برايك ؟

المحور الاول : المعرفة و الترويج الاستثماري

- ما هو رايك بالجهود الحكومية بتسوق الكويت كدوله جاذبه للاستثمار الخارجي ؟
- كيف تقيم دور مكتب استثمار راس المال الاجنبي بالكويت كتسويق الكويت و مساعدة المستثمر الاجنبي و التعامل مع الرخص التجاريه ؟

المحور الثاني: عوامل متعلقة بالخواص الأستراتيجية و المؤسسية

- من وجهة نظرك ، ما هي العوامل الاستراتيجية بالكويت التي يمكن ان تساعد على جذب رأس المال الاجنبي ؟
- من وجهة نظرك ، ما هي العوامل الاستراتيجية بالكويت التي يمكن تنفر رأس المال الاجنبي ؟
- من وجهة نظرك ، ما هي أيجابات العمل المؤسسي بالكويت التي يمكن ان تؤدي الي جذب رأس المال الاجنبي اي ما هي معوقات جذب رأس المال الاجنبي للكويت ؟
- من وجهة نظرك ، ما هي سلبيات العمل المؤسسي بالكويت التي يمكن ان تؤدي الي ابتعاد رأس المال الاجنبي اي ما هي معوقات جذب رأس المال الاجنبي للكويت ؟

المحور الثالث: عوامل متعلقة بالسياسات الأقتصادية و الاستثمارية

- من وجهة نظرك ، ما هي السياسات الاقتصادية و الاستثمارية التي يمكن ان تساعد على جذب رأس المال الاجنبي ؟

- من وجهة نظرك ، ما هي السياسات الاقتصادية و الاستثمارية التي يمكن ان تنفر رأس المال الاجنبي ؟
- كيف تقيم قانون تنظيم الاستثمار المباشر لرأس المال الاجنبي بالكويت مقارنه مع دول مجلس التعاون الخليجي الناجحة في استقطاب الاستثمارات الاجنبية؟
- ما هو سبب وجود شروط و تحفظات شديدة في السماح للمستثمر الاجنبي الاستثمار في بعض القطاعات كالقطاع النفطي و القطاع المصرفي ؟
  - لماذا يتميز قانون انشاء مصارف أجنبيه بالكويت بتنفير المصرف الاجنبي (شروط : عماله وطنيه 50% و فرع واحد و عدم السماح بالمعاملات المصرفيه الاعتياديه ؟)
  - كيف تقيم السياسات والقوانين المشجعة للاستثمار (مثال: قانون الخصخصه , قانون العمل ،قانون الشركات) بالكويت.
- يشتكي الكثير من المستثمرون الاجانب من قانون الوكالات التجاريه الكويتي (36/1964) التي لايسمح للمستثمر الاجنبي العمل التجاري او المشاركه بمناقصات الدوله الا من قبل شريك او ممثل كويتي ... لماذا لم يتم تعديل هذا القانون؟

المحور الرابع: عوامل متعلقة بسياسة البت في طلب الرخصة الاستثمارية

- كيف تقيم الية عمل لجنة استثمار راس المال الاجنبي ؟
- ما هو رايك حول موضوع الية اختياراعضاء لجنة الاستثمار الاجنبي ؟
- من وجهة نظرك ، هل هناك معايير واضحة لعمل اللجنة ام هناك اجتهاد شخصي خصوصا في غياب النصوص او المعايير الرسمية ؟
- برايك الخاص هناك عوامل (خاصة ، شخصية ، اجتماعية، دينية) قد تؤثر بعمل اللجنة ؟ و كيف يكون ذلك ؟
- هل تري ان هناك تحفظ على قبول بعض انواع طلبات الاستثمار ؟ و لماذا ؟
- بالرغم من ندرة عدد طالبات استثمار رأس المال الاجنبي بالكويت ، حيث بلغت 28 طلب ، قبل منها 14 طلب فقط و رفض الباقي رغم استيفاء الشروط ! لماذا هذا الرفض
- الكبير نسبيا ؟

الختام

- هل هناك احتمالية ضعف الاداء الحكومي بهذا الموضوع ام هناك قصور تشريعي بالنسبة لقانون تنظيم الاستثمار المباشر لرأس المال الاجنبي بالكويت ؟
- ما هي الحلول المناسبة برايك ؟

كل الشكر و التقدير لوقتكم الثمين في المشاركة بهذا البحث

BRADFORD
UNIVERSITY
School of Management

نموذج أقرار بالموافقة

الغرض من هذه الدراسة:

يهدف هذا البحث الى تحديد العقبات الرئيسية التي تعترض الاستثمار في دولة الكويت التي تنشأ عن سياسة الكويت المتصلة بالاستثمار الأجنبي المباشر. و ستساعد نتائج هذه الدراسة على زيادةفهمنا حول أفضل السبل لتطويرسياسات الاستثمار الأجنبي المباشر في دولة الكويت بشكل أفضل.

لا تتردد طرح اي أسئلة أو إثارة المخاوف في أي وقت عن طبيعة الدراسة أو الأساليب المستخدمة. لا تتردد في الاتصال شخصيا في أي وقت على عنوان البريد الإلكتروني أو رقم الهاتف الذي المقدم لك

المشاركة:

مشاركتكم في هذه الدراسة عن طريق مقابلة مسجلة مع الباحث مدتها اقل من ساعة واحدة تقريبا. سيطلب منك الاجابة على سلسلة من الأسئلة ذات الصلة بموضوع البحث. ليس مطلوبا منك أن تجيب على كل الأسئلة. قد تختار عدم الاجابة على أي سؤال أن يجعلك تشعر بعدم الارتياح. في أي وقت يمكن ان تخطرالباحث أن كنت ترغب في التوقف عن المقابلة ومشاركتكم في هذه الدراسة.

السرية:

بما أن المقابلة سوف تكون مثبتة على شريط مسجل، نرجوا العلم أنة لن يتم تسجيل اسمك او مقر عملك على الشريط. لن يرتبط اسمك أو مقر عملك مع أي جزء من التقرير المكتوب للبحث. وستبقى جميع المعلومات سرية. الباحث لن يشارك المعلومات الخاصة بك مع أي شخص آخر او هيئة اخرى لضمان السرية.

سوف يكون الباحث والمشرفين على البحث فقط من يمكن لهم الصلاحية الى الوصول إلى بيانات المقابلة (أي النصوص) وعلية نطلب من المشاركين إذنهم و الموافقة على ذلك.

الخصوصية:

سوف فقط أن يسمع الأشرطة التي كتبها لي لغرض هذه الدراسة. إذا كنت تشعر بعدم الارتياح مع

المسجل، قد نطلب أن يتم إيقاف تشغيله في أي وقت. للحصول على معلومات الخاصة بك، وسيتم تدمير شريط صوتي من المقابلة بمجرد أن المعلومات قد تم نسخها بالكامل ومجهول المصدر.

المعلومات التي جمعتها لكم وسوف تستخدم غيرهم من المشاركين في كتابة تقرير البحث النوعي. ومع ذلك، يمكن أن تستخدم اقتباسات مباشرة من أنت في ورقة، سيتم الاحتفاظ اسمك وغيرها من المعلومات الشخصية المجهولة.

حقوق المشاركة:

لديك الحق في الانسحاب من الدراسة في أي وقت. في حال اخترت الانسحاب من الدراسة سيتم تدمير جميع المعلومات التي تقدمها (بما في ذلك الأشرطة) وحذفت من الورقة النهائية. ليس هناك عقوبة لوقف المشاركة.

أنت حر في الانسحاب من الدراسة في أي وقت

شكرا لكم على المشاركة في هذه الدراسة

مرة أخرى، شكرا لكم لموافقتها على المشاركة في هذه الدراسة.
إذا كان لديك أي استفسار حول هذا البحث، يرجى الاتصال بي في أي وقت أو الاتصال المشرفين على البحث:

البروفيسور **فرانك ماكدونالد**، أستاذ إدارة الأعمال الدولية في جامعة برادفورد. رقم الهاتف +44 01274 234389 البريد الإلكتروني F.McDonald@bradford.ac.uk.

الدكتور **مارتن أوينز**، استاذ مساعد في إدارة الأعمال الدولية في جامعة برادفورد رقم الهاتف: +44 01274 235674 البريد الإلكتروني M.D.Owens@bradford.ac.uk

Appendix E

Appendix E- Sample Interview Transcript Translation

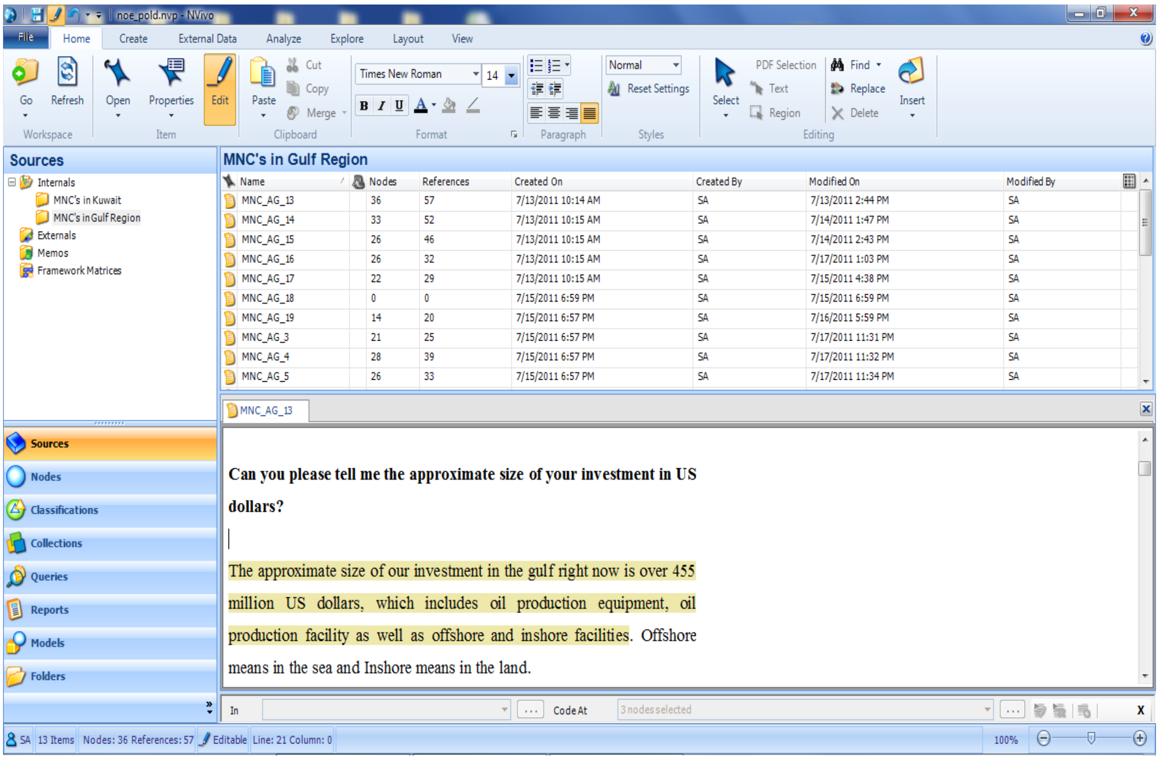
Interview translation

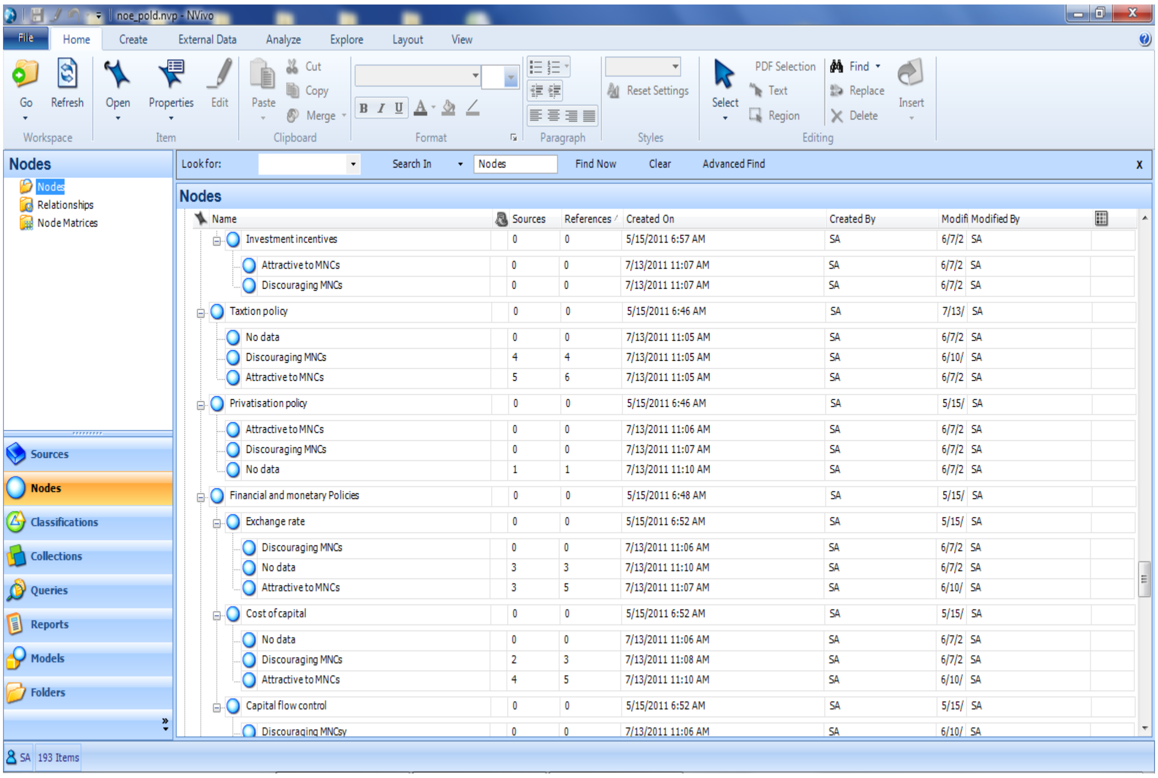
This is a part of actual interview with a local consultant in Kuwait. It has been used here as a sample of translation between Arabic to English.

In your opinion, does Kuwait need to attract inward FDI?	**برأيك هل تحتاج الكويت اليوم لعمل على جذب الأستثمارات الأجنبية ؟**
The Observer of international capital flow knows that Kuwait is a capital exporter. Kuwait export approximately between US$ 29 toUS$ 34 billion per year, however Kuwaiti government and the Kuwait investment authority rarely disclose actual figures. A number of people believe that Kuwait does not need inward FDI since it is a capital exporter. However, in my opinion, Kuwait is in desperate need of FDI because of its need to advanced technology, MNCs management practice and the creation of employment for a local Kuwaiti's.	**المتتبع لحركة رؤوس الأموال العالمية يعلم بأن دولة الكويت عبارة عن دولة مصدرة لرؤوس الأموال ، الكويت تصدر بين 29 إلى 34 مليار دولار سنويا ، الهيئة العامة للاستثمار ما تتكلم كثير عن هذه المواضيع ولا الحكومة الكويتية ،و لكن البعض يعتقد ان الكويت ليست بحاجة إلى استثمار أجنبي لأنها هي دولة مصدرة لرؤوس الأموال ، باعتقادي الكويت بحاجة شديدة الى تكنولوجيا متقدمة ، الاستفادة من خبرات الشركات العالمية في الادارة ومن خلال الاستثمارات الاجنبية في الكويت سوف تفتح فرص عمل للكويتيين.**
From your point of view, how would you evaluate the government role (e.g. Kuwait foreign investment bureau) in marketing Kuwait as an attractive host country?	**ما هو رأيك بالدور الحكومي متمثلة بمكتب الاستثمار الاجنبي لتسويق الكويت كدولة جاذبة لرأس المال ؟**
I think Kuwait is not serious about attracting FDI, this is mainly because capital export is much higher than capital import. I am surprised that Kuwait had managed to export US$ 29 billion and in the same time did not try to attract US$ 1 billion! Kuwait foreign investment bureau is unknown to many foreign investors. I think Kuwait foreign investment bureau performance is below the expectation as it did not succeed in attract any major capital flow into Kuwait.	**والله أنا شايف أن الدولة غير مقتنعه بجذب الاستثمار الأجنبي ، ودليلي على ذلك انها تصدر أكثر مما تستورد رؤس الأموال وأنا استعجب دولة تصدر 29 مليار ولا تحاول جذب مليار يدخل عندنا علشان يستثمر. مكتب الاستثمار الأجنبي أي مستثمر أجنبي ما يعرفه ، والله أعتقد أن جهود مكتب الاستثمار الأجنبي مو بالمستوى المطلوب و لاحظنا ما قام باستجذاب لرؤوس أموال كبير.**

Appendix F

Appendix F-Sample Coding Using 'Nvivo 9'





Appendix G

Appendix (G)—Survey results of MNCs' familiarity and awareness.

Results based on MNC nationalities

Based on MNCs nationalities, the results indicate that all MNCs from different geographic regions had a familiarity with Kuwait as an investment location, and less awareness of investment opportunities in Kuwait and FDI rules and regulations.

Familiarity & Awareness	North American MNCs	European MNCs	Asian MNCs
MNCs with familiarity	67	63	110
MNCs without familiarity	10	9	7
MNCs with Awareness	0	1	1
MNCs without Awareness	77	71	116

The results indicate that the majority of North American MNCs from USA and Canada are familiar with Kuwait. The results of European MNCs in the Gulf region show that all Swedish, Dutch, Italian, and Irish MNCs are familiar with Kuwait, as well as the majority of the British and French MNCs. However, MNCs from Belgium are not familiar with Kuwait as potential location for their investments. The results regarding Asian MNCs point to the fact that all Indian and Iranian MNCs are familiar with Kuwait; also, that the majority of Chinese, Japanese, Singaporean and Korean MNCs are aware of Kuwait. In regards to awareness factor, the American MNCs have no awareness about Kuwait. Similarly, all European MNCs shows no awareness except for one French MNC. Likewise, all Asian MNCs shows no awareness about Kuwait except for one Iranian MNC, which possess awareness about Kuwait.

Finding and analysis based on MNCs' Industries

In this section, MNCs are classified based on the MNCs industry type, adopted from the literature (World Bank, IMF) in industrial groups shown in Table 52 below. This classification aimed to help better understand MNCs with similar line of industry.

Table 53: MNCs industrial greater groups

Industrial groups	MNCs Industries list
Group (A) Financial	All banks, financial investments and insurance and related industries
Group (B) Petroleum	All Petroleum, petrochemicals and related industries
Group (C) Services	All healthcare, hotels, constrictions related industries
Group (D) Trade	All type of trade, export and imports

The results show that 88% of group A (financial), 100% of group B (petroleum), 62% of group C (services), and 100% of group D (trade) are familiar with Kuwait as a possible location for their investments. However, only 2% of MNCs of group A (financial) had awareness about Kuwait's FDI investment opportunities, FDI rules and regulation, and policies regarding FDI activities in Kuwait as shown in Table 53 below.

Table 54 - Frequency distribution of attractive institutional location factors by industrial groups

	Group (A) Financial	Group (B) Petroleum	Group (C) Services	Group (D) Trade
MNCs with familiarity	68	90	27	55
MNCs without familiarity	9	0	17	0
MNCs with Awareness	2	0	0	0
MNCs without Awareness	75	90	44	55

Source: The survey data

Results based on the MNCs' size of investments

The results regarding the MNCs' size of investments are based on a total of 266 MNCs, which indicate that the majority of MNCs (with different size of investments) are familiar with Kuwait as a possible location for investment. However, the findings also indicate that the majority of MNCs with different size of investments were not aware of Kuwait's investment opportunities, FDI law and regulation and policies concerning FDI in Kuwait, as illustrated in Table 54 below.

Table 55: Familiarity and awareness based on MNCs size of investments in the Gulf region

	Small investment size	Medium investment size	Large investment size
MNCs with familiarity	133	0	100
MNCs without familiarity	15	7	11
Total	148	7	111
MNCs with Awareness	0	0	2
MNCs without Awareness	148	7	109
Total	148	7	111

Source: The survey data

The results show that 89% of MNCs (with small-size investments), and 90% of MNCs (with large-size investments) are familiar with Kuwait. However, none of the MNCs with medium-size investment in the Gulf region are familiar with Kuwait as a potential location for investments. The results also show that none of the MNCs with small-size of investments and medium-size of investments are aware of Kuwait. However, the results show that two MNCs (with large size of investments) are actually aware of Kuwait's investment opportunities, FDI law and regulation and policies of FDI.

Therefore, the overall findings indicate that MNCs with small size investment in the region are familiar with Kuwait, but have no awareness of its potential investment opportunities. Similarly, MNCs with large size investment in the Gulf region are familiar with Kuwait and just a few of these types of MNCs have awareness about Kuwait investment opportunities. Although, MNCs with medium-size investment are not familiar and aware of Kuwait; however, due to the small sample size, this result is not certain.

Appendix H

Appendix (H)—Survey Results of MNCs' internal environment factors

<u>MNC internal environment factors based on MNC nationalities</u>

Looking at the data from MNCs' nationalities perspective, it is revealed that North American MNCs represent 29% of the total MNCs in the Gulf region, the majority of them being resource seeking, followed by efficiency seeking and market seeking MNCs, illustrated in Table 55 below with the majority being from USA (63) and 14 from Canada.

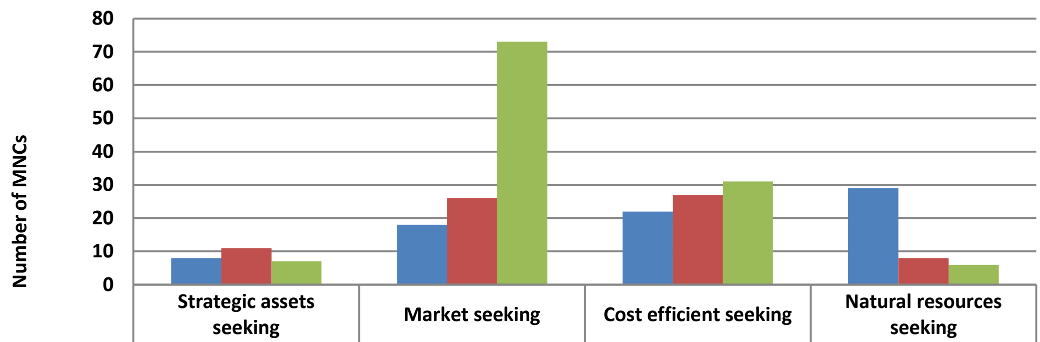
Table 56 - Frequency of MNCs motive of investments by MNCs nationalities groups

Non-institutional location factors	North American MNCs	European MNCs	Asian MNCs
Strategic assets seeking	8	11	7
Market seeking	18	26	73
Efficiency seeking	22	27	31
Resource seeking	29	8	6
Total	77	72	117
Percentage based on frequency	29 %	27 %	44 %

Source: The survey data

European MNCs represent 27% of the total MNCs in the Gulf region, with the majority of them (27) focusing on efficiency seeking, 26 market seeking, 11 strategic-assists seeking, and 8 recourses seeking. The breakdown of the European MNCs reports that the majority of 46 MNCs were from UK followed by 12 from Germany, 6 from France and few from other European countries. Finally, Asian MNCs represent 44% of the total MNCs in the Gulf region, constituting the largest group of MNCs in the region for this study (based on the survey data). The majority of Asian MNCs were market seeking based on the frequency of 73, followed by 31 efficiency seeking, 7 strategic-assists seeking, and 6 recourses seeking. The breakdown of Asian MNCs show that the majority of MNCs are from India 43, and likewise 43 MNCs from Japan, followed by 22 MNC from China.

Figure 27: Breakdown of MNCs motive of investments by MNCs nationalities groups



	Strategic assets seeking	Market seeking	Cost efficient seeking	Natural resources seeking
North America	8	18	22	29
Europe	11	26	27	8
Asia	7	73	31	6

Source: The survey data

The overall result shows that 42% of strategic-asset seeking MNCs are European, followed by 30.7% North American, and Asian MNCs representing 26%. The data also shows that the majority of market seeking MNCs are Asian (62%), followed by European (22%), and American MNCs representing 15% of the population. Likewise, the data about cost-efficiency seeking MNCs reveals that Asian MNCs are in majority (38.75%), followed by the European (33.7%), and then the American MNCs (27.5%). Finally, natural resources MNCs in the Gulf region were dominated by the American MNCs (67.5%), followed by the European MNCs(18.75%), and the Asian MNCs (13.5%).

MNCs' internal environment factors based on MNCs Industries

In order to better present the data related to MNC internal environment factors based on MNCs industry type perspective, the results have been classified into MNC industrial sectors categories. The results of combining the frequencies of these groups show that group A (financial) represent 29% of the total MNCs, group B (petroleum) 34%, group C (services) 17%, and group D (trade) 21%.

Table 57 - Frequency distribution of attractive institutional location factors by industrial groups

	Group (A) Financial	Group (B) Petroleum	Group (C) Services	Group (D) Trade
Strategic assets seeking	8	12	2	4
Market seeking	36	19	24	38
Efficiency seeking	22	36	9	13
Resource seeking	11	23	9	0
Total	77	90	44	55

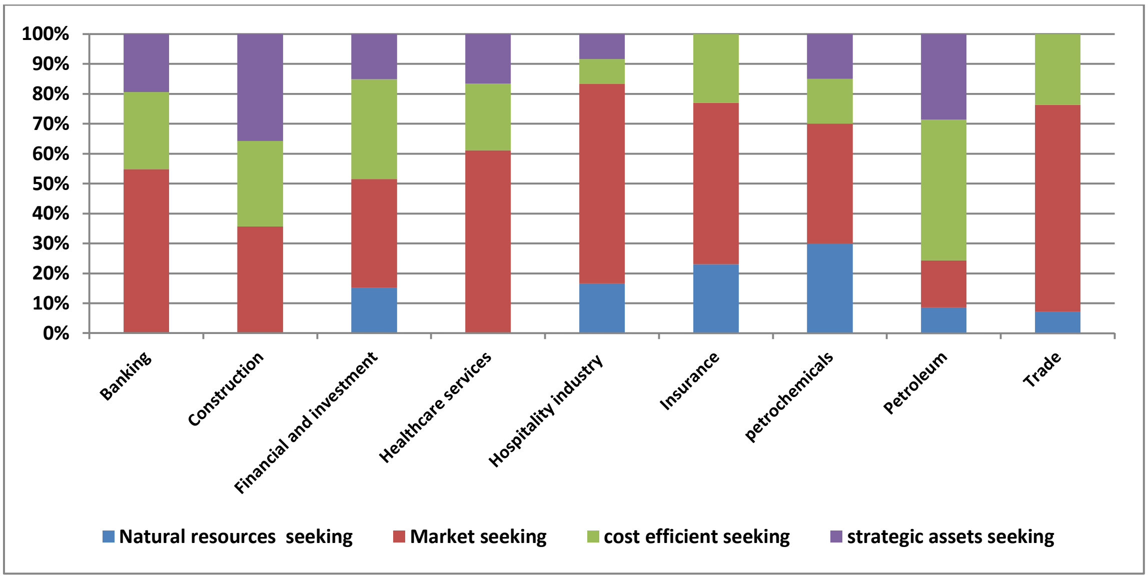
Source: The survey data

The majority from group A was market seeking, which was followed by efficiency seeking. Therefore it could be asserted that the banking and financial investment MNCs are in the Gulf region to market their financial products; especially, since the region has proved to be stable during the global financial crisis in 2008/9, which was largely caused by the increase in oil prices; consequently, providing the GCC countries high liquidity.

The dominating MNCs (group B) was efficiency seeking mainly because of the low material and manufacturing costs of petrochemical as well as the Gulf region geographical position between the Far East and European countries, which provides a great shipping access for the European and far East markets. On the other hand, the majority of MNCs in group C was market seeking, which is similar to the group A MNCs. Finally, the majority of MNCs in group D was also market seeking following the same rational of the previous group in penetrating the Gulf region markets.

The breakdown of the results by individual MNC industry type is illustrated in figure 27 below, which shows that 54% of the banking MNCs were market seeking, followed by 25% cost-efficiency seeking MNCs. Within the construction sector, 35% were strategic assets seeking MNCs, and 34% were market seeking MNCs. However, within the financial investment sector 36% amounted to market seeking MNCs, followed by 33% cost-efficiency seeking MNCs. Furthermore, 62% of the healthcare services sectors were market seeking, followed by 22% cost efficient MNCs. Within the hospitality industry, 66% were marking seeking MNCs followed by 60% resources seeking MNCs. Within the insurance sectors, 53% were market seeking MNCs, and 23% were cost efficient seeking MNCs.

Figure 28: Percentage distribution of MNCs industries in the Gulf region based on their industrial sector



Source: The survey data

In the petrochemical sector, 40% accounted for market seeking MNCs, followed by 30% of the resource seeking MNCs. However, the petroleum sector is 48% cost-efficient seeking MNCs, followed by 28 % asset seeking MNCs. Finally, the trade sector constituted 69% of market seeking MNCs, followed by 20% cost-efficient seeking MNCs.

<u>MNCs' internal environment factors based on size of investments</u>

The finding based on MNCs size of investments in the Gulf region, with a total of 266 participating MNCs in the survey, indicate that the majority of MNCs in the Gulf region were of small-size investments, followed by large-size investments, and finally medium-size investments: a) Small investment size (56%), b) Medium investment size (3%), and c) Large investment size (42%)

With regard to the MNCs size of investments in the Gulf region and the motive of investments, the majority of MNCs with small-investment size (65) were market seeking, 47 cost-efficient seeking, 28 strategic asset seeking, and 8 resource seeking. Therefore, it could be stipulated that MNCs with small size investments are in the Gulf region, because of market and cost-efficient investments, shown in Table 57 below (depicting the distribution of MNCs' FDI motives based on their size of investments).

Table 58: Distribution of MNCs industries in the Gulf region based on their size of investments

	Small investment size	Medium investment size	Large investment size	Percentage
Resource MNCs	8	0	18	10 %
Market MNCs	65	5	47	44 %
Cost-efficient MNCs	47	0	33	33 %
Strategic asset MNCs	28	2	13	13 %
Total	148	7	111	

Source: The survey data

The Medium-size of investments MNCs in the Gulf region were market seeking MNCs and strategic-assets seeking MNCs. However, the representation of medium-size investments in the Gulf region was limited, because only 7 MNCs (out of the total 266 MNCs) with medium-size investments participated in this study. Finally, MNCs with large investment size were market seeking (47), followed by 33 efficiency seeking (33), resource seeking MNCs (18), and strategic asset seeking MNCs (13).

Appendix I

Appendix (I)—Survey results based on MNCs' external environment factors (Non-Institutional location factors)

Attractive non-institutional location factors based on MNCs' nationalities

Based on MNCs' nationalities, the data in table 58 below shows that all MNCs from different regions had chosen geographical location of Kuwait to be the most attractive non-institutional location factor. The analysis of the data shows that North American MNCs chose the geographical location of Kuwait, then efficiency factors to be attractive non-institutional location factor. However, North American MNCs considered the market factors, cost factors, country (Kuwait) risk factors, and social and culture factors to be less attractive.

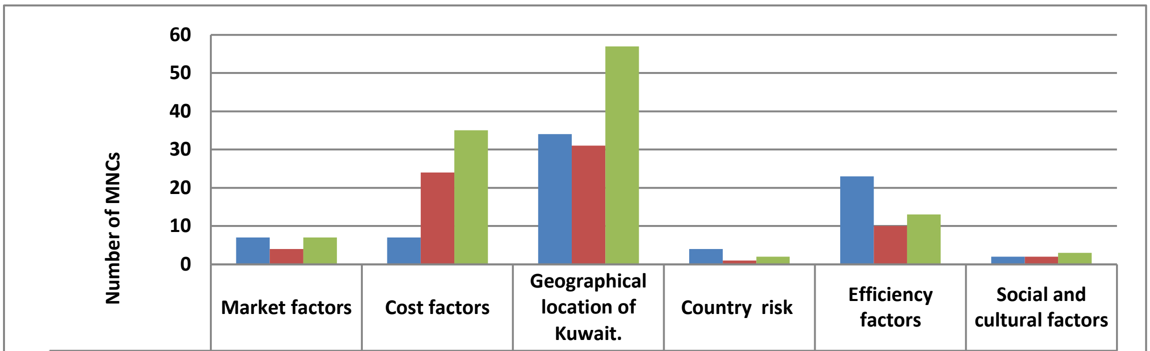
Table 59: Frequency of attractive non-institutional location factors by MNCs nationalities groups

Non-institutional location factors	North American MNCs	European MNCs	Asian MNCs
Kuwaiti Market factors	7	4	7
Cost factor in Kuwait	7	24	35
Kuwait geographical location	34	31	57
Country Risk (Kuwait)	4	1	2
Efficiency factors	23	10	13
Social and Culture Factors	2	2	3

Source: The survey data

The data also illustrates that the European MNCs have chosen geographical location of Kuwait, cost factor, and efficiency factors in Kuwait to be attractive non-institutional location factor, but considered efficiency factors, market factors, country risk factors and social and culture factors to be less attractive. Meanwhile, the Asian MNCs had chosen geographical location of Kuwait, cost factor, and Efficiency factors in Kuwait to be attractive non-institutional location factor. However, Asian MNCs had considered efficiency factors, market factors, country risk factors and social and culture factors to be less attractive. Figure 28 below graphically presents the attractive non-institutional location factor based on the MNCs' nationalities.

Figure 29: Attractive non-institutional location factor based on the MNCs nationalities



	Market factors	Cost factors	Geographical location of Kuwait.	Country risk	Efficiency factors	Social and cultural factors
North America	7	7	34	4	23	2
Europe	4	24	31	1	10	2
Asia	7	35	57	2	13	3

Source: The survey data

Attractive non-institutional location factors based on MNCs' Industry type

Similar to the pervious section, the results of MNCs' industry type has been classified into MNC industrial sectors categories. The findings show that the majority of group A (financial) had chosen geographical location of Kuwait to be the most attractive factor, followed by cost factor and the efficiency factor. Group A shared Kuwaiti geographical location to be the most attractive location factors with all other industrial groups. However, the respective group selected the cost factor and efficiency, as it closely related to the financial and banking business which required low-cost financial operation environment with high efficiency infrastructure to support these financial operations. Group A, however, was less attracted to the market factor, country risk and social cultural factors. Hence, it appears that financial and banking institutions have some concerns about the Kuwaiti market, its level of risk (country risk factor) and the social and cultural factors in Kuwait as illustrated in Table 59 below.

Table 60 - Frequency distribution of attractive non-institutional location factors by industrial groups

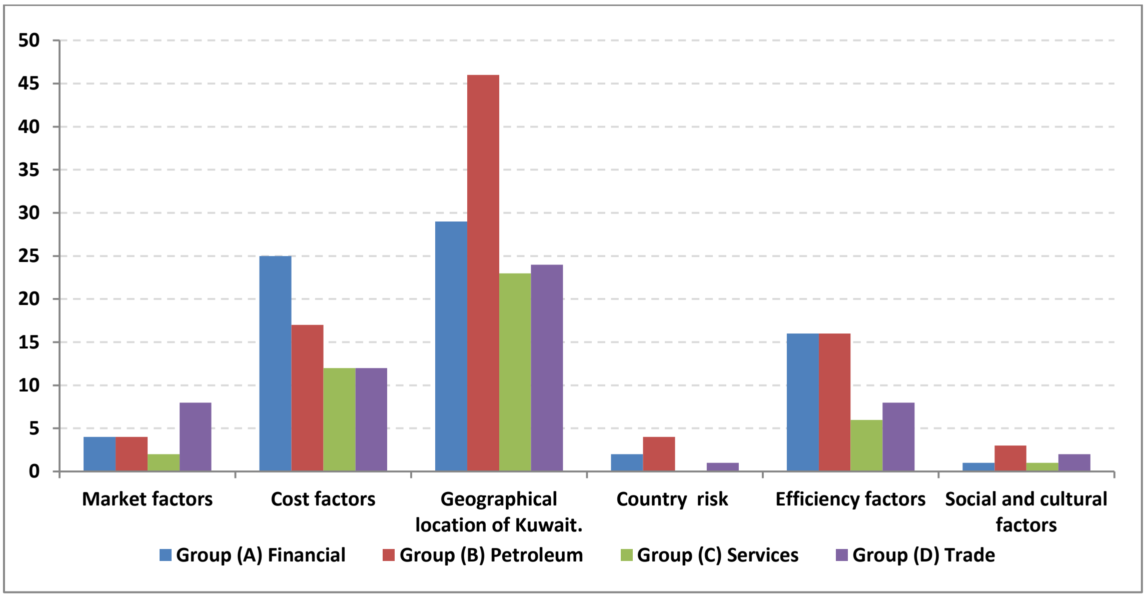
	Group (A) Financial	Group (B) Petroleum	Group (C) Services	Group (D) Trade
Kuwaiti Market factors	4	4	2	8
Cost factor in Kuwait	25	14	12	12
Kuwait geographical location	29	46	23	24
Country Risk (Kuwait)	2	4	0	1
Efficiency factors	16	16	6	8
Social and Culture Factors	1	3	1	2
Total	77	90	44	55

Source: The survey data

Likewise group B (petroleum) chose geographical location of Kuwait to be the most attractive factor, with the efficiency factor, and cost factor to be next attractive. The rational for petroleum industries to select the geographical location is due to the availability of Kuwaiti oil and petroleum ports on the cost of side. Also, this group had selected the efficiency and cost factor to be the next attractive factors due to the importance of efficiency and cost in the petroleum industries. Group C (services) had also chosen the geographical location of Kuwait to be the most attractive factor followed by the cost and efficiency factors, mainly because services industries place extra-emphasis on the cost factors, when providing their services and emphasise on the efficiency factor, because efficiency further reduces the cost of services provided. Group D (trade) selected the geographical location of Kuwait to be the most attractive location factors due to the importance of its geographical location. This group also selected the cost and efficiency factor to be the next attractive factors. However, for this group, the market factor country risk and social and culture factors in Kuwait seems to be not attractive.

Hence, based on the results from MNCs' industry type perspective, it can be postulated that the geographical location of Kuwait is the most attractive location factor perceived by MNCs, followed by the cost factor and the efficiency factor. The other factors, such as, market country risk social and culture, appear to be less attractive to MNCs in the Gulf region, as shown in the figure 29 with detailed graphical presentation.

Figure 30: Bar chart of the attractive non-institutional location factors by industrial groups

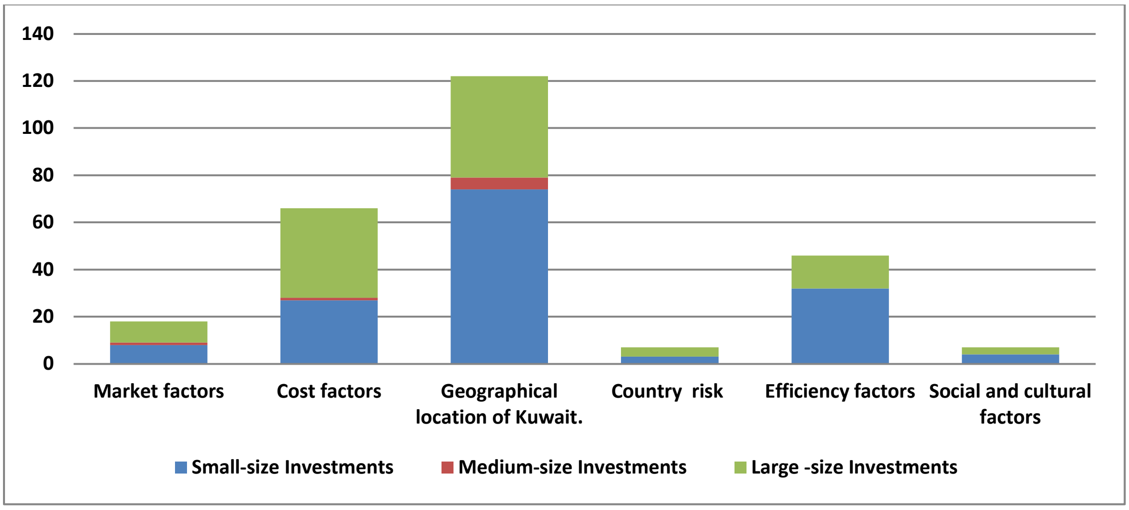


Source: The survey data

<u>Attractive non-institutional location factors based on MNCs' size of investments</u>

Based on MNCs' size of investments in the Gulf region, the findings report that the majority of the MNCs had chosen geographical location of Kuwait to be the most attractive, followed by the cost factor and the efficiency factor. These results are similar to the previously analysed data, which looked at MNCs nationalities and industries. Figure 30 provides a graphical presentation of the findings based on MNCs size of investments.

Figure 31: Attractive non-institutional location factors by MNCs size of investments.



Source: The survey data

Appendix J

Appendix (J)—Survey results based on MNCs' external environment factors (Non-Institutional location factors)

Unattractive non-institutional location factors based on MNCs' nationalities

Based on MNCs nationality perspective, the data (table 60 below) shows that the European and the Asian MNCs opted the Kuwaiti market to be the most unattractive non-institutional location factor. The American MNCs had chosen the cost factor to be the most attractive non-institutional location factors. The North American MNCs chose cost, social and culture, efficiency followed by market factors to be the most discouraging non-institutional location factor. However, the North American MNCs had considered country risk and geographical location to be less discouraging non-institutional location factor. On the other hand, both the Asian and the European MNCs considered market, social and cultural factors to be the most discouraging non-institutional location factors; whereas, choosing efficiency, country risk and geographical location to be less discouraging non-institutional location factor.

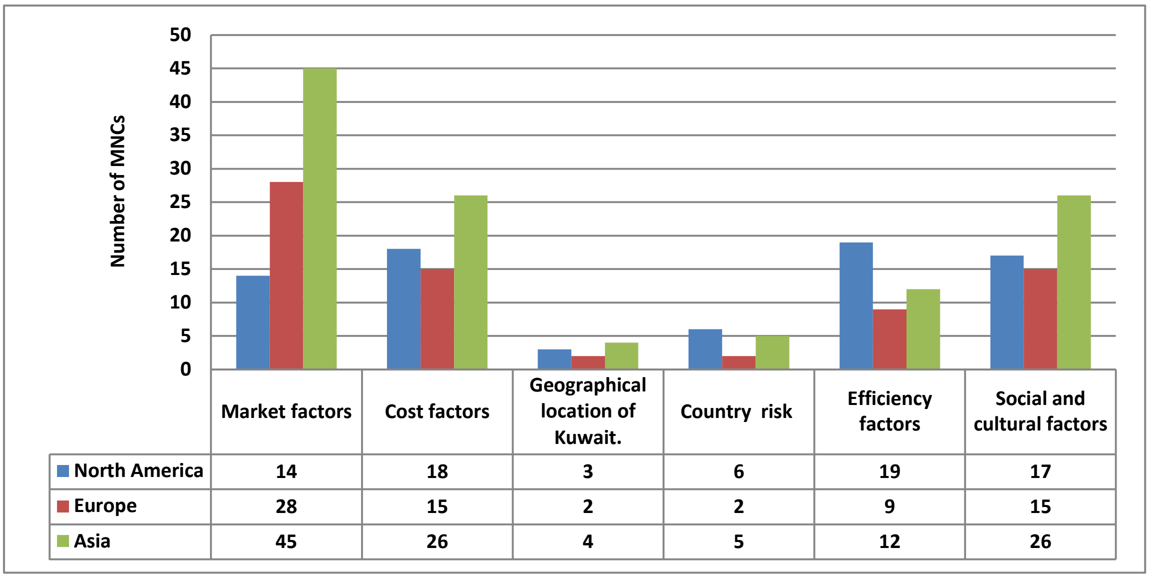
Table 61: Frequency of attractive non-institutional location factors by MNCs nationalities groups

Non-institutional location factors	North American MNCs	European MNCs	Asian MNCs
Kuwaiti Market factors	14	28	45
Cost factor in Kuwait	18	15	26
Kuwait geographical location	3	2	4
Country Risk (Kuwait)	6	2	5
Efficiency factors	16	9	12
Social and Culture Factors	17	15	26

Source: The survey data

Hence, the results emphasise on the discouraging nature of the market factors for MNCs, which are followed by cost, efficiency and social and culture factors; whereas, the geographical location and country risk factors appear to be less discouraging; illustrated in Figure 31.

Figure 32: Discouraging non-institutional location factor based on the MNCs nationalities



Source: The survey data

<u>Unattractive non-institutional location factors based on MNCs' industry type</u>

Similar to previous section, the results of MNCs industry are classified into MNCs industry type as a perspective, shown in table 61 below.

Table 62: MNCs industrial greater groups

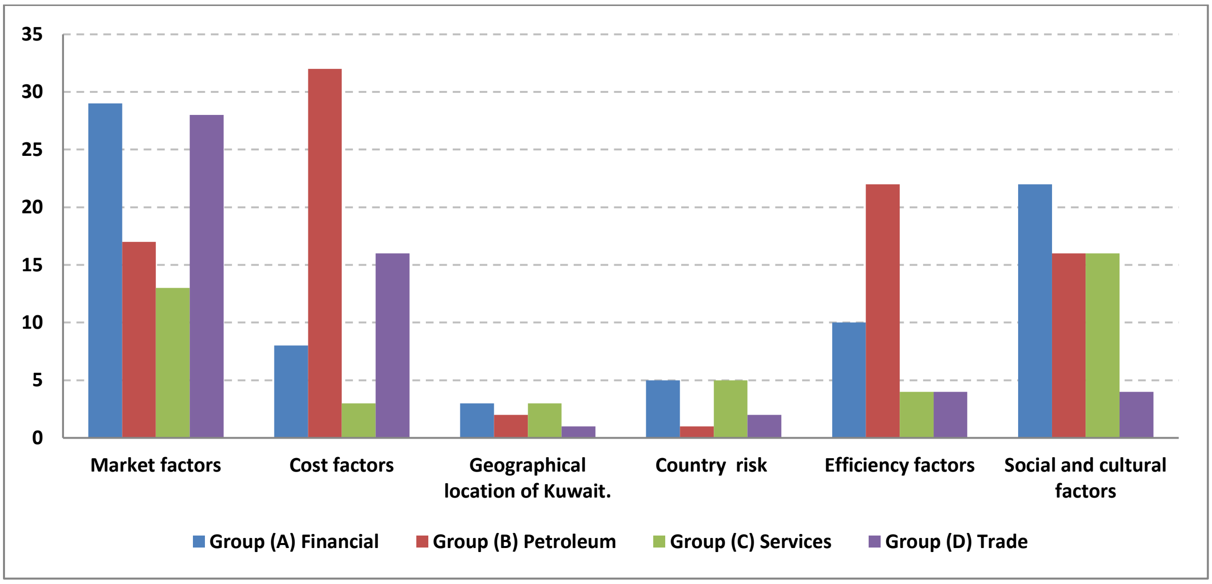
Industrial groups	MNCs Industries list	Total MNCs
Group (A) Financial	All banks, financial investments and insurance	77
Group (B) Petroleum	All Petroleum, petrochemicals and related industries	90
Group (C) Services	All healthcare, hotels, constrictions related industries	44
Group (D) Trade	All type of trade, export and imports	55

Source: The survey data

The results show that the majority of group a (financial) had chosen market factor, followed by social and culture factors and efficiency factor to be the most discouraging non-institutional location factors of Kuwait; with social and cultural factors to be next discouraging factors followed by the efficiency factor. Group B (petroleum) had chosen the cost factor to be the most discouraging factor in Kuwait; however, the reasons remain unknown. This group also had selected the Kuwaiti market and social and culture factors as the next discouraging factors Kuwait. Group C (services) had mainly selected the social and a culture factor in Kuwait to be the most discouraging factors, with the market factors following closely. However, this group had been less discouraged by the cost, geographical location, country risk and efficiency factors in Kuwait. Finally, group D (trade) had chosen Kuwaiti market to be the most discouraging factors followed by the cost factor in Kuwait, but less discouraged by the geographical location risk, efficiency and social and cultural factors.

Figure 32 below provides graphical presentation of the discouraging non-institutional location feature of Kuwait based on MNCs industrial sector.

Figure 33: Discouraging non-institutional location features of Kuwait by MNC industry



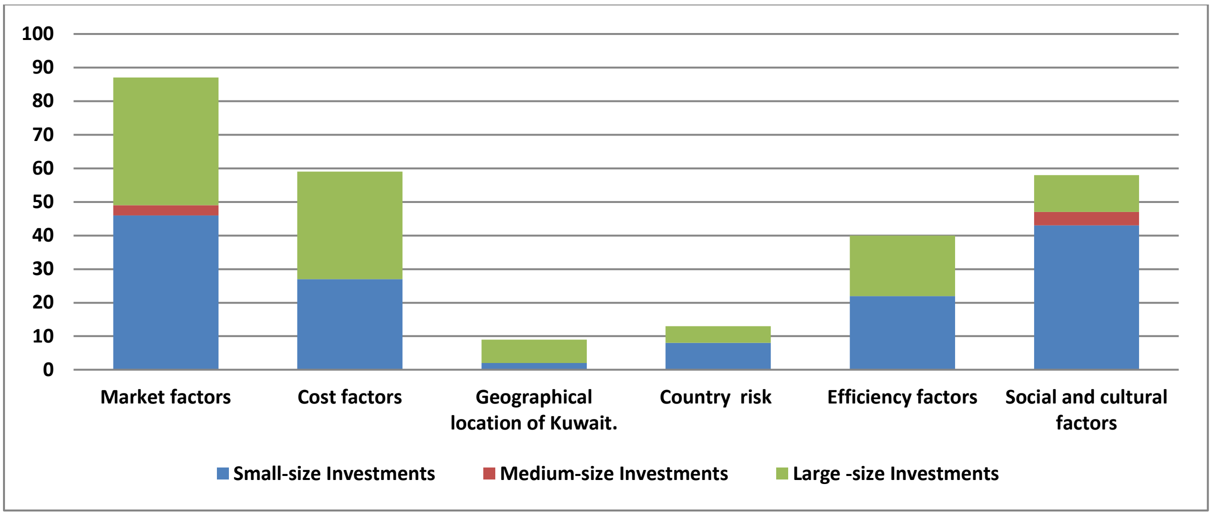
Source: The survey data

Based on the results above, most industries have been discouraged by the market factor in Kuwait followed by social and cultural factors, and cost factor, with the exception of petroleum MNCs efficiency factors appear to have significant discouragement for this group.

Unattractive non-institutional location factors based on MNCs' size of investments

The results show that the majority of the MNCs, with small size of investments, had chosen market factor followed by cost factor and efficiency factors to be the most discouraging non-institutional location factor of Kuwait. Whereas, MNCs with large size of investments had selected the market, social and culture factors—followed by cost factor—to be the most discouraging non-institutional location of Kuwait. There was a limited data for medium-size investment MNCs. Figure 33 provides a graphical presentation of the findings based on MNCs size of investments.

Figure 34: Discouraging non-institutional location factors by MNCs size of investments.



Appendix K

Appendix (K) - Survey results of Attractive Institutional location factors

<u>Attractive institutional location factors based on MNCs' nationalities</u>

Based on MNCs nationalities, the data in Table 62 below shows that all MNCs from different regions had chosen the property protection and legal system in Kuwait to be the most attractive institutional location factor. The data shows that the North American MNCs had chosen private property protection, legal system in Kuwait, and intellectual property protection as the most attractive institutional location factor.

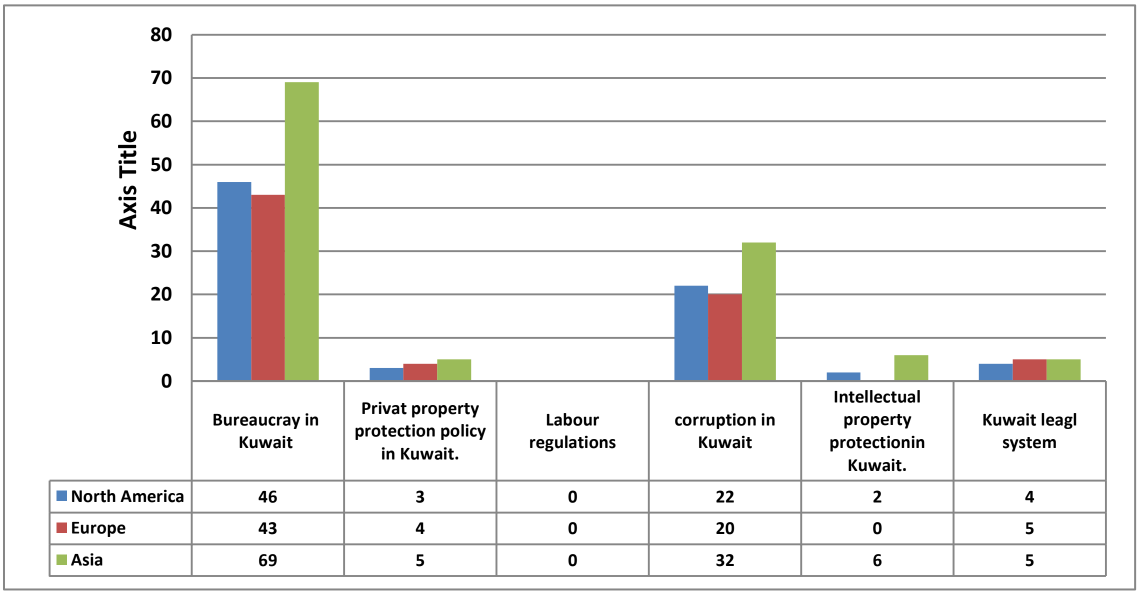
Table 63: Frequency of attractive institutional location factors by MNCs nationalities groups

Institutional location factors	North American MNCs	European MNCs	Asian MNCs
Bureaucracy	0	0	0
Privet property protection	35	33	49
Corruption	0	0	0
Labour regulations	0	0	0
Intellectual property protection	20	13	23
Legal system	21	26	44

Source: The survey data

The data also shows that both European and Asian MNCs had chosen private property protection, legal system in Kuwait, and intellectual property protection as the most attractive institutional location factor in Kuwait. Hence, it is notable that more Asian MNCs had selected the legal system in Kuwait in comparison to America and European MNCs. Figure 34 below graphically present the attractive institutional location factor based on the MNCs nationalities.

Figure 35: Attractive institutional location factor based on the MNCs nationalities



Source: The survey data

Attractive institutional location factors based on MNC Industry

Similar to the previous section, the results of MNCs industry had been classified into MNC industrial sectors. The results show differences between the priority and importance of each of the institutional location factors in Kuwait between the different industry types. The results also show that the majority of group A (financial) had chosen property protection and legal system and intellectual property protection as the most attractive institutional factors in Kuwait. Group A had shared Kuwaiti property protection and legal system to be the most attractive factors as compared to other industrial groups due to the importance of private property protection securing the ownership assets and effective legal system for this type of industry. Table 63 (below) depicts these results.

Table 64 - Frequency distribution of attractive institutional location factors by industrial groups

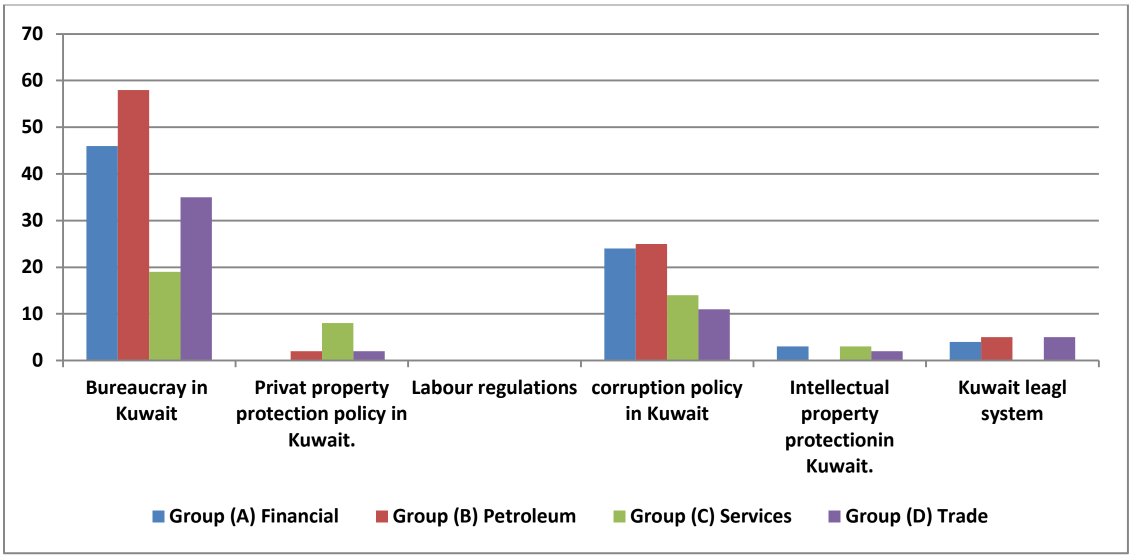
	Group (A) Financial	Group (B) Petroleum	Group (C) Services	Group (D) Trade
Bureaucracy	0	0	0	0
Privet property protection	33	41	13	38
Corruption	0	0	0	0
Labour regulations	0	0	0	0
Intellectual property protection	14	13	7	7
Legal system	30	36	24	10

Source: The survey data

Group B (Petroleum) had chosen property protection forward and legal system as the most attractive factor. The rationale for petroleum industries to select property protection is that the region has a history of nationalisation their oil companies during the 1960s and 1970s, when most of the GCC countries gained their independence. Also, this group had selected a legal system and intellectual property protection due to the importance of efficiency and cost in the petroleum industries; particularly, the protection of the new technology patterns in petroleum production and refining.

Unlike the previous two groups, group C (services) had chosen legal system to be the most attractive feature in Kuwait followed by private property protection and less to the intellectual property protection. Hence, legal system is of crucial importance for this group as the service sector has the potential of disputes between service providers making the legal system in the host countries of a great importance. Also, different than the previous groups, group D (trade) selected the property protection to be the most attractive feature followed by legal system and intellectual property protection. This group chose private property protection because of the importance of ownership of the goods and commodity being traded; in fact, these goods and commodities are the assets and capital for a trade group. Hence, it is crucial for this type of industry to select the protection of their own properties and legal as the most important factor.

Figure 36: Attractive institutional location factors by industrial groups

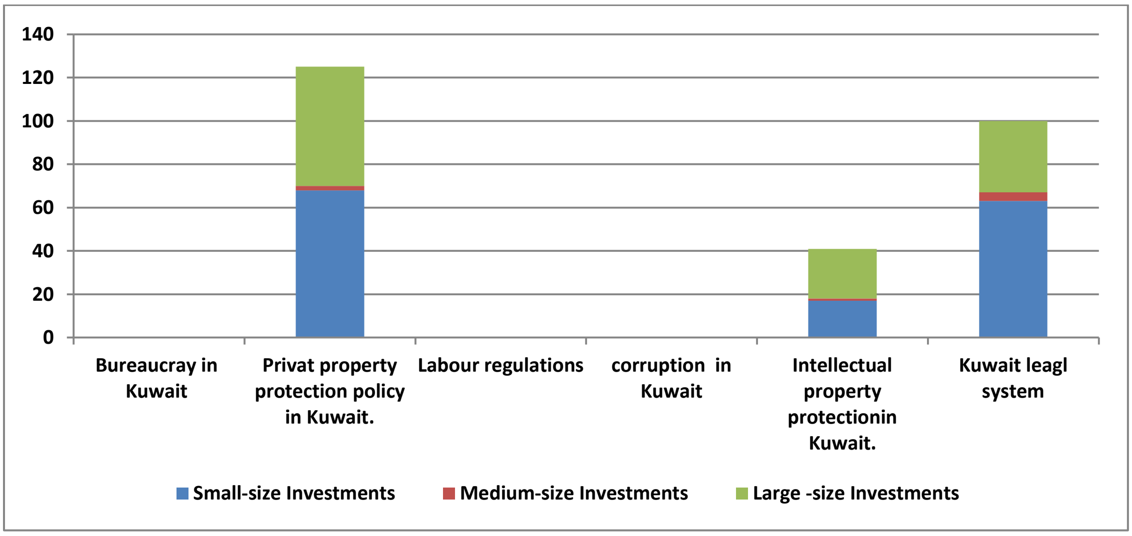


Source: The survey data

<u>Attractive institutional location factors based on MNCs' size of investments</u>

The data shows no difference between the importance of institutional factors in Kuwait for the size of foreign investments in the Gulf region. The results indicate that the majority of MNCs with small size of investment were choosing private property protection, legal system, and intellectual property protection is the most attractive institutional factors in Kuwait. Same was the case with MNCs with large size of investments. Moreover, medium-size investment MNCS selected legal system in Kuwait, private property protection, and intellectual property protection to be the most attractive institutional factors in Kuwait. However, due to the small number of MNCs with medium size of investment, these results are approximate as illustrated in Figure 36 below.

Figure 37: Attractive institutional location factors by size of investments



Source: The survey data

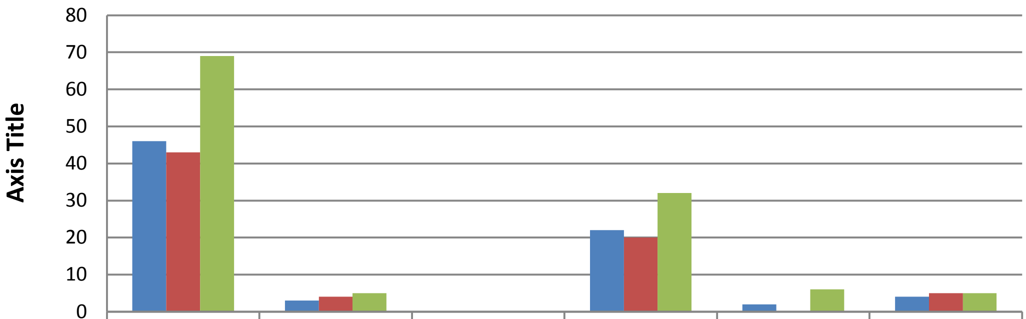
Appendix L

Appendix (L) - Survey results of Unattractive Institutional location factors

Unattractive institutional location factors based on MNCs' nationalities

Based on MNCs' nationalities, the data (Figure 37) shows that all MNCs from different regions had chosen bureaucracy followed by corruption in Kuwait to be the most unattractive institutional location factor. The data shows that the North American MNCs, European MNCs and Asian MNCs had respectively selected bureaucracy and corruption as the most unattractive institutional location factor in Kuwait. The findings also indicate that legal system in Kuwait, private property protection, intellectual property protection, and labour regulation in Kuwait is less discouraging factors in Kuwait for MNCs.

Figure 38 Unattractive institutional location factor based on MNCs nationalities



	Bureaucray in Kuwait	Privat property protection policy in Kuwait.	Labour regulations	corruption in Kuwait	Intellectual property protectionin Kuwait.	Kuwait leagl system
North America	46	3	0	22	2	4
Europe	43	4	0	20	0	5
Asia	69	5	0	32	6	5

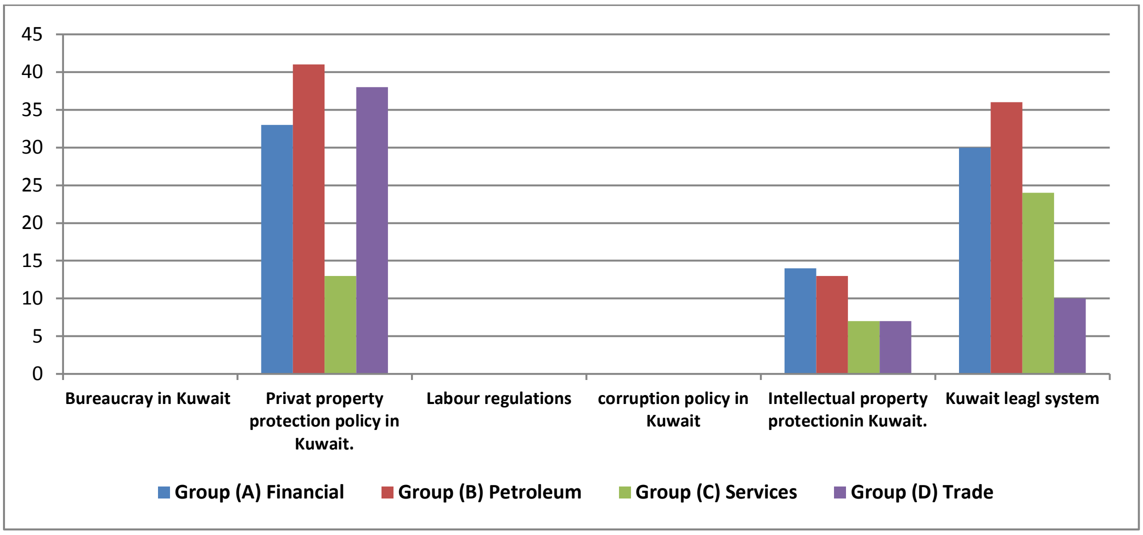
Source: The survey data

Unattractive institutional location factors based on MNCs' Industry type

The results of MNCs industry had been classified into MNCs' industry type categories similar to the previous sections. The results show no discrepancy between the importance of each of the institutional location factors in Kuwait among the different classes of industrial groups. The results show that the majority of group A (financial) had chosen bureaucratic procedures as the most discouraging factor followed by corruption, this group also had considered private property protection intellectual property protection, legal system, and labour regulation to be less discouraging features.

It is speculated that banking and financial MNCs had chosen bureaucracy, because of effect of bureaucratic procedures on financial transaction, which normally requires prompt action when performing such transactions. Likewise, group B (petroleum) chose the same. It is speculated that bureaucracy could influence the efficiency of this group's investment activities, as was the case with corruption, which was seen as the next discouraging institutional factor. Likewise, group C (services) and group D (trade) had chosen the bureaucratic procedures and corruption to be the most discouraging institutional factor of Kuwait. Figure 38 below provides a graphical presentation of the unattractive institutional features of Kuwait sorted by MNCs industry.

Figure 39: Unattractive institutional location factors by industrial groups

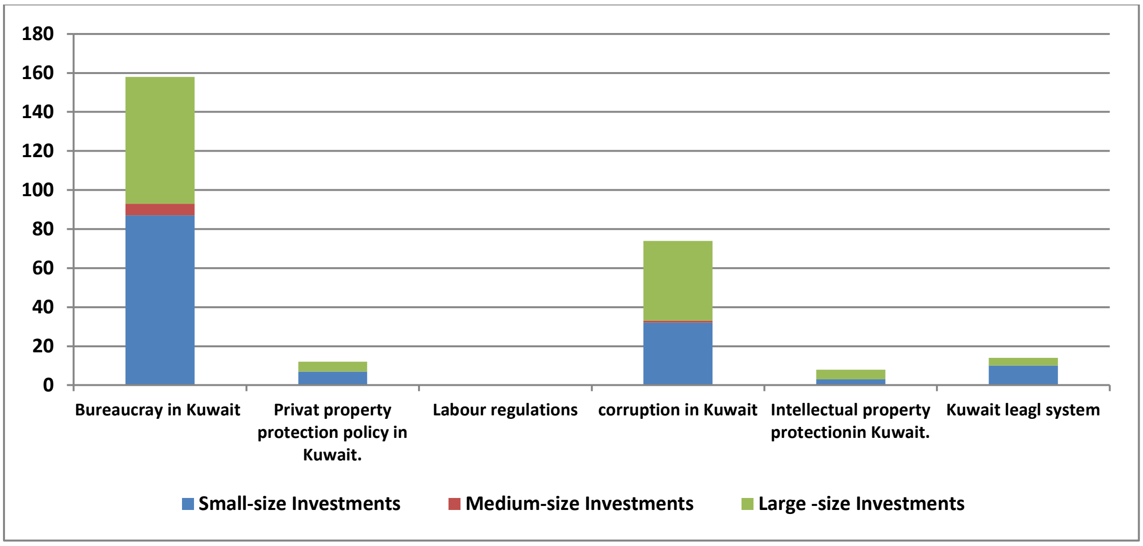


Source: The survey data

<u>Unattractive institutional location factors based on MNC size of investments</u>

The data shows no differences between the significance of unattractive institutional factors in Kuwait in the context of MNCs' size of investments. The result indicates that the majority of MNCs with small investment size had chosen bureaucracy and corruption to be the most discouraging institutional features of Kuwait. Equally, MNCs with large investment size had chosen the same. Moreover, medium-size investments MNCs had selected bureaucracy and corruption to be the most attractive institutional factors in Kuwait. However, because of the small number of MNCs with medium size of investment in the Gulf region this result is approximate. Figure 39 below provides graphical presentation of the above results.

Figure 40: Unattractive institutional location factors by size of investments



Appendix M

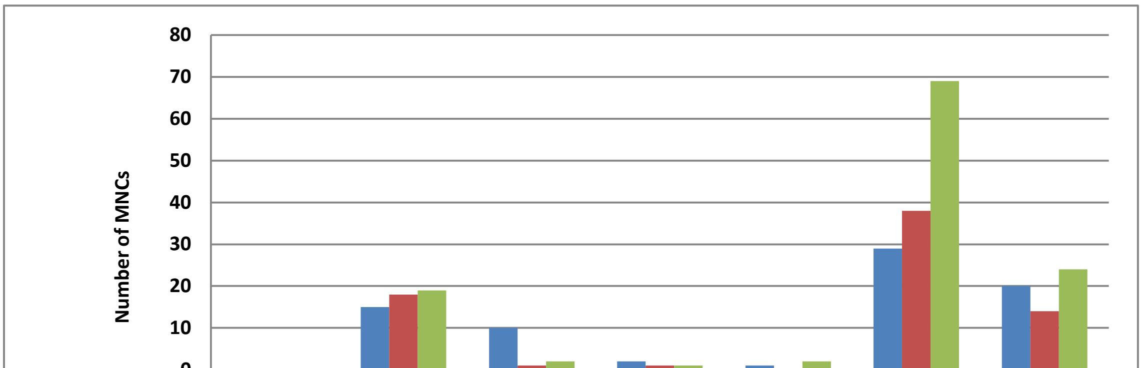
Appendix (M) - Survey results of Attractive Kuwaiti FDI policies

<u>Attractive Kuwaiti FDI policies based on MNC nationalities</u>

MNCs from different regions (nationality perspective) chose the taxation policies to be the most attractive FDI related policies in Kuwait as it is evident in data showing that North American MNCs chose Kuwait taxation policy, followed by government investment incentives and trade liberalisation and tariff policy.

However, European MNCs chose the Kuwaiti taxation policy followed by the financial and monetary policies, and government investment incentives policies to be the most attractive FDI related policies, whereas Asian MNCs chose Kuwait taxation policy similar to European and American MNCs, but saw government investment incentives policy, and financial and monetary policies to be the most attractive. All indicating that although overall FDI policies seem to be attractive to MNCs with various nationalities, the ranking amongst them differ.

Figure 41: Attractive FDI related policies based on the MNCs nationalities



	Kuwaiti FDI law	Kuwait's financial & monetary policies	Kuwait trade liberalisation and tariff policy	Kuwaiti government privatization policy	Kuwait's Special Economic Zones policy	Kuwait taxation policy.	Govermant investemnt incentives
North America	0	15	10	2	1	29	20
Europe	0	18	1	1	0	38	14
Asia	0	19	2	1	2	69	24

Source: The survey data

As it shown in Figure 40 (above), the majority of MNCs selected Kuwaiti taxation policy as the most attractive policy. However, noteworthy is that a high portion of Asian MNCs selected this policy. In other words, almost all Japanese and Indian MNCs plus the majority of the Chinese MNCs had chosen this policy as the most attractive FDI related policies in Kuwait.

Although, in principle, all MNCs had chosen Kuwaiti taxation, government investment incentives policies and financial and monetary policies, with the exception of North Americans, who had chosen trade liberalisation and tariff policies to be the most attractive FDI related policies in Kuwait, these differences could be linked to a possible combination of MNCs' nationalities and industry type.

Attractive Kuwaiti FDI policies based on MNCs' Industry type

The results of MNCs’ industry type have been classified into MNC industrial sectors categories as it shown in Table 64 below.

Table 65 - Frequency distribution of attractive FDI related policies by industrial groups

	Group (A) Financial	Group (B) Petroleum	Group (C) Services	Group (D) Trade
Kuwait FDI law and regulation	0	0	0	0
Financial and monetary policies in Kuwait	31	8	8	5
Trade liberalisation and tariff policy	4	5	0	4
Kuwaiti government privatisation policy	0	0	4	0
Specialised zone's policy	1	1	1	0
Kuwaiti taxation policy	29	50	23	34
Government investment incentives policy	12	26	8	12

Source: The survey data

The results indicate that group A (financial) selected the financial and monetary policies as the most attractive FDI related policies in Kuwait followed by taxation policy and government incentives, which reflects upon the importance of investments activity in banking and financial investment.

On the other hand, group B (petroleum) selected taxation to be the most important FDI related policy followed by government incentives, indicating that this group is more concerned about the taxation than other FDI related policies. The same group also considered the government incentives to be important policy to their industrial sector, however, less attention was given to other policies.

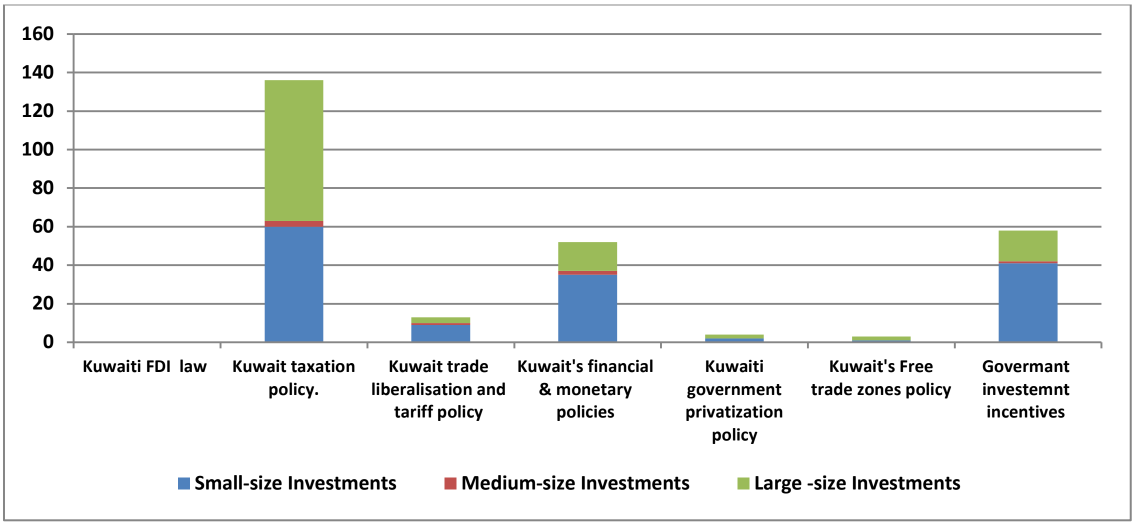
Similar to Group B, group C (services) chose Kuwait taxation policy as the most attractive FDI related policy with equally importance given to the financial and monetary policies as government investment incentives policies; meaning that this group is more concerned about the taxation than other FDI related policies.

Finally, group D (trade) also chose Kuwait's taxation policy as the most attractive FDI related policy, followed by the government incentives for foreign MNCs, but with less attention given to other policies, appearing that the trade MNC group is attracted to taxation policies because of it is importance in that industrial sector.

Attractive Kuwaiti FDI policies based on MNCs' size of investments

The results indicate that the majority of MNCs with small investment size had chosen Kuwaiti taxation policy as the most attractive followed by the government investment incentives, Kuwaiti financial and monetary policies, but less attention was paid to the other policies, as was the case with MNCs with large investment size. Medium-size investments MNCs had mainly selected Kuwaiti taxation policies to be the most attractive FDI related policy; however, because of the small number of MNCs with medium size of investment these results are approximate. Figure 42 below provides a graphical presentation of the results.

Figure 42: Attractive FDI related policies by MNCs size of investments.



Source: The survey data

Appendix O

Appendix (O) - Survey results of Unattractive Kuwaiti FDI policies

Unattractive Kuwaiti FDI policies based on MNCs' nationalities

In terms Kuwaiti FDI policies that discourage MNCs the results shows that North American MNCs had been discouraged by Kuwaiti FDI policy, followed by Kuwaiti government privatisation policy, and specialised zone policy as illustrated in Figure 34 below.

Similarly, the results indicate that European MNCs were also had been discouraged from the same FDI related policy. However, Asian MNCs had been discouraged by the financial and monetary policies in Kuwait, and equally by Kuwaiti FDI policies and specialised cells policies.

Unattractive Kuwaiti FDI policies based on MNCs' Industry

The results based on MNCs' industry type have been classified into MNC industrial sectors categories, as shown in Table 65 below.

Table 66 - Frequency distribution of attractive institutional location factors by industrial groups

	Group (A) Financial	Group (B) Petroleum	Group (C) Services	Group (D) Trade
Kuwait FDI law and regulation	27	36	27	2
Kuwaiti taxation policy	1	1	0	0
Trade liberalisation and tariff policy	5	0	1	0
Kuwaiti government privatisation policy	15	33	13	10
Specialised zone's policy	27	12	0	15
Financial and monetary policies in Kuwait	2	5	3	25
Government investment incentives policy	0	3	0	3

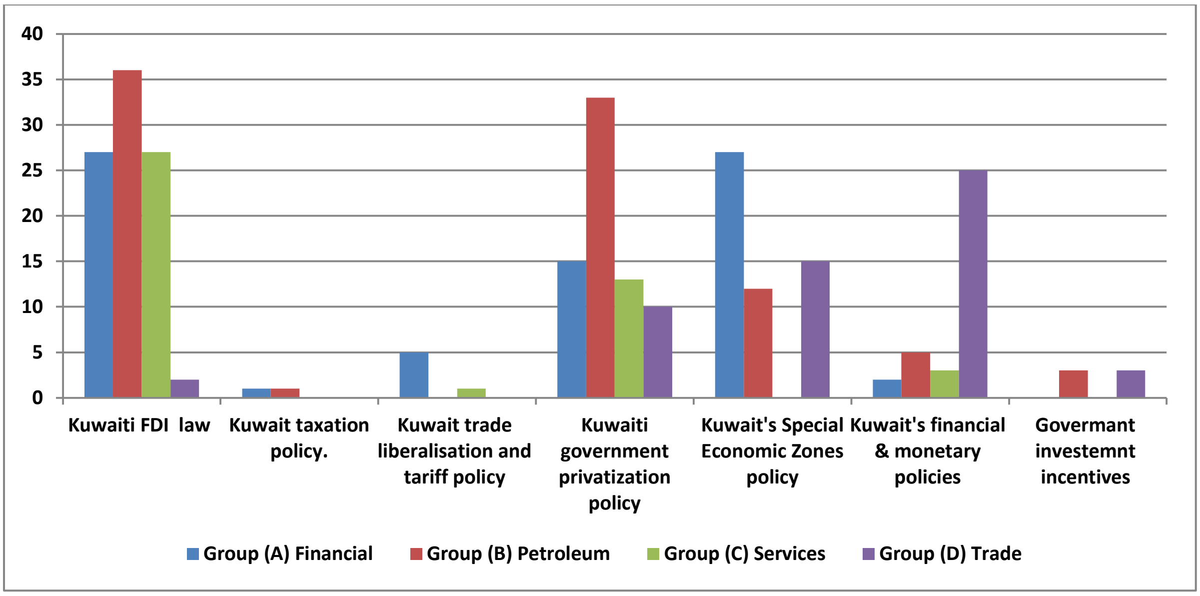
Source: The survey data

The results indicate that group A (financial) chose both of Kuwaiti FDI policies and specialised zone's to be the most discouraging FDI related policies indicating that these policies are important for the banking and financial MNCs in relation to their investment activities. Same group also chose Kuwaiti government's privatisation policy as the next discouraging FDI related policies.

On the other hand, group B (petroleum) chose Kuwaiti FDI policy as the most discouraging policy followed by Kuwaiti government privatisation policy and Kuwaiti specialised zone policy. Hence, the results indicate that petroleum and petrochemical MNCs were discouraged from investing in Kuwait because of these policies that influence the investment in the petroleum sector. Likewise, group C (services) chose Kuwait FDI policy and Kuwaiti government privatisation policy to be the most discouraging FDI related policies in Kuwait.

Unlike the previous groups, Group (D) Trade had chosen financial and monetary policies in Kuwait to be the most discouraging, followed by the specialised zone policy, and the Kuwaiti government privatisation policy. A Graphical presentation of the findings is provided in Figure 42 below.

Figure 43: Unattractive FDI related policies by industrial groups



Source: The survey data

Unattractive Kuwaiti FDI policies based on MNC size of investments

The results indicate that the majority of MNCs with small investment size had chosen Kuwaiti FDI policy to be the most discouraging followed by the Kuwaiti special zones policy as well as the Kuwaiti financial and monetary policies. Other FDI related policies, such as, the trade liberalisation and tariff, Kuwait taxation policy, government investment incentives policies seemed to be less discouraging for the MNCs.

However, MNCs with large investment size had chosen Kuwaiti FDI policy to be the most discouraging FDI policies followed by the Kuwaiti government privatisation policy and Kuwaiti specialised zone policy. Other FDI related policies, such as, trade liberalisation and tariffs, Kuwait taxation policy, financial and monetary policies, government investment incentives policies were less discouraging FDI related policies to MNCs.

Moreover, medium-size investment MNCs had mainly selected Kuwaiti FDI law policy and government investment incentives as the most discouraging of the FDI related policies in Kuwait. Still due to the small number of MNCs, with medium size of investment in the Gulf region, these results are approximate.

Appendix P

Appendix (P) - List of coded MNCs that were interviewed in this study

MNC CODE	Nationality	Industry	Size of Investments	Interview Location	Interview period
MNC_AG_1	European -Dutch	Petroleum	Large	Saudi Arabia	November 2010
MNC_AG_2	European-UK	Petroleum	Large	Saudi Arabia	November 2010
MNC_AG_3	European -French	Petroleum	Large	Saudi Arabia	November 2010
MNC_AG_4	American	Petroleum	Large	Saudi Arabia	November 2010
MNC_AG_5	American	Petroleum	Large	Saudi Arabia	November 2010
MNC_AG_6	American	Petroleum	Large	Saudi Arabia	November 2010
MNC_AG_7	American	Petroleum	Large	Saudi Arabia	November 2010
MNC_AG_8	European -UK	Financial	Large	Bahrain	December 2010
MNC_AG_9	European -French	Financial	Large	Bahrain	January 2011
MNC_AG_10	European -UK	Financial	Large	Bahrain	January 2011
MNC_AG_11	European-Swiss	Financial	Large	Bahrain	December 2010
MNC_AG_12	American	Financial	Large	UAE (Dubai)	February 2011
MNC_AG_13	American	Financial	Large	Bahrain	January 2011
MNC_AG_14	Asian-Japan	Financial	Large	Bahrain	December 2010
MNC_AG_15	Asian-Indian	Financial	Large	UAE (Dubai)	February 2011
MNC_AG_16	American	Hotels	Large	UAE (Dubai)	February 2011
MNC_AG_17	Asian- Taiwan	Hotels	Large	UAE (Dubai)	February 2011
MNC_AG_18	Asian-Singapore	Hotels	Large	UAE (Dubai)	January 2011
MNC_AG_19	Asian- Malaysia	Airlines	Small	Saudi Arabia	November 2010
MNC_AG_20	Asian-Honk Kong	Airlines	Small	UAE (Dubai)	January 2011
MNC_AG_21	Asian-Indian	Trade	Small	UAE (Dubai)	February 2011
MNC_AG_22	Asian-Indian	Trade	Small	UAE (Dubai)	February 2011
MNC_AG_23	American	Medical	Large	UAE (Dubai)	February 2011
MNC_AG_24	Asian-Indian	Medical	Large	Bahrain	December 2010

Appendix Q

Appendix (Q) - Sample interview transcript with MNC in the Gulf region

Industry	Size of Investments	Interview Location
Petroleum	Large	Saudi Arabia

Can you please tell me about your company's business/industry/investment activities in the Gulf region?

Our company is an international oil company, which operates in many international locations including the United States, Southern America, Africa, Middle East, Asia (including China), and finally Australia. Our company's activities include exploring oil, refining oil through the refiner's network (belongs to our company), then sell the petrochemicals, and also further processing the petrochemical to advance petrochemical products; afterwards selling it to the market according to the customer requirements. So, it is basically an integrated petroleum chain from exploring the oil, then drilling (the production of oil) then refining the oil to petrochemicals, and selling the chemical products to the customer. We also own several refineries worldwide as well as tank stores and fleet of petroleum carrier including products, gas and crude oil products as well.

In this case, can you tell me why your company had chosen the gulf region for its investment?

As you know, we are an international oil company. The company had started operations in the Persian Gulf region 15 years ago, because it is the board largest oil production agglomerate in the world, because this region produce 23 million barrel per day. Also, Persian Gulf region is the biggest agglomerate as well for crude oil and natural gas, I don't think there is a single large petroleum company without an office in the region. The gulf region is very rich in both gas and oil. For example, if we look at the oil production, we will find that almost 45% of the daily oil production worldwide is been produced in the gulf. Ideally, the Gulf region is the centre for all oil companies, it has the world's highest oil and gas production sites and reserves, the Gulf region produces approximately 45% of the daily quota of crude oil worldwide production, Saudi Arabia with almost 12 million barrel per day, UAE with 3.2 million barrel per day and Kuwait with 2.8 million barrel per day, and Iran with approximately 2.5 million barrel per day... Now, if you want to know more about this subject from oil business point of view, you will understand that almost 65% from the oil reserve worldwide in the gulf. You have actually four of the top ten countries in the world that have oil reserves in the gulf. We have Saudi Arabia, we have Iran, and we have Iraq, Kuwait, and United Arab Emirates. These five countries are among the world top countries in oil reservation. So, they have a huge reserve of oil and that is guaranteed for the upcoming fifty years. All the data we are talking about has been published by OPEC and verified by the member countries of the OPEC. The other reason for us to be in the gulf region is to invest in the gulf region, because of the low production cost of oil and the gas in the area. It is very low compared to rest of the world; if we compare it to Europe and the America.

Ok, can you please tell me the approximate size of your investment in the Gulf region?

Our investments in the gulf from tangible assets are almost 577 million US dollars, which includes all the agreement fees with the countries as well as the equipments. However, we are not including the intangible assets, e.g., the technology we brought along, because that exists with our organisation. That is about it. For an oil company that amount is average or minimal. Normally we will invest a lot in oil, as you know the return investment is high as well.

Fine, to what extent your company in this location is involved in the investment decision making? Can you please explain to me about the investment decision making within your company?

Our company has its head quarter in the United States and regional offices scattered all around the world, we are here in the Middle East regional offices, we report to the Middle East regional office. It is in Dubai and all the investment decision or joint venture operation being discussed with our executives, representatives from these countries in Dubai office. After we form the work plan or proposal, we send it to the head quarter in the United States for approval.

Can you please explain to me if they usually approve it or not?

Usually, the headquarter will send someone to discuss the project with us, like strategic planning manager to our meetings and they attend the meeting and they ask questions, in this case when the proposal is presented to the board of directors at the head quarters, they already have an idea. The strategy planning manager will pass the recommendation, and also some of our executives in the region will accompany the strategic planning manager in his presentation to the board of directors. But through my 23 years of working with them, I have never seen any proposal being rejected by the head quarters as long as the regional office recommends it for the head quarters.

Then, who will make the final decision regarding your investments in the Gulf region?

There is no such thing called making the final decision. It's a combination, if you like let us call it 50/50. We have a part of decision like teamwork, and they have a part of decision. Of course, they are the head quarters, they have the final words, but they do not take the word without our recommendation, our discussing these issues with you, with several meetings with us about it. So it's a joint decision making.

During the process of collecting information about Kuwait for example, have your company received any information about Kuwait, such as information investments opportunities? Or updates on FDI laws in Kuwait?

When we tried to have information about Kuwait, like new projects in the Kuwaiti oil sector, we would get this kind of information from a consultancy house in Kuwait , we have an agreement with a consultancy house of Kuwait, and this provides the company with quarterly reports about the development of this project in Kuwait.

In this case, it seems that you are monitoring Kuwait, can you tell me what kind of information you are seeking?

We are actually waiting for the Kuwaiti government to announce the new law for allowing the international oil companies to participate in developing an investment in the oil field. It's a long ongoing project called 'Kuwait North' project eight years ago. There is an update every once in a while, so we are still awaiting to see how the the development of that project.

In this process, had your company been contacted by Kuwait Foreign Investment Bureau and provide you with information about investments opportunities? Or updates on FDI laws in Kuwait?

No, we have never been contacted by Kuwait foreign investment office. In fact, this is the first time that I came to know that Kuwait had an investment office.

If your company were to consider or had considered Kuwait as future investment location, I would ask you which location factors attract your company to invest in Kuwait?

The company has its criteria for studying the future countries, mainly our company look at the cost of producing gas and the oil, adequate infrastructure for production and transporting the oil or gas, geographical location, country risk, and the availability of skilled workers, what concerns us is the cost, because the cost of gas and oil production varies from region to region in the world. It is well known that the gulf region is the lowest region worldwide in the production cost of oil and the cost of refining products.

In relation of Kuwait and the gulf region, the main attraction to us would be the cost of producing oil in Kuwait. If we look at the United State, it costs 24 dollars to produce one barrel of crude oil onshore. Also, in Canada it costs 26 dollars to produce one barrel of crude oil. The North Sea costs 31 dollars to produce one barrel of crude oil. Now, if you look at the gulf area, it only costs 5 dollars to produce oil per barrel. When I say producing the oil barrel, it means the cost of producing one barrel of from oil rig to the tank shore or to nearest export point. Thus, the minimum production cost worldwide is in the gulf region, it absolutely reflects in our costs and economics and later on the company profits. Therefore, all the international oil companies are anxious to have a presence in the Gulf Area, because of the low production costs, and due to existence of huge oil and gas strategic reserve. During the first half of 2010 the price of crude oil was 88 dollar. Therefore, in the US our economics would be 80 dollars less 25 dollars (production fees), and that leaves us with 55 dollars. Now, in the Gulf our economics would be 80 dollars less 5 dollars (production fees), and that leaves us with 75 dollars. That means we are gaining almost 20 dollars extra per barrel.

As you can see, Kuwait can be attractive because of the low cost of oil and gas production, the accessibility of sophisticated oil facilities such as Oil and gas pipeline transit systems, Water treatment and injection Plants for the oil production, and The Central Mixing Manifold (CMM) enables blending of the crude required to meet the specifications. The enormous Tank Farms, where the oil is stored at these Tank Farms prior to export. Besides in Kuwait and all gulf countries oil is exported through offshore floating facilities and SPM terminals. We know that Kuwait has a modern (rebuild after the Gulf war in 1990) Oil and Natural gas pipeline transit systems, new Oil and Gas Booster Stations. Kuwait also has SPM facility. SPM is a loading point anchored offshore that serves as a mooring point and interconnect for tankers loading, when no alternative facility is available. Not all Gulf countries have SPM's. If you add these *factors, the final result is reduction in cost of production. add to this the wages of labour in Kuwait is considered to be fair to skilled level of the labour, level of labour wages in Kuwait and other Gulf countries are almost the same, good point is that you do not find cheap unskilled labour, because unskilled workers are dangerous, our company considers them hazardeous, and we never employ unskilled worker to operate sensitive and high cost petroleum equipments.*

Also, we noted that Kuwait and Saudi Arabia are the only two countries investing in research and development of petroleum products. In Kuwait, we met the Kuwait Institute of Scientific Research of Petroleum Industries through a number of conferences and meeting. In addition, in Saudi Arabia they have a full university called the King Abdul-Aziz University of Mining and Petroleum dedicated to the research and development of oil and gas products. Kuwait got more of my company attention because of the petrochemicals research centre in Kuwait. The move forward research in petrochemicals production and catalyst development, which is important to our company, because we need an advance research facility to test our catalyst, which we are using in the petrochemicals production, I mean petroleum catalyst that is used during chemical processing to speed up the cracking reaction. Therefore, the company is pleased to see a Kuwaiti petroleum research centre with skilled researchers in a broad spectrum of technical fields related to petroleum refining, petrochemicals. In fact, I visited the Kuwaiti facility few years back and I was surprised to see a petroleum catalyst research unit, and a laboratory well equipped for research on catalyst development. We never see this in other Gulf countries and this makes Kuwait more attractive to our company.

I would also add the political risk. All the gulf governments have this royal system, so they are in a way stable. We haven't heard of any revolution or anti government movement for the past fifty years in the gulf countries, which has made it very stable. Also, they have to do with the president of the United States and British and French and Canadian troupes in the region. Looking back at Kuwait, we are satisfied with the labour market, because there is a skilled worker (some of them are locals) with average wages. The labour wages in Kuwait are suitable for our economics. Also, Kuwait has an outstanding geographic location.

Excuse me ... you mentioned 'geographic location' Can you please explain more please?

Yes, geographic location. It's important for any future location to have access to the sea cost, as we should the products either crude oil, guards or petrochemical through the boards to its final destination. From your economic point of view it is very critical to have what I would call it 'Seaside access' in order to reduce the cost of shipping and transportation of the crude oil and petrochemical products, otherwise the cost might increase and the location definitely would be an attractive. To give an example about the situation, in the east part of Russia in specific the region of Siberia there is huge quantity of crude oil underground however it is extremely difficult to ship this oil from Siberia therefore nobody is bothering to trouble himself and get this oil as the economics of shipping the oil and gas from that region to the markets is very high and could offset to the cost and therefore there is no economic benefits in doing such business.

In this case, let's look at the other side ...if I asked you about which location factors can or had discourage your company to invest in Kuwait?

Well, generally speaking, any location factor can increase our coast in general, and more specific the operating costs is considered to be discouraging factor, for us as an petroleum company we would be more concerned about the operational factors... Simple example would be the strict environmental regulations which are imposed by governments can increase the cost factor for us. As the company to carefully handle the environment regulation as the case in the developing countries, excessive and strict environmental regulation would require additional investment in 'environmental friendly process' through the installation of additional equipment to reduce the pollution level caused by our operations. This equipment is costly and in many cases reduces our profit margin. Some of the environmental regulation is universal and we do comply with it. But in many European countries it is very strict and indeed discourages us from establishing cooperation in some countries in Europe. Also what concerns us is the availability of reliable contractors. You might know that we need to source out some of our constructions to local contractors, and in this case it is essential that the local contractors are reliable and available to meet our standards of operations.

Now going back to your question about specific factors about Kuwait. Right now I do not recall any problematic location factors in Kuwait for my company, as these factors will normally rise during the operation, and since we are not there yet it would be difficult to guess what these factors are. Mr. Salah before your visit, I had to chat with some of my colleagues from other department who knew their business environment in Kuwait better than me, and they had shared with me your thoughts...what comes out my discussion with my colleagues is that there is no major problem with doing business in Kuwait, beside the Kuwaiti law that forbidden foreign petroleum companies from investing in the Kuwaiti petroleum sector. May be there is some small issues with doing business in Kuwait. For example, it is very tough in issuing work permit for foreign employees. It is very hard to get a visa in Kuwait. We can get any visitor from worldwide to Dubai and issue the visa on arrival at the airport; while in Kuwait, we have to have a pre visa issued week in advance for some nationalities, which sometimes becomes a sort of complication for our business. So, they are little bit rigid and bureaucratic in terms of government procedures. And that's not only Kuwait, it is also in Saudi Arabia as well, but it is less in Dubai or Bahrain. From point of view of doing business and trying to invite more companies to invest in your country this is really very negative about Kuwait. This is what really could discourage us from Kuwait. Again any factor can increase the operating costs of us doing business in Kuwait or anywhere else would consider a negative factor and would obviously discourage us from considering to develop our investments in that country. Now to have a full list of what you called 'location factor' would require us to operate in Kuwait for a couple of years to develop a better understanding of what these factors could be.

Thank you, now moving to institutional, so if I asked you about which institutional location factors can attracts your company to invest in Kuwait?

I'm not sure what is institutional factors and how is different than the location factors.

That is fine. To start with institutional factors in a simple way refers to factors linked to both formal institutions such as rules, laws and regulations and informal institutions such as norms and believes. An example of institutional factors would be legal system, private property protection, intellectual property, corruption,

bureaucracy and labour regulation. In other words, these factors are subject to the influence of both formal and informal institutions.

If I understand the definition of institutional factors correct as you just explain to me, then in Kuwait, I would say it can be the court of law in Kuwait, because there is a commercial law for business transactions disputes not only based on the Islamic law like here is Saudi Arabia.

The other criteria are the legal issues, which basically means as to which location can protects our company property rights. It is against nationalization normally like in Africa. We had an incident with Africa that after we build oil processing facility, the government had been removed and the new government came. As a result of the new government strategies, they nationalized the oil sector and we lost a multi million investment in that country. So, it is the legal settings, and of course, we prefer a country with less corruption. For example, Africa is rich with oil; however, all the African countries are politically unstable and very high in corruption. Therefore, we seriously avoid going to these countries as much as we can, even if the cost is attractive.

For us as Oil Company, our main interest in the concession regulation. Concession agreement is very important for us, especially in the oil and gas exploration. Concession is like an exclusive and special consideration agreement for oil and gas exploration in designated area and time frame by the local governments. They will give us, as Oil Company, free land and solitary possession to drill and explore the oil. To explain more on this point, take the example of the current situation for our company here in Saudi Arabia. We do have similar agreement to the concession agreement with the Saudi government which has been going on for more than 50 years now. And the Saudi government is willing to continue with this agreement with us as long as we deliver our part of the contract.

Also, I would personally look very carefully toward labour rules and regulations in Kuwait. In the end, as an oil company, I would require highly skilled labour that deserved the high wages. So, a simple way I would be looking for is how the labour law in Kuwait would link the wages of the Labour toward their skills, and how flexible is the law regarding the working hour. I'll share with you this odd example that we are suffering from in Saudi Arabia. As you know during the daily five prayer times in Saudi Arabia all the operations have to be suspended to allow the Moslem workers to perform the players, not mentioning that Friday is a 'holiy'day which means Moslem workers are not required by the Saudi law to report to work, which of course causes delays in order, and puts us under pressure. This is why we want to hire more non-Muslims workers, but we can do that as labour law in Saudi Arabia require us to hire more Muslims workers... I think this is a good institutional factor, because this combination between the formal or in Saudi Arabia and the Islamic believes toward distribution of working times.

The guaranteed property rights is very important to us, especially we are using "technology secrets", which is classified production techniques for oil production which aims to reduce the production cost at any location. Therefore, the existence and enforcement of property rights protection law is very critical for the company, I attended a conference in the Middle East and I believe all the countries in the gulf region, not sure about Iran participated in the property right or protection. Therefore I would expect, but not 100% sure of property rights in Kuwait to be strictly enforced. And this is because Kuwait is the most democratic state in the region, not fully *democratic as the Western countries, but it is the best example in the region and we would expect Kuwaiti institutions would legally protect our company private properties including the intellectual properties without going into much detais, as this could be a sensitive topic in Saudi Arabia. But most of the legal courts (including commercial courts) are based on the Islamic law and unlike Kuwait; there is a level of court system. There is appeal court which is not available in many cases in the Saudi legal system.*

Ok, how about if you can please tell me which institutional location factors can discourage your company to invest in Kuwait?

There was a discussion five years ago on investing in the Kuwaiti oil sector and our company came across two points. The first is Kuwaiti investment law. The current investment law does not allow any foreign companies to go exclusively or joint venture with the Kuwaiti company in to the production of oil. In this case, that means oil and gas is closed doors for all foreign companies in Kuwait. Even for a joint venture project, you might need high-level access and networking in order to make the project doable, as in case of some American companies in Kuwait. The other concern was "The Project Kuwait", and I think that you know about it, because the newspapers in the region have mentioned several times about the North of Kuwait oil fields. This project has been pending for the past seven years for mysterious reasons. According to the news there should be a special law passed by the Kuwait parliament. We have been on hold for the past years to hear about this law, but it never came.

There is nothing for us to invest in Kuwait, because the law does not allow us, even specific project are to be finalised by the Kuwaiti government, as well. In this case, we are waiting for the law is fixed or a new regulation is passed to amend the current law of prohibiting the foreign companies of entering into the production of oil and gas in Kuwait. This can be linked to Kuwaiti government's transparency, and the government redundancy towards oil and gas projects. We don't like to be present in a location, where the government claims to fight the corruption. The corruption is already there, because corruption within the government could easily harm us. The Kuwaiti government transparency has been under question recently, frankly speaking. I mean, in case of the "Kuwait project," the Kuwaiti government announced that it would open this project to the international oil company. At that time, it was a good newsfor all the oil companies in the region. Everybody submitted their proposal and we waited. After a few months, the Kuwaiti government announces that there is a legal and legislative issue, which is to be addressed by the Kuwaiti parliament in order to issue a exceptional law. Because the Kuwaiti rules and regulation regarding the oil industry clearly say that the gas and oil is a national wealth, and it is not allowed to any foreign companies to operate in the exploring, producing, and/or selling of oil on behalf of the Kuwaiti government.

As a result, all the oil companies waited and waited for the legal issue to be resolved in the parliament. It took forever, and is still going on. We are keeping an eye on Kuwait, and we believe that the project is there, but it is taking so much time, and honestly, we tried to inquire why it was taking so much time. We found out that there was a debate between the government and the parliament. That is what we found out from the consultancy house in Kuwait. Apparently, there was an issue between the government, the merchants, and the chamber of commerce on this side, and from the parliament from the other side. There is a team or a group in Kuwait who try to push this forward for this project to be executed, or the bill for this law to be executed. Of course, because of the state, Kuwait will be benefiting from this project. If you can imagine that around

500,000 barrels per day will be produced at the current prices or the current oil prices, you are looking at approximately 40 million dollar per day income for the state, I mean to Kuwait. So, I think the sincere people, who have Kuwait in their interests, they are pushing forward, because they see the oil down there in the desert, which is being put to waste. Now, if it is produced, we are looking at the oil prices of 40 million dollars per day, which will enhance the development project, the infrastructure, and all the expenditure under the Kuwaiti budget.

Another recent incident of Kuwaiti government transparency is what happened on Kuwait refinery two years ago. They wanted to build the refinery, but the issue of agents came to surface and the refinery project has been granted, in my understanding, to an Asian company. I think it was either Hyundai or Daewoo; I am not sure. But the agent of the other company, who lost the tenders started to talk about the legal issues, and bringing up issues about reliability of the tender process. It resulted in a fight, which was also covered by the newspapers. These agents are very powerful, through political parties or cult, religious parties, and tribes. They have their own connection through the government, and the government parliament. So, they use all these lobbying and networking. The Kuwaiti government had to suspend the programme under further investigation due to the quality of the material. It has remained suspended for the past 2 to 3 years despite the award of the tender. That tells you how powerful are these agents or these groups in Kuwait. So, Kuwait need to do something about this agent law... it should be changes if Kuwait wants business and investment flow into the country.

I would personally say the social life, because it is very important for our workers, most of our experts and engineers are Europeans or semi Europeans; the lifestyle is important for them. These workers sometimes spent 5-7 days offshore in the seaside or 5-7 days in the deserts without any contact with the human being just by themselves and the machines. Therefore, at the weekends or during the breaks, they would like to have enjoyable times; they would like to go to bars, and night clubs. This is why the company don't have any problem with it locations in Bahrain and Oman, since there is clubs and night clubs our workers can attend. However, we have a serious problem with our location in Saudi Arabia, because Saudi Arabia is very Islamic restricted countries and at the weekends many of the staff members have to fly all the way to other countries. Now, thankfully they can take the bridge to Bahrain that has been recently built. They stay there for 2 to 3 nights and then return at the weekend. I am almost sure, it is the same in Kuwait. I mean, Kuwait is more liberal than Saudi Arabia, but there are no clubs or night clubs at all, because alcohol drinks are banned in Kuwait.

Thank you for this detail answer, it seems that the Kuwaiti government transparency is very important matter for your company!

Yes, it is! There is a general feeling that there is a hidden agenda, which is trying to place obstacles for this law to be passed! Basically, that is because of the agent system of Kuwait. This is a very odd issue. Now, if you imagine during that time there were more than 13 oil companies applied for the project Kuwait; it's called Project Kuwait, if I recall it correctly. So, there were 13 agents fighting to appraise their representatives, and I am sure I mean for us, at least, we don't select any agents; he has to be powerful financially, economically, and politically as well. So, we are talking about 13 influential and powerful agents, who are trying to pull the agreement to their side. That is one of the explanation that we discussed during the corporate council a few years ago, because of this agent system of Kuwait everybody wants to grab his share from that project; also, these agents are very powerful and influential in Kuwait.

The project becomes delayed. So, we believe the government needs to do something toward that.

In this case can you tell more about your disappointment with that Kuwaiti investment law?

Yes, we feel that Kuwait remains too closed to foreign investment, because of its laws restricting investment in the strategic sectors, such as, oil and gas. As I said, the main disappointment about Kuwait is the vague and fuzzy rule of investment in the petroleum industries. The reality is that all petroleum industries are closed in front of the foreign companies, plus there is unclear definition about how the foreign companies can invest in the Kuwaiti oil, gas, and petroleum industries. All the companies in the Gulf region recall the project Kuwait. We discussed in the previous question and came to a conclusion that this project was in the drawers for seven years, because of legal issues of rule of investment in the petroleum Industries. This is the official explanation by the Kuwait government, however, according to our sources within the petroleum industry in the Gulf region, the delay is not because of legal issues investment in the petroleum industries, rather because of the conflict between politicians at the Kuwaiti Parliament, and the Kuwaiti government. I think it was a conflict of interests; I am not sure about the exact details. But I am sure that it is not because of legal issues in the investment law in the petroleum industries. Therefore, the Kuwaiti government must have clear cut laws in order for the foreign companies to consider investing in Kuwait.

I remember, when the Kuwaiti government announced through Kuwait Oil Company, the intention of treating all the crude oil of its sulphur content in order to produce environmental friendly products that will suit the new European Union regulations towards the fuels, in terms of automotive fuel or the aviation fuel or the marine fuel as well. At that time we are in the process of conducting a study about the best practise in reducing the sulphur content in oil and gas but we lacked some technical historical data about physical and chemical properties of crude oil in the Gulf region, but what had makes us excited is to know know that the Kuwait had established a database using your for all typical type of crude oil in the Gulf region. Now what really shocked us here in this situation that when we really started the communication with the consultancy house, we had been alerted by this consultancy house that investing in oil sector even in R&D of processing oil and gas to get the high quality and environmental friendly products is not allowed in Kuwait. Therefore, we cannot enter to that field by our own, in this case our other alternative is to work in joint ventures, but we really tried to avoid joint venture as these joint ventures will risk our secrets and technology plus there is a big possibility that the other party will try to possess our new technology and will terminate us from the location which something similar happened in the past for us. I am not saying that will happen in Kuwait, but saying that we have a bad experience with joint ventures. So, we prefer to work by ourselves and if that is right what we are receiving from research institutions and consultancy house that this oil sector is not allowed for the foreign companies, then this are very sad and pity to say that we will not be able to do and invest in Kuwait.

Thank you. My next question is about FDI policies in Kuwait, If you had a chance to review the Kuwaiti FDI policy, which FDI policy in Kuwait can attracts your company to invest in Kuwait?

FDI policies are very important for us, because it’s in react to our daily work in that location. The current policy regarding investing in oil sector prohibits any foreign *companies to involve themselves in the production of the oil gas in Kuwait. But it does allow foreign companies to provide production services, exploration technology, and consultancies to Kuwait Oil Company. The Kuwaiti government should exempt and allow the foreign oil company to operate in Kuwait. We visited Kuwait, and we prepared to share the technology with Kuwait Oil Company. Our company did offer technology as well as all the major international companies. The Kuwaiti government has promised everybody to discuss with parliament about issuing a law that would allow the foreign oil companies to operate in Kuwait, basically we will be allowed to drill and to explore and to produce the oil. But this law never came. Now, it has been almost ten years and this has never happened. Frankly speaking, many oil companies have lost their interest in Kuwait. Also, in Kuwait, there is an issue of having no clear direction for the government in dealing with the petroleum related industries.*

To explain this, I will share with you this example, everybody knows a year ago the DOW chemical project with Kuwait oil company. It was huge project and the Kuwaiti government gives the green light for the dhow chemical with Kuwait Oil Company to continue their joint venture in this project. Then suddenly the Kuwaiti government has suspended the project and agreement. And there was a penalty that Kuwaiti government has paid. But the issue here is that interference of too many people in the decision, and the politics and escalates this issue and give it the politics a theme had affected the project. In the end, the project between Dhow chemical and Kuwait Oil Company it was a huge project. All the oil industry company is not allowed had been cancelled. That gives us a fear that in a way that if we are going to have a project with the Kuwaiti government in the future we might have this fear and that comes under the country risk. It's actually political risk. So, if the government doesn't have any healthy relationship with the parliament at any time that they can go on cancel it and of course there is no clear law in Kuwait about these projects or petroleum projects in Kuwait. So, this is really a huge turn off and discouragement for our company from investing or to think to invest in Kuwait.

It seems you have good background about Kuwait, I am interested to know how did you collect the information about Kuwait and Gulf region?

Within the whole industry for a multinational company, we have our own market research department that collects the information and forms up the data on a daily basis, with the American Petroleum Institute, and the United States Energy Information as well as the OPEC, the daily oil publications like ARGOS and OILGRAM. We have this department that monitors and then publishes data from worldwide. Then, we have a daily report including from our market research department telling us about the information we need about that location. If we need any specific information, we normally contact a number of consultancy houses in that location, if they have an existing office. We also talk to other oil companies in the region on regular basis and exchange opinions.

Would you like to add/share any other information or any comments related to the subject discussed in this interview?

I personally think that the Kuwaiti government seems to be very protective of their own people, because they are trying to keep the community very close. I hope this can be change soon. I wish you all the best with your studies.

Thank you very much for your time. As you might know, I'm looking to expand my interviews with more MNCs in the Gulf region to understand why they are not in Kuwait, and would appreciate if you can please refer me to your colleague from other MNCs in the Gulf region if it's possible?

Of course, no problem at all, I will contact two of my colleagues in other companies here in Saudi Arabia to talk to you, and you can ask them if they would like to be interviewed as part of your research. I'm sure there should be no problem. I will give you the contact details, but you have to call their offices and talk to them and ask them who would like to be interviewed.

Thank you very much for your time. Your participation is very much appreciated.