Gulf Financial Aid and Direct Investment

TRACKING THE IMPLICATIONS OF STATE CAPITALISM, AID, AND INVESTMENT FLOWS

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Executive Summary

Emerging markets and developing economies from Africa to the Middle East to Asia now have some interesting choices in development finance partners. Where the money comes from matters. First, sources of development finance through loans or foreign direct investment create institutional consequences in the recipient state. Second, the dealmaking of development finance creates political alliances that transcend the development transaction and, in many cases, reinforce patronage networks and personalist politics. Third, the efficacy of project delivery and its long-term viability, whether infrastructure investment in utilities or social infrastructure in health and education, depends on governance, competition, and the mutual benefits of rule-based markets.

Much energy has focused on China's Belt and Road Initiative (BRI) and the debt-trap diplomacy it represents. But there is another set of players on the scene whose growth and influence in this sphere have been largely ignored. Gulf Arab states, particularly Saudi Arabia and the United Arab Emirates, have increasingly embraced an aggressive growth, investment, and development model for the broader Middle East and an expanding sphere of influence north to Jordan and Egypt, south to Yemen, and southwest to the vital trade corridor around the Arabian Sea toward the Horn of Africa and the Red Sea. Like the People's Republic of China, the Gulf states are seeking political influence through economic statecraft.

This report and an accompanying interactive dataset and tracker are an effort to understand the breadth and scope of Gulf aid and financial intervention into a representative set of countries in the Middle East, Horn of Africa, and West Asia. The Gulf Financial Aid and Direct Investment Tracker includes all six Gulf Cooperation Council (GCC) states—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates—as sending countries and then tracks official development assistance (as reported by sending governments), central bank deposits, and foreign direct investment in eight receiving case countries: Djibouti, Egypt, Ethiopia, Jordan, Oman, Pakistan, Sudan, and Yemen.

The clear finding from the Gulf Financial Aid and Direct Investment Tracker is that the GCC states are by far the largest source of capital investment in the eight recipient case countries when combined as a cohort. Even taking away the cases in which other foreign investment would be less interested to intervene (as in the case of Yemen or Sudan because of war or sanctions), the GCC states appear as important sources of capital, as we see in Egypt (where foreign investment is strong), Djibouti, and Oman (where China is understood to be a strong source of capital and where the cases are of core strategic interest to China's BRI policy).

A second objective of the report and tracker is to demonstrate the competitive landscape for foreign investment in the receiving case countries and indicate the growing strength of Gulf capital investment, as it measures against a perception of Chinese capacity in the wider Middle East and emerging markets broadly. Most important, the comparative data here also demonstrate how private capital flows from the United States, United Kingdom, and European Union compete against flows of capital from state capitalism sources such as China and the Gulf.

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For much of the post–World War II era, the United States believed its model of investment and development represented not simply the sole model of building aspirational democratic capitalism but one that was underpinned by global institutions and unfettered by serious competition. That is no longer true, and while the United States still can offer a transformative global investment and development model, it neither does so aggressively nor appreciates the reality of growing competition in that sphere. Emerging models of state-led growth, market intervention, and preferential treatment of state investment in market institutions are challenging the preference for democratic capitalism as a source of ideological influence and a prescriptive for growth.

These emerging models are gaining traction as states vie for opportunities as agents of finance and development across emerging markets. China is of course a leader in this effort through its Belt and Road Initiative (BRI), but other small states with deep pockets have staged equally disruptive interventions. The Gulf Arab states are especially active now as agents of development finance.

The foreign policy implications for the United States in a post-COVID-19 global economy are immense. As the demand for foreign direct investment, refinancing of outstanding debt obligations, and new debt issuance becomes the mechanism of recovery for emerging markets, the United States as a source of private financial flows will contend with state sources of finance with political ambitions. More than an important source of private investment, the United States stands as a model of development based on free markets, competition, and rule of law.

This report and an accompanying interactive dataset and tracker are an effort to understand the breadth and scope of Gulf aid and financial intervention into a representative set of countries in the Middle East, Horn of Africa, and West Asia. The Gulf Financial Aid and Direct Investment Tracker includes all six Gulf Cooperation Council (GCC) states—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates—as sending countries and then tracks official development assistance (as reported by sending governments), central bank deposits, and foreign direct investment in eight receiving case countries: Djibouti, Egypt, Ethiopia, Jordan, Oman, Pakistan, Sudan, and Yemen.

As a note on receiving country case selection: These eight recipient case countries vary widely in their geography, attractiveness to foreign investment, economic size and scale, natural resource dependency and diversification, and strategic importance to external powers. The data are a compilation of news reports, recipient and sending government data, and foreign direct investment flows tracked by fDi Markets, a *Financial Times* company, all combined and available by request and downloadable on the AEI website.[1] The data compiled represent the period between 2003 and May 2020.

In this report, the six GCC states are combined as one analytical unit and compared with capital investment from China, the United States, the United Kingdom, and the European Union. The objective is to demonstrate the competitive landscape for foreign investment in the receiving case countries and indicate the growing strength of Gulf capital investment, as it measures against a perception of Chinese capacity in the wider Middle East and emerging markets broadly.

Most important, the comparative data here also demonstrate how private capital flows from the United States, United Kingdom, and European Union work together to compete with flows of capital from state capitalism sources such as China and the Gulf. The findings suggest that in demonstrating more consistent capital flows and job creation, capital investment from the US, UK, and EU present a major counterforce to support growth, innovation, entrepreneurship, individualism, and, one would hope, democracy as the "best aspects of free market capitalism," as Joshua Kurlantzick describes.[2]

The Changing Landscape of Development Ideals and Financial Flows

Emerging markets and developing economies from Africa to the Middle East to Asia now have some interesting choices in development finance partners. Where the money comes from matters. First, sources of development finance through loans or foreign direct investment create institutional consequences in the recipient state. Second, the dealmaking of development finance creates political alliances that transcend the development transaction and, in many cases, reinforce patronage networks and personalist politics. Third, the efficacy of project delivery and its long-term viability, whether infrastructure investment in utilities or social infrastructure in health and education, depends on governance, competition, and the mutual benefits of rule-based markets.

Problematically, much of the demand for infrastructure investment in emerging markets is being met by predatory lending and recycled petrodollars, rather than market-based solutions. Using the broadest definition of infrastructure, the world spent $9.5 trillion on all types of asset classes in 2015, equivalent to 14 percent of global gross domestic product, according to McKinsey research.[3] China spends more on economic infrastructure annually than do the United States and Western Europe combined. The world needs to invest $3.7 trillion in economic infrastructure annually through 2035 to keep pace with projected growth, and more than 60 percent of the investment needed will be in emerging markets.[4]

But, meeting that finance demand and tapping into the development potential of the Middle East, Eastern Europe, Latin America, China, and beyond requires political and ideological leadership. Right now, the United States is outside of the global development conversation, forgetting that it is in America's strategic interests to see rule-based markets expand. In a post-COVID-19 world, collective economic recovery will depend on the availability of finance, especially in emerging markets. The direction and amount of financial flows are important, but what underlies them are ideas on how best to create growth.

There are key regional development actors in the Middle East and outside sources of investment and contracting, most notably China. And while private capital flows, much of them from the US, the UK, and Europe, are essential and robust, Gulf-based capital is starting to dominate. Distinctions between what kind of financial flows exist, where they originate, and if they are private or government funds are often muddied, difficult to distinguish, or unreported altogether.

From a US foreign policy perspective, the ability to counter China requires understanding what China actually offers to America's traditional partners in the Middle East[5] and then demonstrating (1) how private capital from liberal democracies is more consistent over time with strong results in job creation and (2) how regional sources of investment, specifically from the Gulf states, outweigh China in many cases as a source of foreign direct investment and job creation. There is a perception gap in the Middle East, in many cases propagated perhaps unintentionally by the Gulf states themselves, that outside actors are a major source of development partnership. There is a

particularly skewed perception of China's role in the Middle East, when really China enjoys a bit of public relations free riding for providing no massive wave in terms of direct investment but more in contracting services that serve mostly to pay government-linked firms in China, sustain lending through Chinese banks, and often employ Chinese citizens or poorly paid migrant workers in the Gulf.

The ideal development partner becomes defined by an ability to change the physical environment and the hard infrastructure of buildings, rather than facilitating the free movement and accessibility of financial capital and supporting the growth of human or intellectual capital in learning environments, entrepreneurship experience, and even failure. In this sense, the ideology of state capitalism has become a preferred regional development approach based on the perception of success, rather than evidence of potential for economic growth across society.

Much energy has focused on China's BRI and the debt-trap diplomacy it represents. But there is another set of players on the scene whose growth and influence in this sphere have been largely ignored. Gulf Arab states, particularly Saudi Arabia and the United Arab Emirates, have increasingly embraced an aggressive growth, investment, and development model for the broader Middle East and an expanding sphere of influence north to Jordan and Egypt, south to Yemen, and southwest to the vital trade corridor around the Arabian Sea toward the Horn of Africa and the Red Sea. Like the People's Republic of China, the Gulf states are seeking political influence through economic statecraft.

Theories of Development and Their Institutional Consequences: A Brief Literature Review

In studying the political economy of development, politics often become secondary to economic theory prescriptions for growth. Each country faces specific challenges and exists within concentric domestic, regional, and international spheres of influence. Despite more than a century of academic inquiry into wealth and disparity between political systems, a great deal of debate remains about the best ways to end poverty. Notwithstanding the acrimony in academic and policy circles, however, the general trend of poverty reduction and access to finance achieved through the Bretton Woods system has demonstrated incredible progress.

The logic of development assistance after World War II has been based on a consensus that open markets are best able to deliver growth and that leverage from international financial institutions to encourage liberalization and rule of law can nudge (or force) governments to make better economic choices. That advice has been largely successful, as the World Bank reports, at creating remarkable and unprecedented progress in reducing extreme poverty over the past quarter century. In 2015, more than a billion fewer people were living in extreme poverty than in 1990. The progress has been driven by strong global growth and the rising wealth of many developing countries, particularly in the world's most populous regions of East Asia and Pacific and South Asia.[6]

The opening of China and the ignition of economies in South Asia, driven by a global consensus on the power of liberalization and access to finance, has changed the world. However, it did not happen in a vacuum. American ideas about markets inspired China's liberalization and then facilitated it through access to capital from international financial institutions that America helped create. In fact, China's access to World Bank loans and, more broadly, the advice and access to institutions of a global liberal economic order have enabled and accelerated its growth.[7]

Yet, the quest for economic growth is "elusive," as William Easterly describes it,[8] because culture, history, natural resources, and geography vary greatly in wealthy and poor countries. Economic development is not just dependent on capital flows or capital accumulation, nor is aid a panacea and a one-stop solution to poverty.[9]

Moreover, debt relief as a form of foreign aid does little if political behavior (and a reliance on borrowing or printing currency) continues in the same patterns as before. Even enlightened leadership cannot create

economic growth on its own. As work by Joseph Stiglitz and others has acknowledged, human capital is also essential to economic growth, as is a culture of learning and knowledge production, which often includes risk-taking and entrepreneurship.[10] As a particular challenge to China, Hongbin Li et al. and other scholars are now more willing to engage the causal power of softer institutions, from education policy to media, to credit the role of ideas in encouraging and sustaining economic growth.[11]

Other questions on the appropriate role of the state in economic development continue to generate debate between public choice theorists (such as James Buchanan and Robert Tollison[12]) and development economists (such as Joseph Stiglitz and Karla Hoff[13]) who see a more active role for the state. However, there is some consensus that institutions matter, as the pioneering work of Douglas North demonstrated, as do ideas and informal institutions or patterns of behavior and beliefs that establish "ways of doing business."[14] In this sense, the normative power of rule-based economic institutions and the politics that support them can have enormous effects on development outcomes, whether the goals are alleviating poverty or improving basic access to social infrastructure such as health and education.

Political scientists have also struggled to determine democracy's effect on economic growth and if there is a causal relationship between economic development and the initiation and consolidation of democracy. Seymour Martin Lipset's work,[15] along with Barrington Moore's classic modernization formulation of "no bourgeoisie, no democracy,"[16] predicated the growth of wealth and a middle class to support democratic development. However, later work by Guillermo O'Donnell and others questioned how some forms of economic development and industrialization, particularly managed by the state, could create alternative political institutions that leaned (or twisted) toward authoritarianism.[17] State-led growth and the East Asian miracle[18] in the 1990s, then China's economic liberalization and rise in the 2000s, have certainly diminished the explanatory power of economic growth as an indication of future democratization.

Which brings us back to trying to understand how economic growth, powered by internal or external forces, has several institutional and political pathways. Outside forces—whether bilateral aid, multilateral lenders, or more direct financial intervention as an act of economic statecraft by an ally or adversary—can redirect a path toward prosperity or toward poverty, government mismanagement, and extreme concentration of wealth. And in the meantime, interventions of either kind may tear down political green shoots of accountability and competition. The tendency for rent-seeking[19] behavior to extract uncompensated value from others without contributing to productivity can be rampant when external sources of aid and investment have few strings attached.

Scholarship by John Gerring et al. has questioned the durability of democracy as an indicator of continued economic performance, not for the survival time but more for democracies' ability to create patterns of behavior in policy consensus and enact successful policy reform.[20] This suggests, again, that the quality of institutions and the practice of competition of ideas and consensus building in democracies best support sustained economic performance.

Breakthrough work by Daron Acemoglu and James Robinson[21] aptly explains why and how economic growth occurs and what political institutions best support it. Their conclusions are essential to understanding the risk of "hot money" or personalist transfers of development aid and direct investment support in fragile political economies in Africa and the broader Middle East. Their theory rests on the nature of institutions—meaning the rules, both formal and informal, that govern economic and political life. Certain types of economic infrastructure such as property rights or enforcement of contracts create incentives for investment and innovation. Those institutions that can create a level playing field where both local citizens and foreign investors can use their skills and talents are "inclusive economic institutions." On the other hand, "exclusive economic institutions" are designed to extract resources from society for the benefit of a few. These economic institutions are sustained by political institutions concentrated in ownership.

Acemoglu and Robinson's takeaway is clear: You cannot succeed economically if you do not get your politics right, but there is no formula for getting politics right. Nevertheless, we can identify methods of statecraft and intervention that make economic growth less politically stable and less likely to engender participatory politics. It is also possible to empirically track and evaluate how development aid and financial intervention from new authoritarian sources influence the domestic politics of recipient states. We can identify points of vulnerability and track records of performance.

Understanding the incentives of economic statecraft[22] for those states willing to extend aid, foreign direct investment, loans and credit, and direct cash support to central banks or in-kind products of oil and gas complicates a one-sided view of the development agenda. It is not just the recipient state's fault if its economic policy choices fail to deliver; it is also a collaboration of unequal and sometimes divergent state interests. In the case of intervention during a political transition from authoritarianism or a transition following civil war or conflict, the risks of development aid and investment become increasingly fraught, with the likelihood of conflict recurrence fueled by an influx of resources that can be hoarded and local-level grievances that seek retribution after conflict, as the work of Paul Collier has demonstrated.[23]

The New Buffet of Development and Blended Finance Choices

The literature on the political economy of development and democracy has contributed to our understanding of why economic performance varies across regimes and geographies. Researchers have also established several variables seeking to measure the strength of the relationship between democracy and economic growth.

All this work, however, assumes certain power dynamics of the international system and its institutional capacity to engage as agents of development finance and sources of economic advice. The system is what has changed. The Bretton Woods, postcolonial world of development has shifted—particularly in the assumption of American leadership and hegemony in a liberal economic order.

In fact, a recent essay in the *Financial Times* argues that of the three main alternatives of the 20th century—liberalism, fascism, and Communism—only liberalism remains.[24] Yet, new populist movements and authoritarian resurgence challenge key elements of liberalism.

Defining liberalism has also become about selective elements, rather than an understanding of how its economic and political tenets work together. Economic liberalism upholds free markets, the value of contracts, and enforcement mechanisms, and it insists on the efficacy and mutual benefit of free trade. Political liberalism upholds free elections and freedom of expression and appreciates the value of institutions in facilitating cooperation between countries. As Yuval Noah Harari argues, many developing countries now prefer the "buffet" approach to liberalism: picking and choosing among its elements, rather than combining its political and economic tenets.[25]

Debates on rising inequality and the threat of terrorism both support alternative visions of political and economic governance. Those visions are less concerned with international norms, multilateral engagement, rule-based markets, and individual freedoms. They justify intervention and repression on the grounds of stability, while their deployment of wealth, earned through natural resources and state-controlled industry, allows them to advance a moneyed soft power with tangible commitments of cash, infrastructure, and investment.

While many analysts are now focused on the size and scale of Chinese investment, and some are awakening to the role of other financial interventionists in emerging markets, there is not a comprehensive study of how these new actors fit into a sea change in sources of development finance, including the rising importance of South-South financial flows and regional centers of investment. There is an upheaval in our understanding of the political economy of development and the logical impacts we can expect to find in governance and support for democracy. This research report and dataset seek to analyze and track

the importance of the Gulf Arab states as investors and agents of development ideas.

China and the Gulf Arab states are actively engaged as agents of development finance for their own financial and political interests and with little engagement with multilateral financial institutions, official development agencies, or private finance. Work by AEI scholar Derek Scissors and the China Global Investment Tracker have been essential in tracking and establishing the scope of Chinese financial investment in emerging markets.[26] Baker Mackenzie estimates that Chinese projects associated with the BRI will have a value of $350 billion by 2022, while more than 1,700 BRI projects are already completed or in development.[27]

The phenomenon of Gulf Arab state support in the Horn of Africa, the Middle East, and Pakistan is only growing in intensity. My own work has been at the forefront of efforts to understand this regional deployment of economic statecraft.[28] Moreover, since 2011, economic statecraft, whether through direct commitments of financial support, promises of foreign direct investment, or in-kind oil and gas transfers, has been plentiful and from sources on both sides of the GCC political divide. As of yet, no scholarship has connected this trend to China's activities and the broader deficit of liberal economic policy approaches toward emerging market governance and finance needs.

This is a disruption[29] of how models of economic development have worked through international institutions with American leadership and a new competition from state capitalism models that are flexible in their use of types of financial flows. The new "masters of development finance"[30] are China and the Gulf Arab states. In the Middle East, the Horn of Africa, and South Asia, these two forces are often working in synergy.

This trifecta of aid, investment, and direct financial intervention is a form of economic statecraft.[31] Its rationale is the security and prosperity of the donor or investor. Because the Gulf Arab states have recognized a vital nexus between development and security in their surrounding geography, the logic of supporting friendly neighboring governments to secure political allies and investing for their own food security, real estate ventures, and state-linked energy projects is strategic. Their methods are often highly personalist and can create ripple effects and instability in the recipient state's domestic politics, especially in states in the midst of political transition. This logic can also be wasteful. When one relationship fails, or the recipient leader or interlocutor is out of power, the process begins again. But one thing is certain: The Gulf states are persistent and substantial sources of foreign investment and development finance in a wide sphere of geographic influence.

Since the beginning of the Arab uprisings in 2011, the United States has arguably failed to defend liberal economic institutions and rule of law as a basis for economic development and political order in the Middle East. Not only is the perception of American disengagement becoming a reality on the ground in the Gulf, but there is a real vacuum of financial resources and the ideals to stand behind them in transitions across the Arab world. Multilateral lenders and aid providers are simply outclassed and outbargained. Whereas international financial institutions have used their leverage in providing access to finance to encourage prudent fiscal policy, transparency, and rule of law to support a liberal economic order, Gulf Arab aid, investment, and financial support have only two strings attached: access and return on investment.

But this is not an experience limited to the Middle East or to tactics deployed only by Middle Eastern governments. The link to China's BRI and the synergy between these states is accelerating the provision of finance to support energy production, petrochemical investment, ports and infrastructure investment, extractive mining, and industrial agriculture.[32] In short, the new development finance can also meet the shared needs of China and the Gulf Arab states. The return of investment, the support to domestic economic institutions, and the ability to forge political relationships and operate in strategic geographies of interest, based on a perception of the threat of political Islam or obstacles to regime survival, can all be factors under consideration for state-directed finance and investment.

This report does not delve into the Gulf states' motivations or the repercussions of these capital investments in recipient states. Rather, it seeks to identify the trend and demonstrate its importance in comparison to other sources of investment over the past two decades.[33]

Findings from the Gulf Financial Aid and Direct Investment Tracker

The Gulf Financial Aid and Direct Investment Tracker delineates three categories of financial aid and intervention: (1) foreign direct investment (from both private and state sources), (2) official development aid and assistance, as reported from sending governments, including grants or special directed funds (e.g., the 2011 Gulf infrastructure fund to support Bahrain and Oman), and (3) central bank deposits, grants, or special directed funds. In this report, when GCC foreign investment is compared to that of China or the United States, United Kingdom, and European Union, I use the term "capital investment," and fDi Markets is the sole data source.

The clear finding from the Gulf Financial Aid and Direct Investment Tracker is that the GCC states are by far the largest source of capital investment in the eight recipient case countries when combined as a cohort (Figure 1). Even taking away the cases in which other foreign investment would be less interested to intervene (as in the case of Yemen or Sudan because of war or sanctions), the GCC states appear as important sources of capital, as we see in Egypt (where foreign investment is strong), Djibouti, and Oman (where China is understood to be a strong source of capital and where the cases are of core strategic interest to China's BRI policy).

Using the six GCC states as an analytical unit is a choice to see these actors as a force for investment flows within a widening sphere of influence across the Middle East, the Horn of Africa, and West Asia. However, their investment motivations are not cohesive or aligned since they are often in competition with each other, as is probably most notable in intra-GCC shifts in investment in Egypt from 2011 to the present (Figure 2). Qatar was willing to support the Morsi administration up until 2013, while the United Arab Emirates and Saudi Arabia have been active supporters of the al Sisi government since 2015.[34]

GCC investment in each of these eight cases is often dominant or at least competitive to what China or its private Western investor peers offer. In the cases in which it is historically weaker, Gulf capital investment is a strong newcomer, as we see in Ethiopia, where capital investment flows from the United States are also more actively engaging recently (Figure 3).

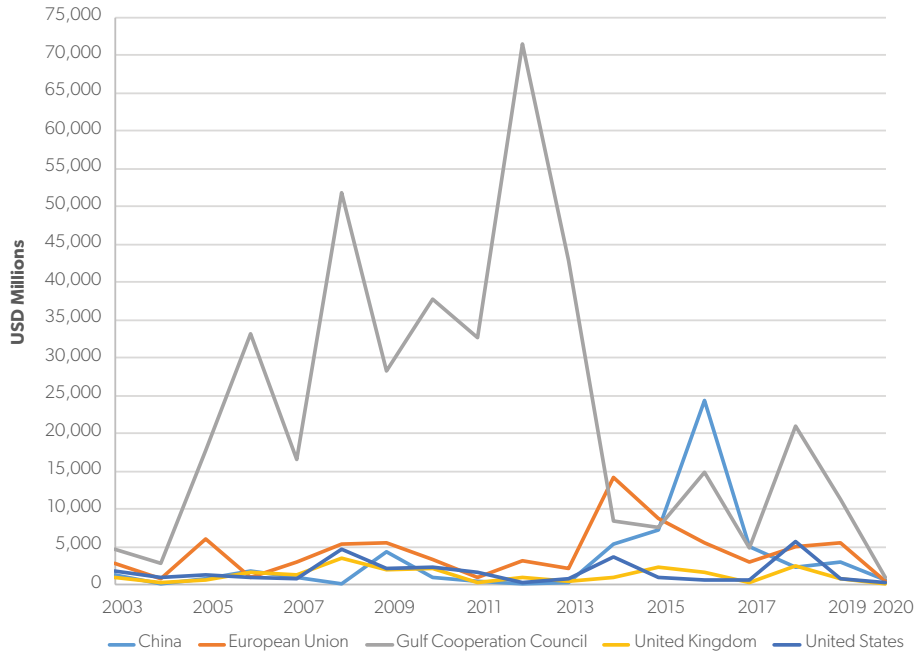
Yet, Gulf capital investment can also be erratic over the near 20-year period, with correlated spikes in financial intervention in the early 2000s when oil prices are high, again around the Arab Spring period, and some notable declines in the onset of oil price declines after late 2014. In contrast, if we combine US, UK, and EU capital expenditure as a force for private investment flows to the recipient case countries, they are more consistent over the 20-year period in both capital amounts and the accompanying job creation (Figures 4 and 5).

As a development partner, comparing China's capital investment in the cases to the combined capital investment from the US, UK, and EU, any recent surges after 2015 seem to be shared across the sending cases (except for GCC investment in 2017), suggesting an improved investment climate. China is no high roller, but rather a latecomer as a source of investment in the selected case countries. Data are current up to May 2020 from fDi Markets, which also suggests that in the current twin crises of COVID-19 and the oil price collapse, emerging markets are in for a steep decline in incoming investment.

The diversity of the recipient case country set also creates some important variation. The Gulf states are still consistently dominant as a source of capital investment across the case countries and time period, but in some cases China makes a play as a key source of capital investment. In Egypt, this is between 2015 and 2017 (Figure 6). But the commitment is short-lived.

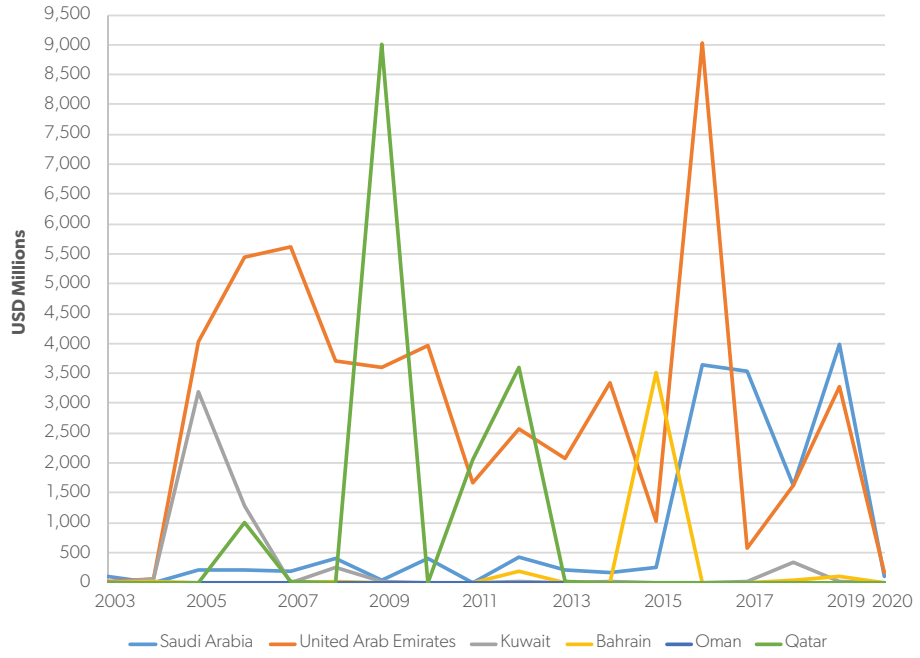
Likewise, in Ethiopia, the United States is a core source of foreign investment, but due to a recent spike between 2017 and 2019, while China has actually been

Figure 1. Capital Investment to Djibouti, Egypt, Ethiopia, Jordan, Oman, Pakistan, Sudan, and Yemen (2003–May 2020)



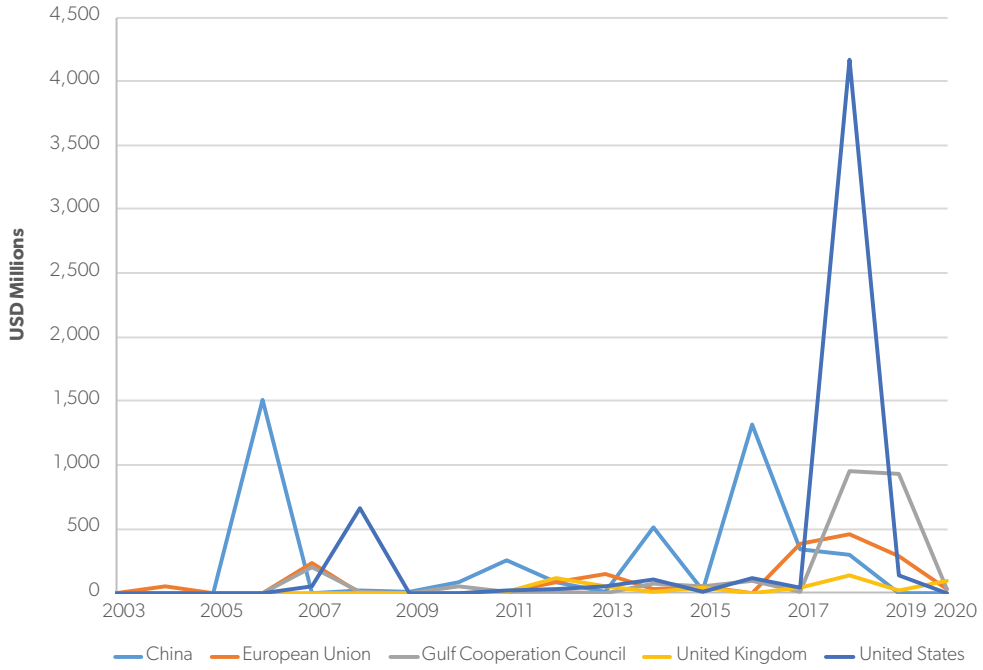
Source: fDi Markets.

Figure 2. GCC Capital Investment in Egypt (2003–May 2020)



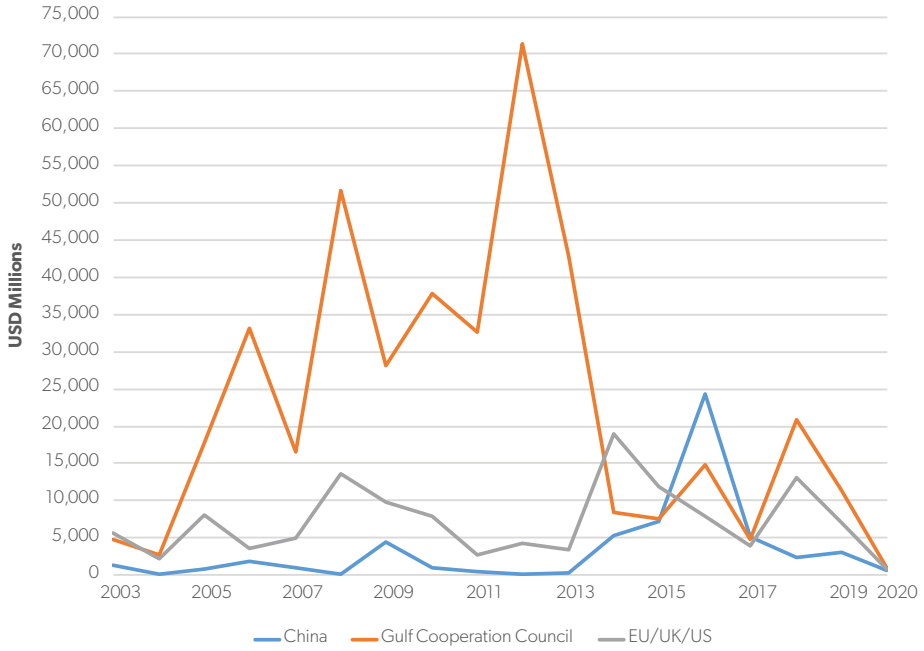
Source: fDi Markets.

Figure 3. Capital Investment in Ethiopia (2003–May 2020)



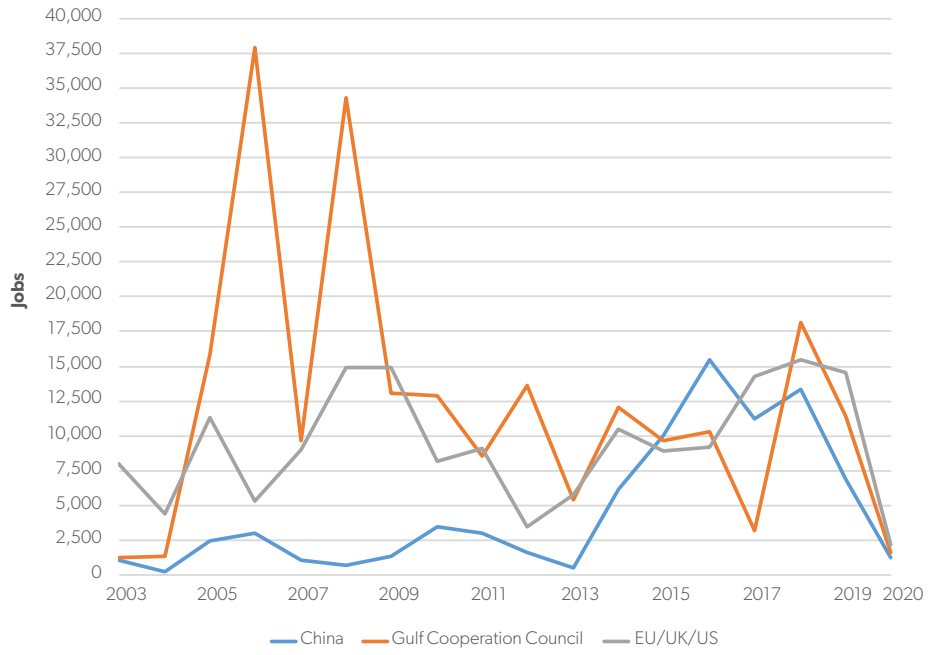
Source: fDi Markets.

Figure 4. Capital Investment to Djibouti, Egypt, Ethiopia, Jordan, Oman, Pakistan, Sudan, and Yemen (US, UK, and EU Combined, 2003–May 2020)



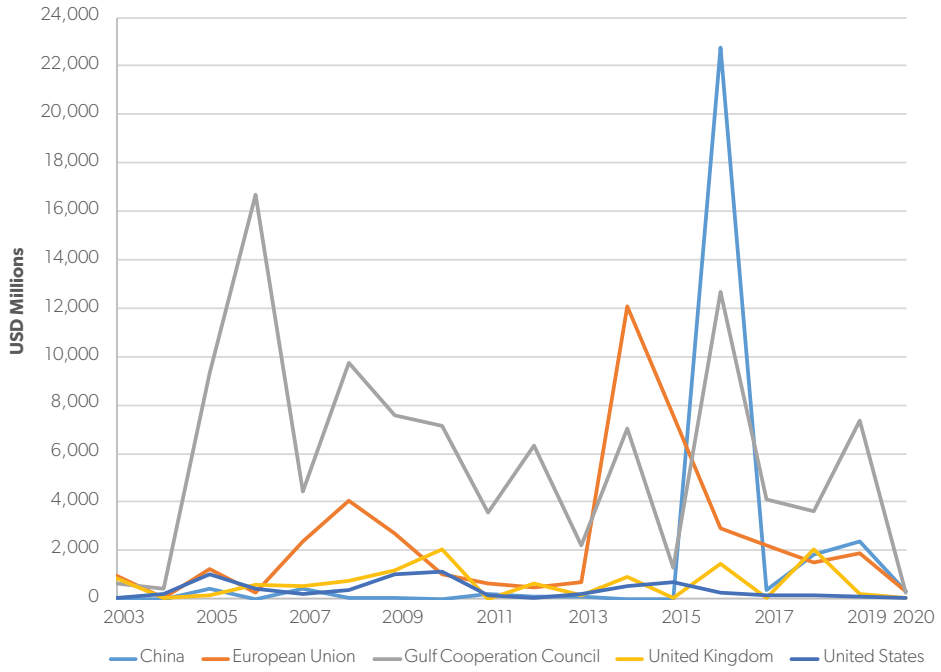
Source: fDi Markets.

Figure 5. Jobs Created in Djibouti, Egypt, Ethiopia, Jordan, Oman, Pakistan, Sudan, and Yemen (US, UK, and EU Combined, 2003–May 2020)



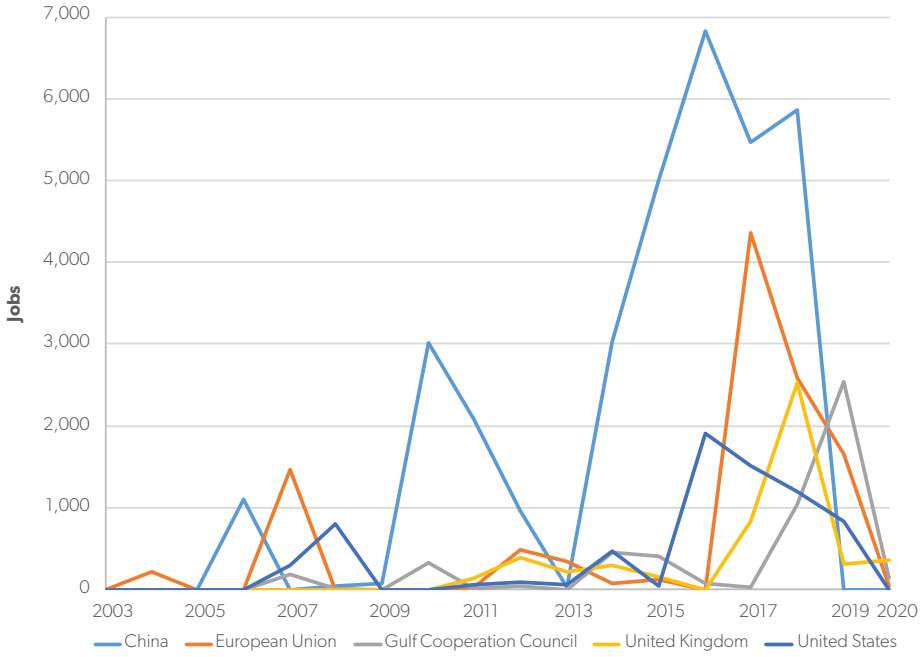
Source: fDi Markets.

Figure 6. Capital Investment in Egypt (2003–May 2020)



Source: fDi Markets.

Figure 7. Jobs Created in Ethiopia (2003–May 2020)



Source: fDi Markets.

a longer-term partner in job creation in Ethiopia, with a surge between 2014 and 2019 (Figure 7).

These sharp movements can be due to one or two large transactions or, in the case of job creation, one large infrastructure project that takes several years to complete. For the recipient country, the volatility underscores the vulnerability to investment flows and limited opportunity for local job creation. We can also see pairings, which might indicate co-investments or shared projects, notably of China and the Gulf states in Pakistan (Figure 8).

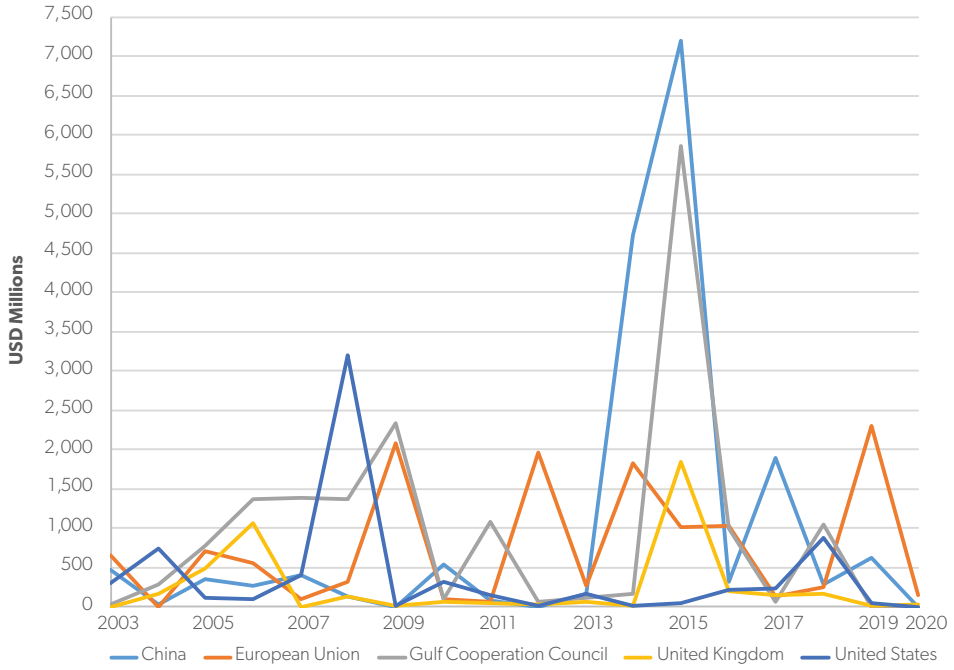
For intra-Gulf investment, there are also important indications that while outside country sources of investment may be individually strong, the combination of GCC state investment can easily outweigh them. For example, in Oman, the United Kingdom is often cited as the single most important sending source of foreign direct investment (in 2019). However, when the other five GCC states are combined and their capital investment measured over time (from 2003 to 2020), it far outweighs what other states have offered (Figure 9). But Gulf capital investment in Oman has also seen extreme volatility (Figure 10).

Gulf Financial Aid and Direct Investment and Its Implications for US Foreign Policy, or Why the US Needs the Middle East to Grow

The US relationship with the Middle East, and especially with the Gulf Arab states, is vital to US strategic interests.[35] The United States cannot thrive as an island, economically or politically. America's position in the global economy and as a political hegemon depends on its recognition of how and where its power moves. And American power moves—and is strengthened—through the Middle East.

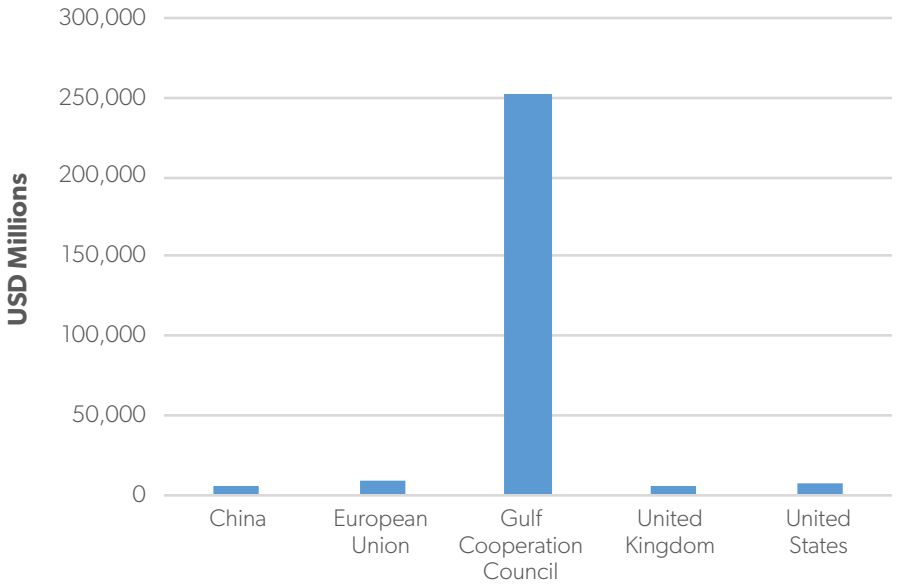
American connection to the Middle East goes beyond the war on terror, weapon sales, and barrels of oil. A growing sense of American isolationism rests on a belief that the US economy can be decoupled from that of China and emerging markets. But the American economy's strength relies on its access

Figure 8. Capital Investment in Pakistan (2003–May 2020)



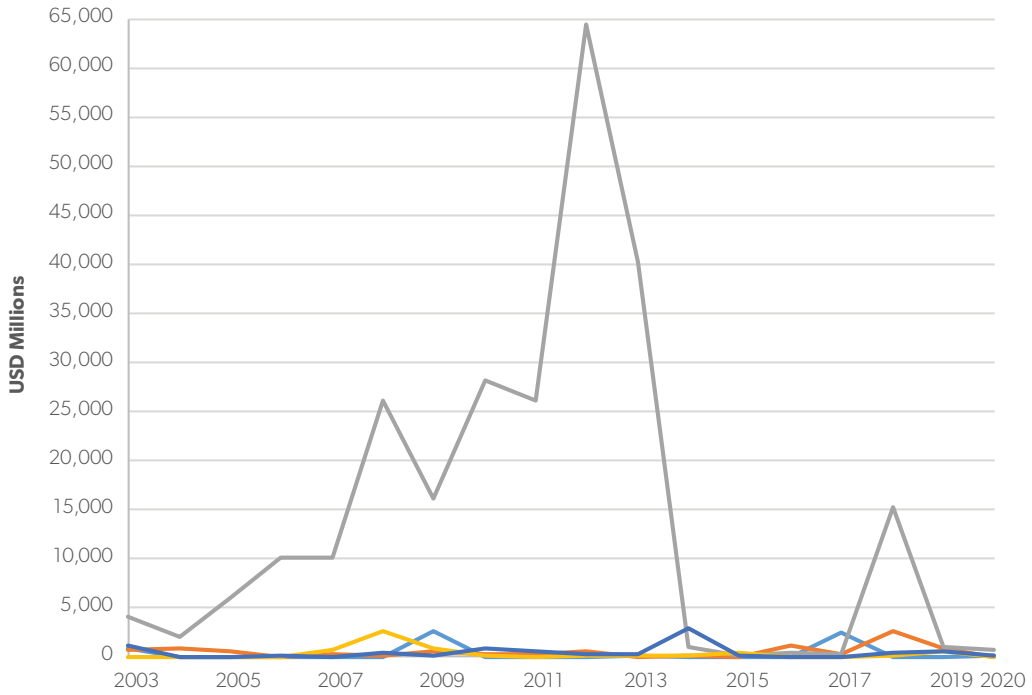
Source: fDi Markets.

Figure 9. Total Capital Investment in Oman (2003–May 2020)



Source: fDi Markets.

Figure 10. Capital Investment in Oman (2003–May 2020)



Source: fDi Markets.

to—and command of—products manufactured abroad, many from emerging markets.

We need the Middle East not for its oil but precisely because it sits in the middle of a global market that secures our global energy supply and, even more important, because the Middle East facilitates the transit of the goods that we and other countries use to grow. The pace and stamina of global economic growth depends on emerging markets, and in a post-COVID-19 economic recovery, there will be wide variation in how different emerging market regions rebound.[36] As analysts at HSBC have warned, the global economy runs on one engine—consumption.[37]

It is not just oil and gas that pass through the Middle East; so does a lot of our global food supply. In 2018, about 21 million barrels per day of crude oil and refined products flowed through the Strait of Hormuz, equal to about 20 percent of total global oil consumption.[38] About one-third of the world's liquefied natural gas cargoes also transit the strait, along with petrochemicals. But in that same key geography of the Arabian Peninsula, 11 percent of globally traded rice transits the Strait of Hormuz, and about 18 percent of rice transits the Bab al Mandeb and the Suez Canal, along with 16 percent of globally traded wheat and more than 30 percent of trade in fertilizers, according to researchers at Standard Chartered and Chatham House.[39]

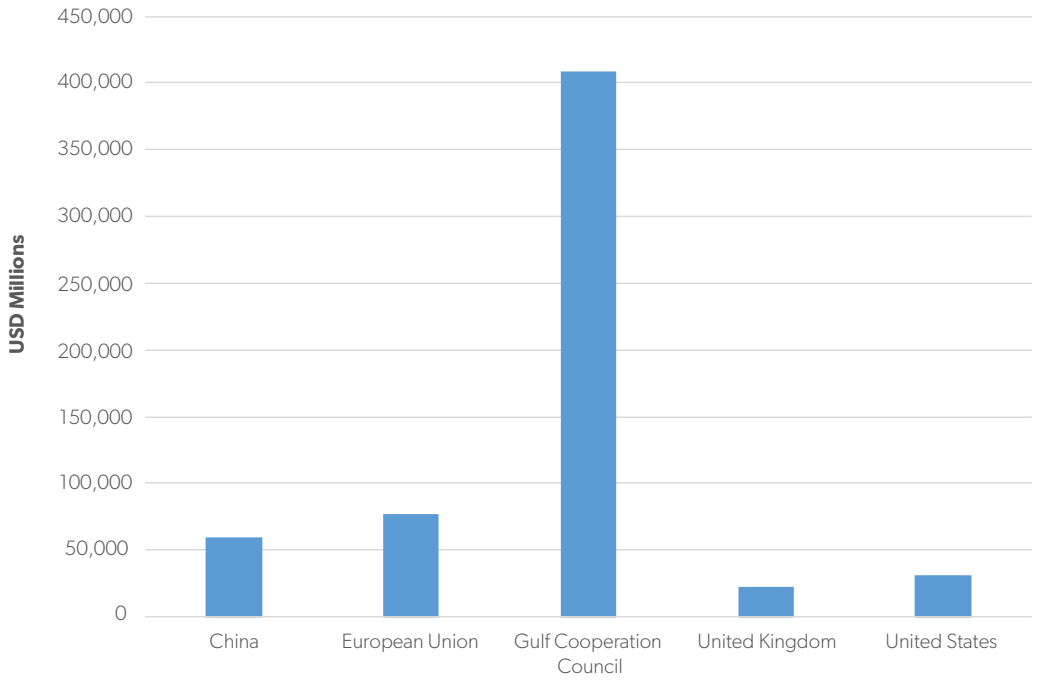
But perhaps more than these two economic realities in global consumption and energy supply, we need to be present in the Middle East with our ideas and values. The Middle East is a literal battleground for the future development models of the most populous and fastest-growing economies in the world. If you want to see a world that looks like China or Saudi Arabia—more authoritarian and less market friendly—then believe that the United States is insulated from oil markets and how developing countries grow. If you want the United States to lead the global economy and shape it to the mutual advantage of growing countries, then the Middle East, and especially the Gulf, is crucial to America's future.

About the Author

Karen E. Young is a resident scholar at the American Enterprise Institute, where she studies the political economy of the Middle East, with a special focus on the states of the Gulf Cooperation Council.

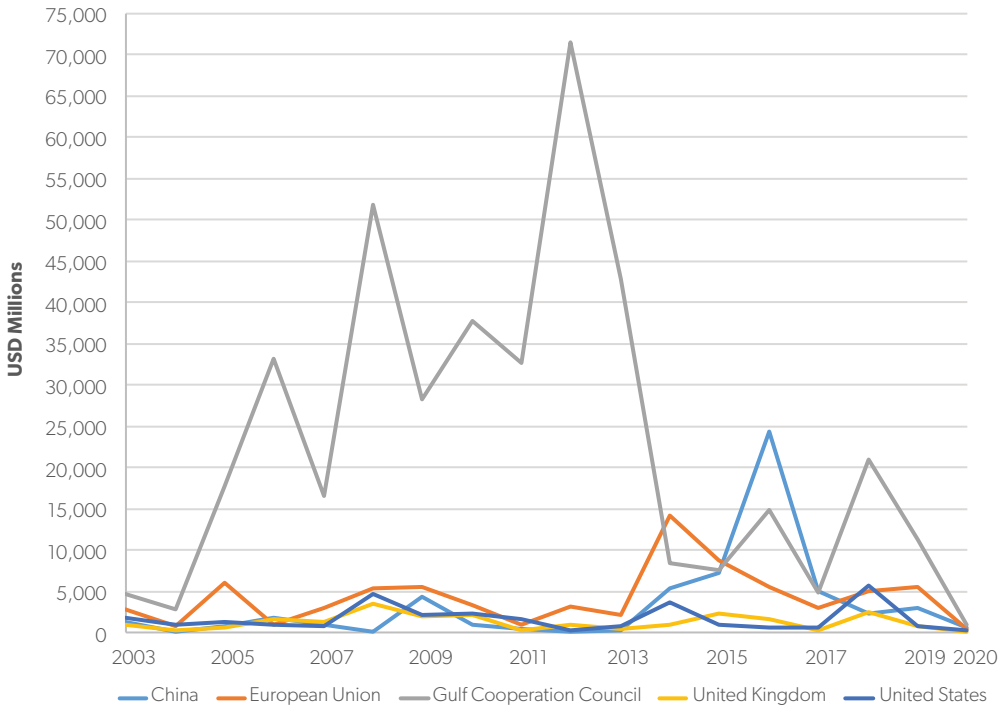
Appendix A. Combined Case Countries

Figure A1. Total Capital Investment to Djibouti, Egypt, Ethiopia, Jordan, Oman, Pakistan, Sudan, and Yemen (2003–May 2020)



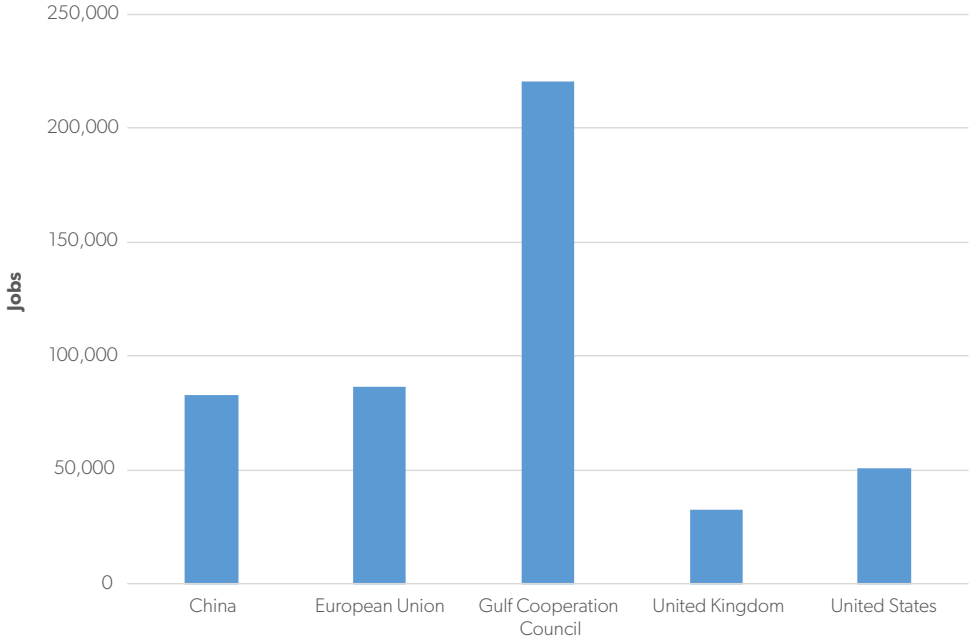
Source: fDi Markets.

Figure A2. Capital Investment to Djibouti, Egypt, Ethiopia, Jordan, Oman, Pakistan, Sudan, and Yemen (2003–May 2020)



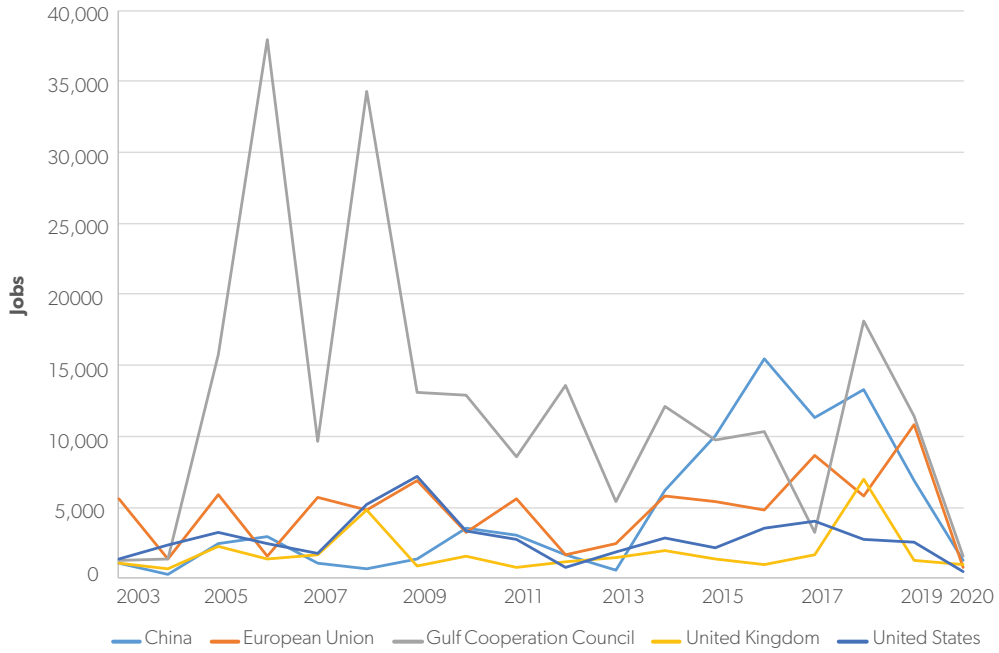
Source: fDi Markets.

Figure A3. Total Jobs Created in Djibouti, Egypt, Ethiopia, Jordan, Oman, Pakistan, Sudan, and Yemen (2003–May 2020)



Source: fDi Markets.

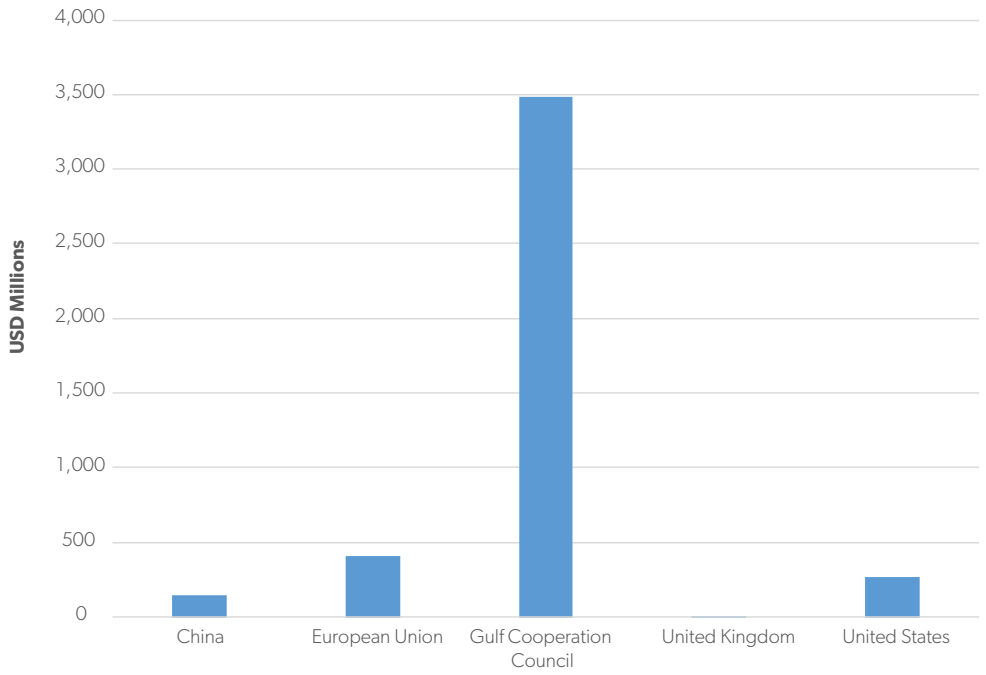
Figure A4. Jobs Created in Djibouti, Egypt, Ethiopia, Jordan, Oman, Pakistan, Sudan, and Yemen (2003–May 2020)



Source: fDi Markets.

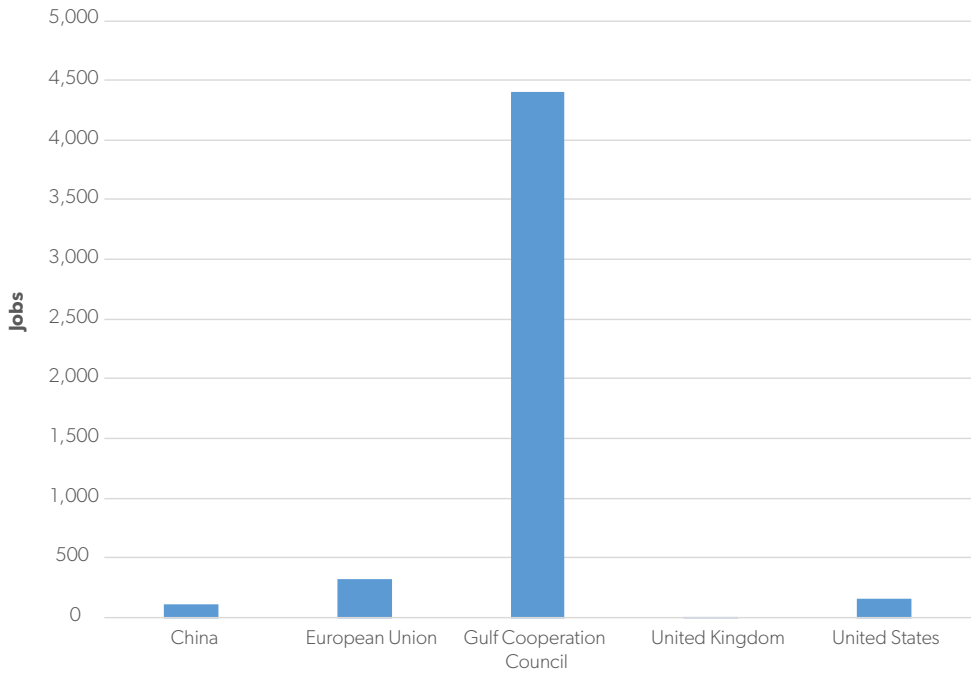
Appendix B. Individual Case Countries

Figure B1. Djibouti Total Capital Investment (2003–May 2020)



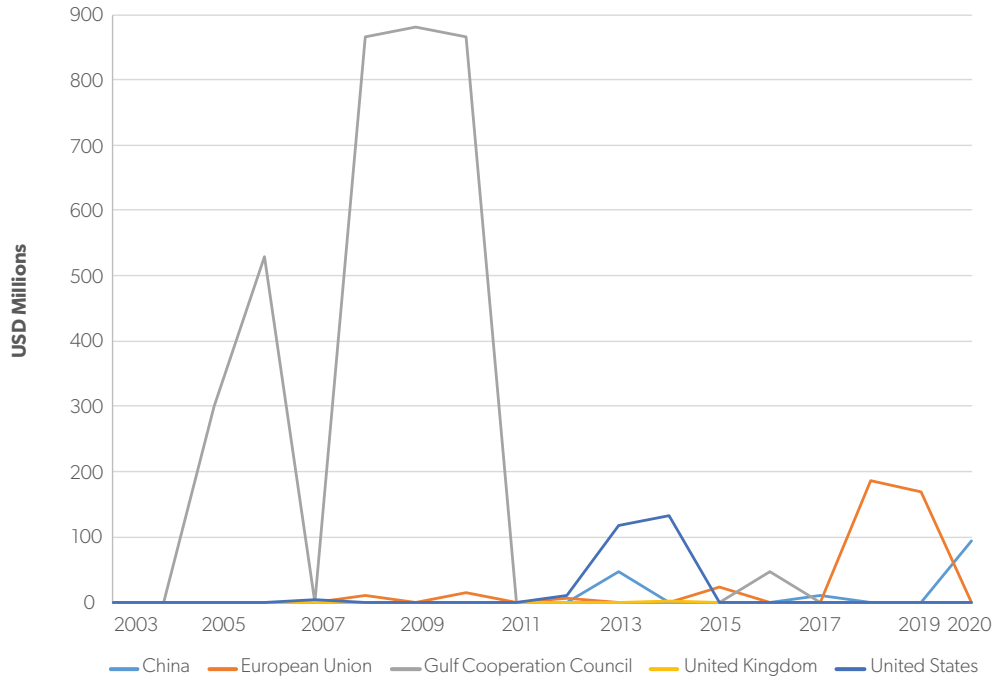
Source: fDi Markets.

Figure B2. Djibouti Total Jobs Created (2003–May 2020)



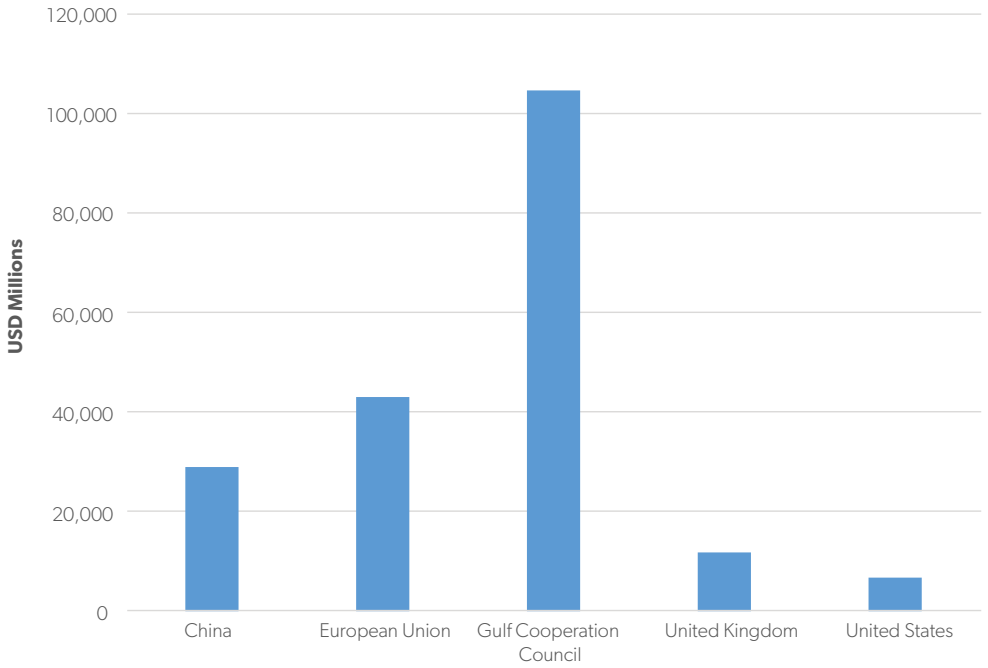
Source: fDi Markets.

Figure B3. Capital Investment in Djibouti (2003–May 2020)



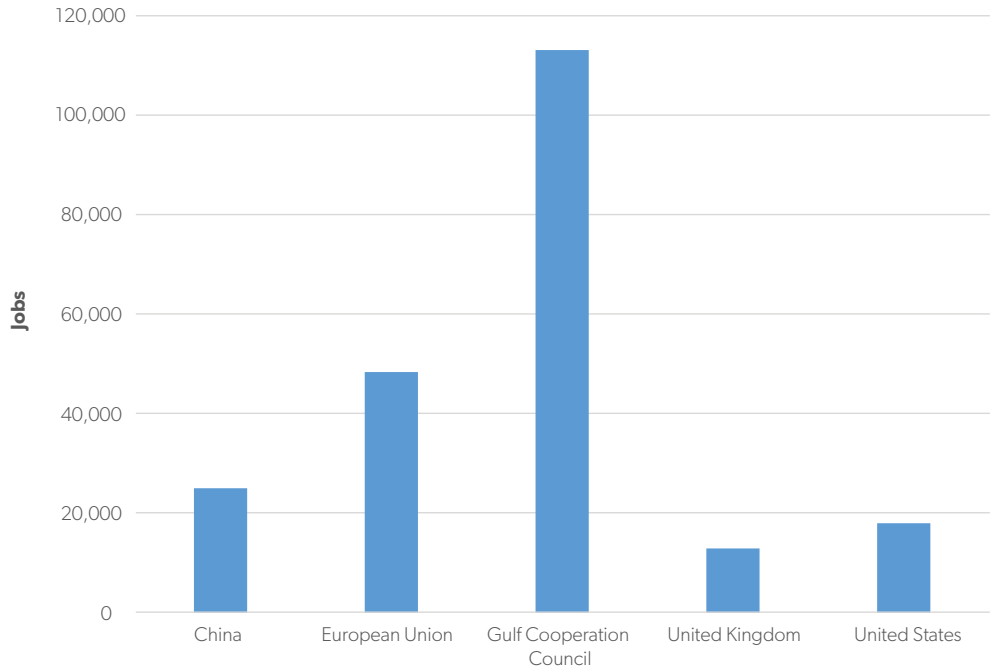
Source: fDi Markets.

Figure B4. Egypt Total Capital Investment (2003–May 2020)



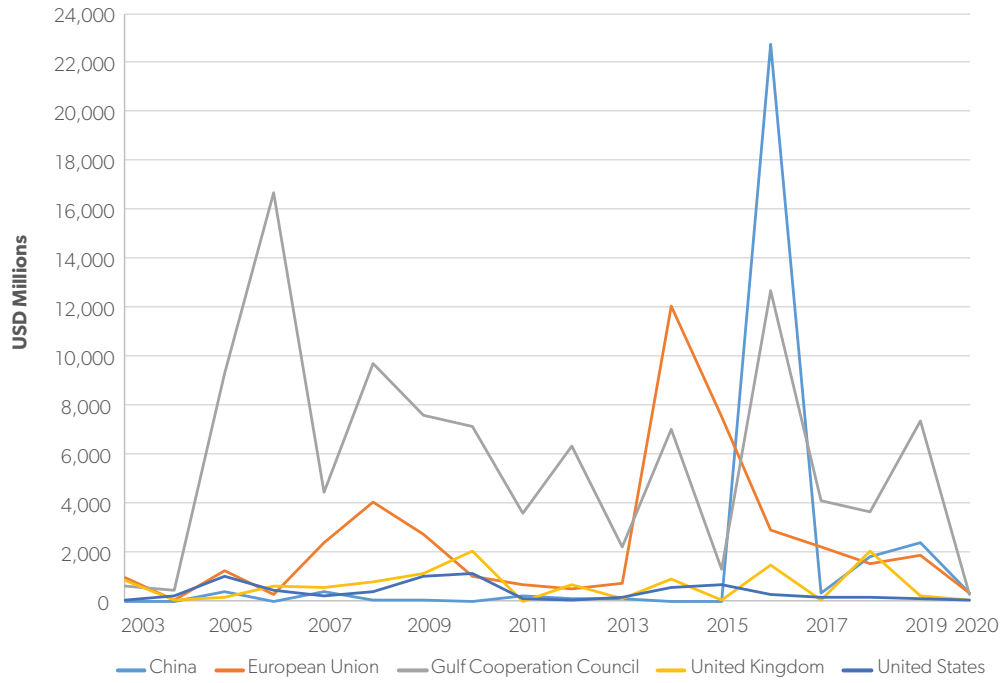
Source: fDi Markets.

Figure B5. Egypt Total Jobs Created (2003–May 2020)



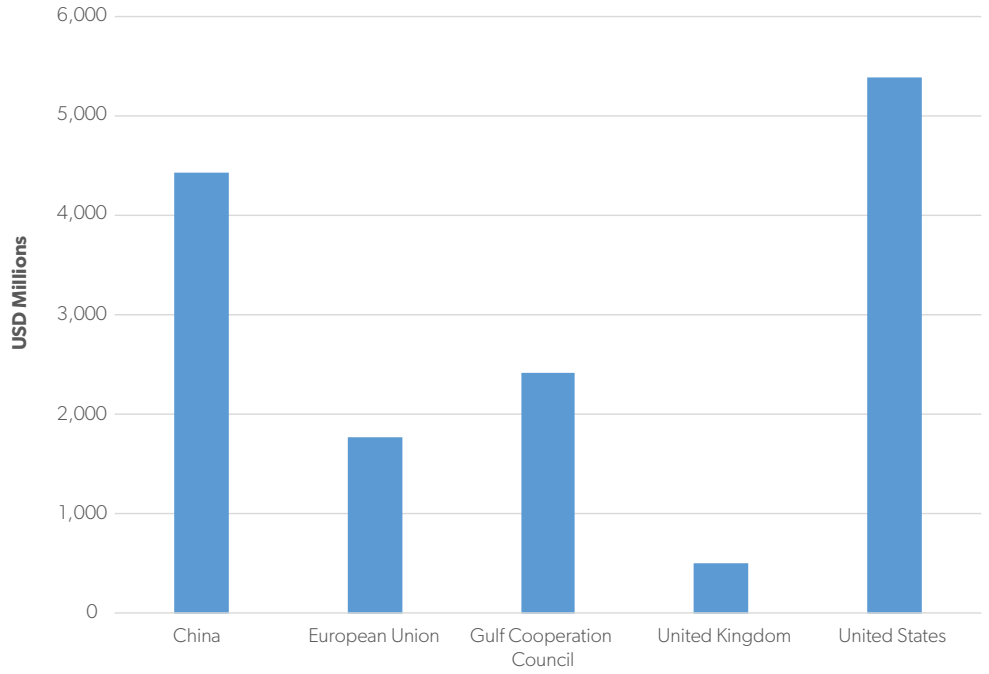
Source: fDi Markets.

Figure B6. Capital Investment in Egypt (2003–May 2020)



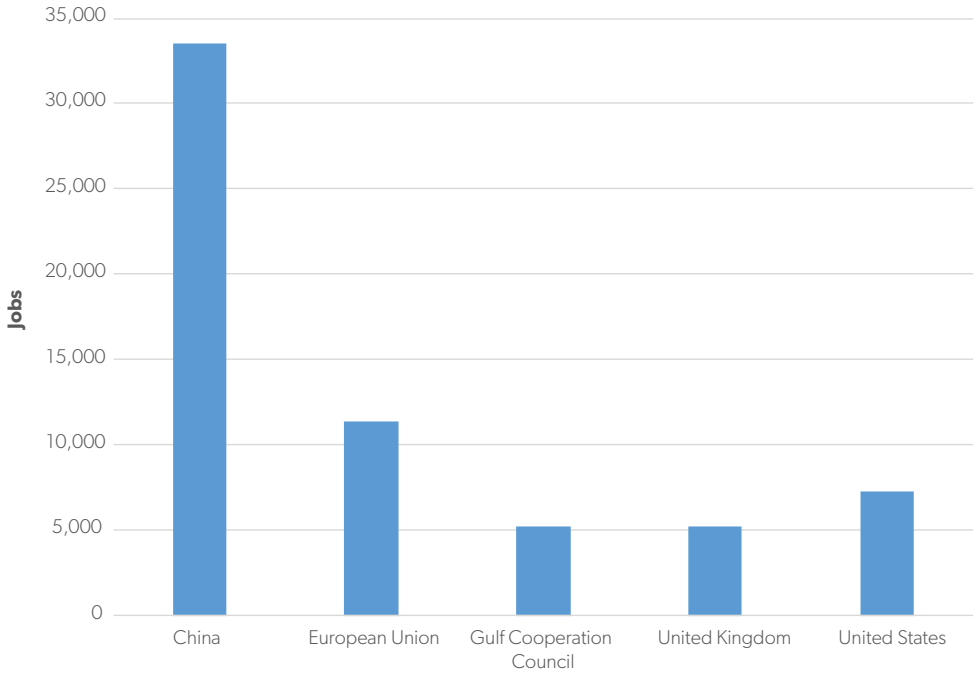
Source: fDi Markets.

Figure B7. Ethiopia Total Capital Investment (2003–May 2020)



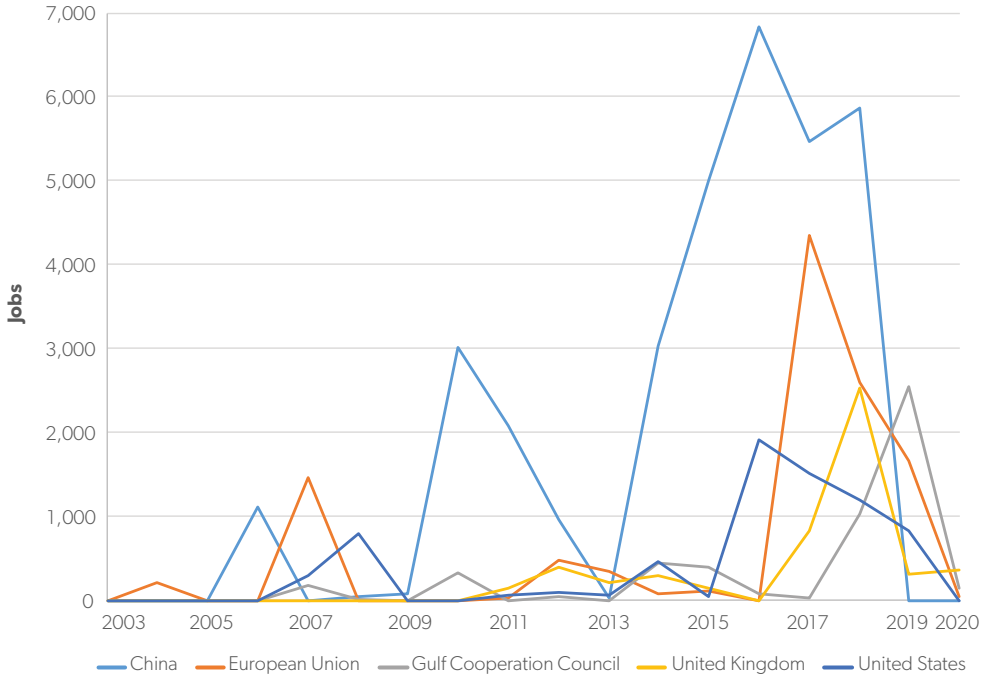
Source: fDi Markets.

Figure B8. Ethiopia Total Jobs Created (2003–May 2020)



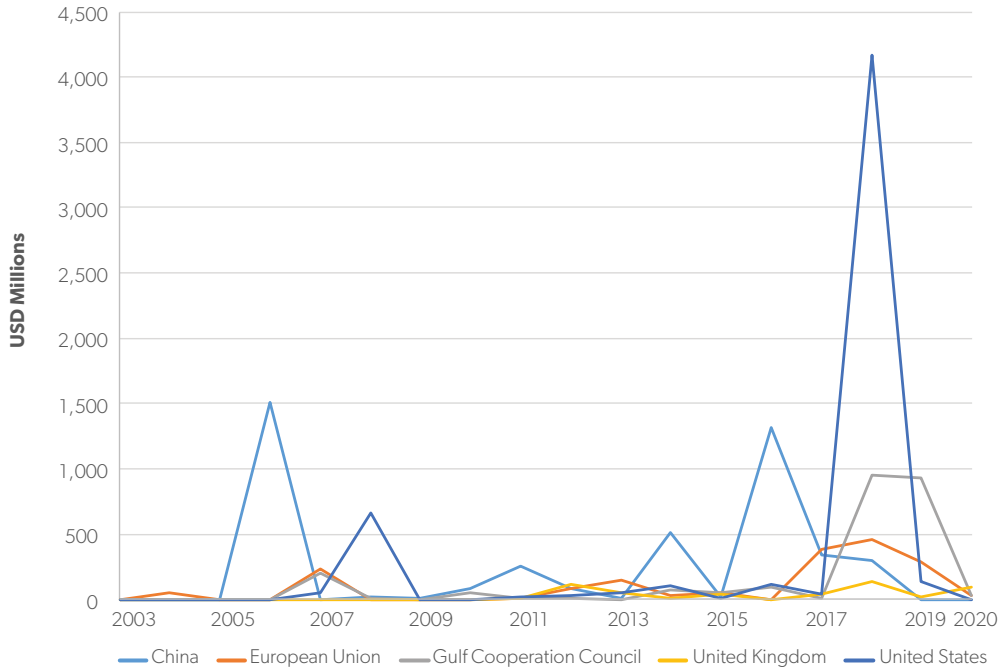
Source: fDi Markets.

Figure B9. Jobs Created in Ethiopia (2003–May 2020)



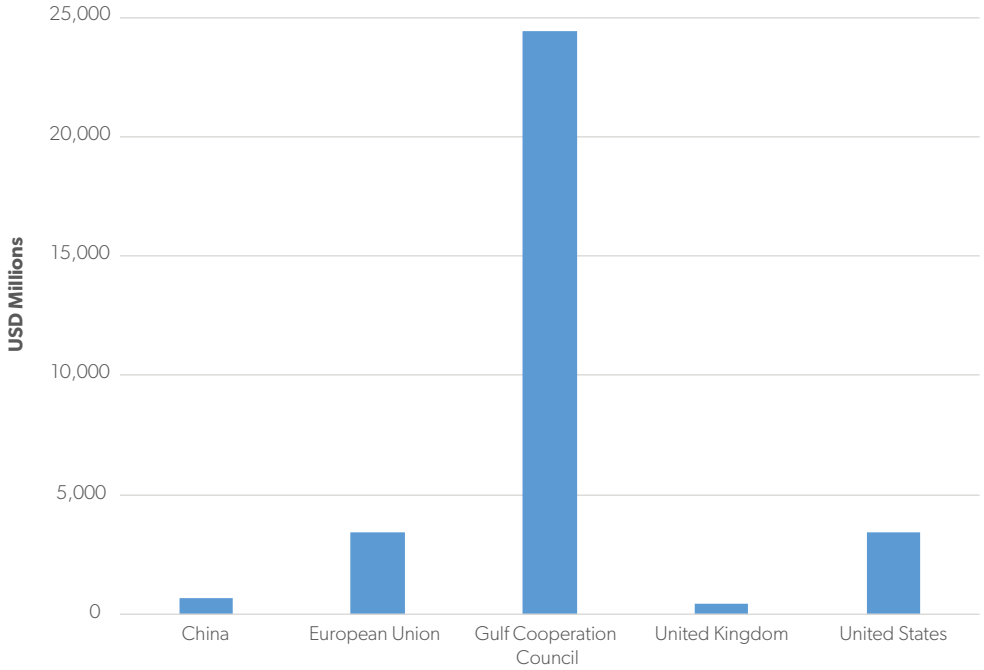
Source: fDi Markets.

Figure B10. Capital Investment in Ethiopia (2003–May 2020)



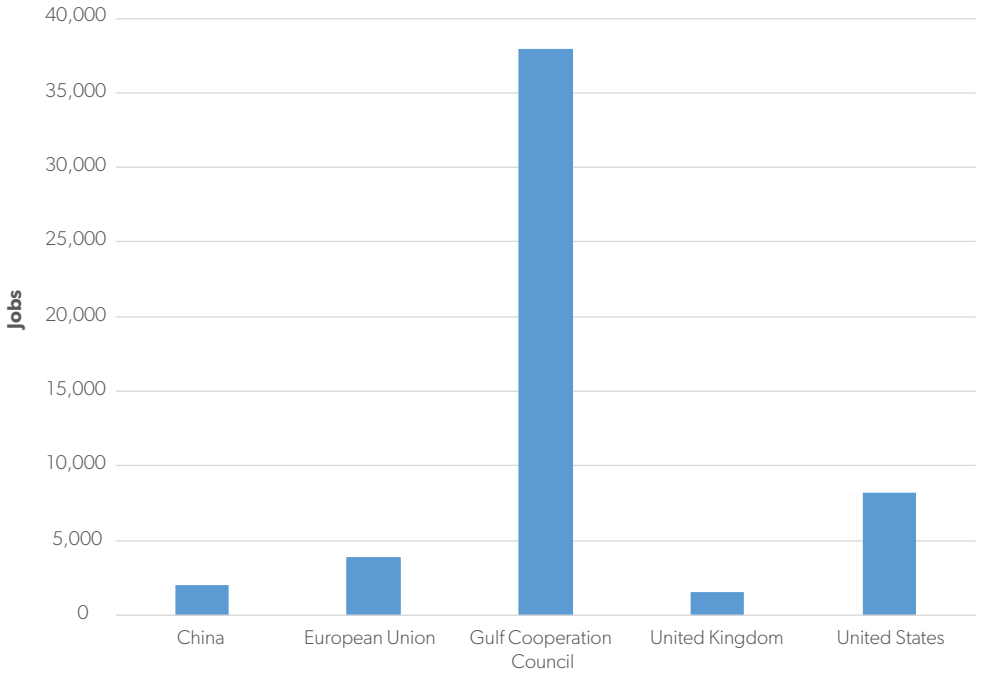
Source: fDi Markets.

Figure B11. Jordan Total Capital Investment (2003–May 2020)



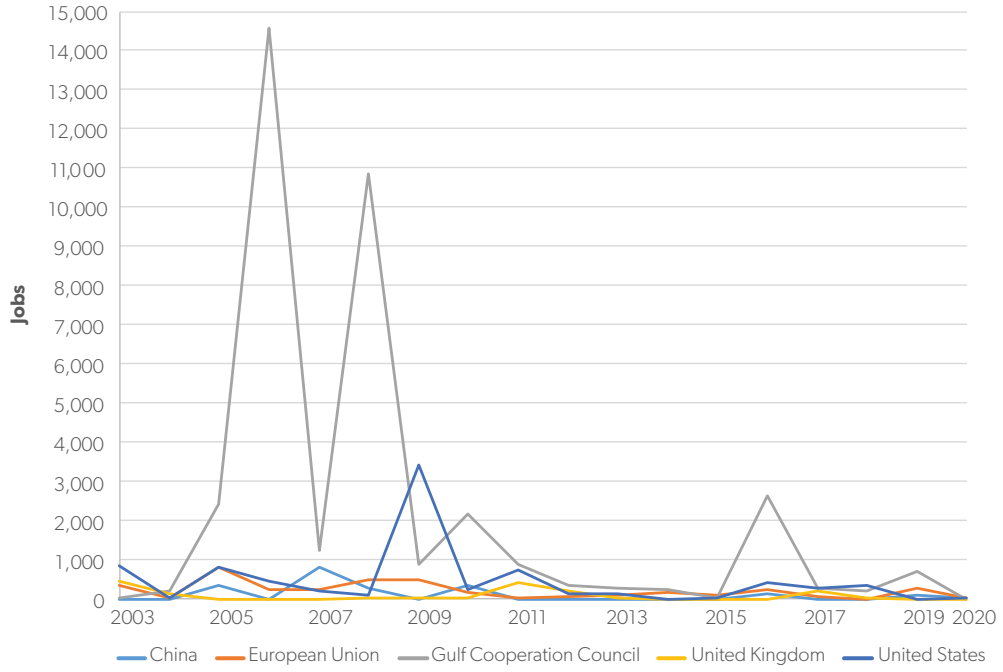
Source: fDi Markets.

Figure B12. Jordan Total Jobs Created (2003–May 2020)



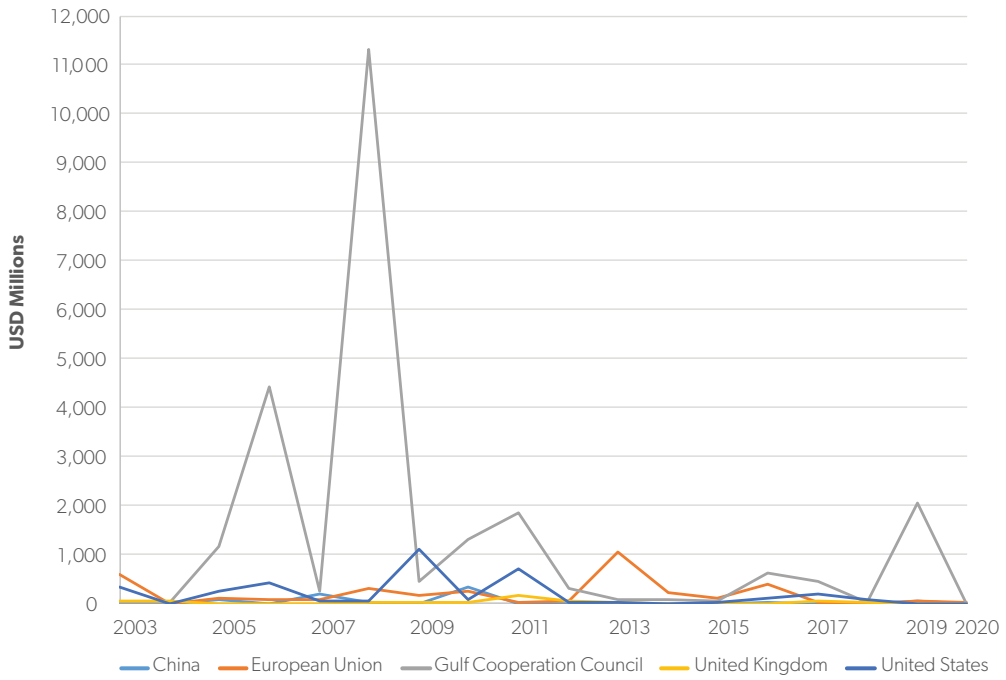
Source: fDi Markets.

Figure B13. Jobs Created in Jordan (2003–May 2020)



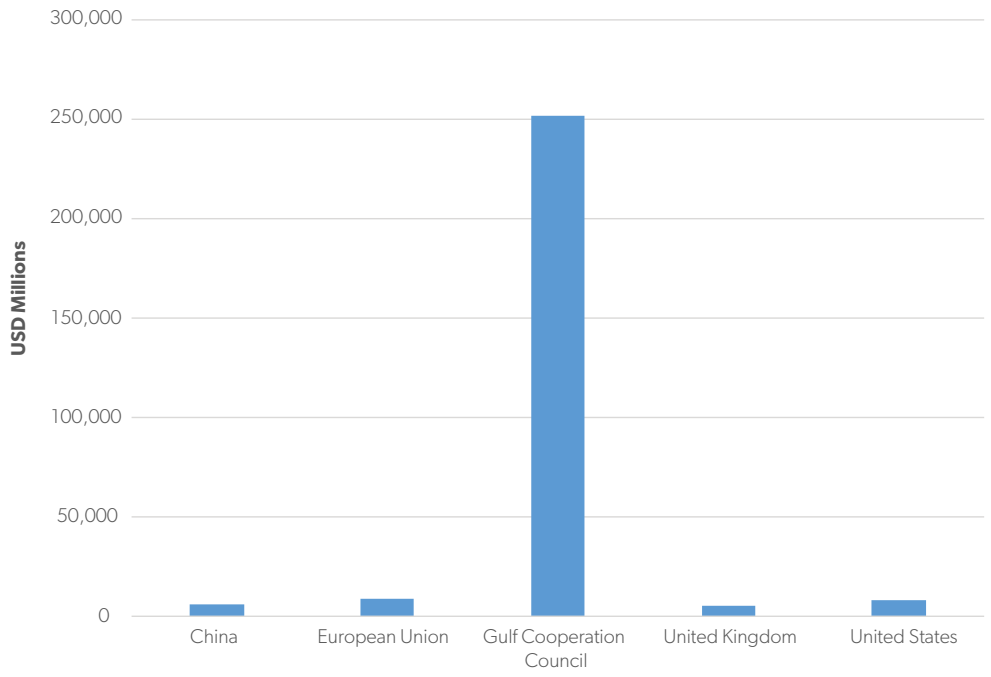
Source: fDi Markets.

Figure B14. Capital Investment in Jordan (2003–May 2020)



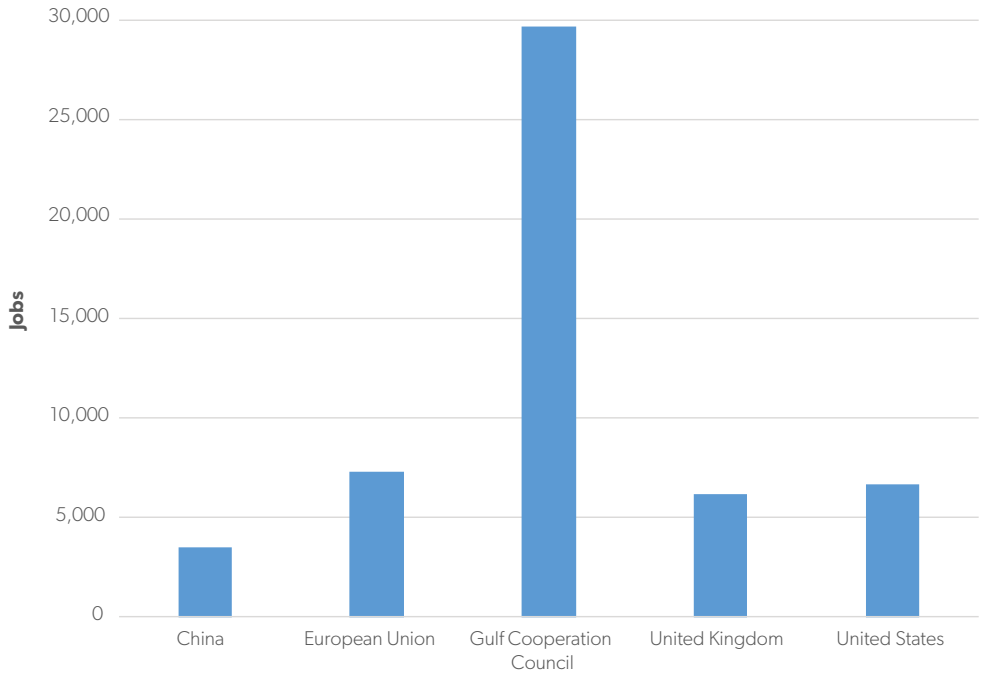
Source: fDi Markets.

Figure B15. Oman Total Capital Investment (2003–May 2020)



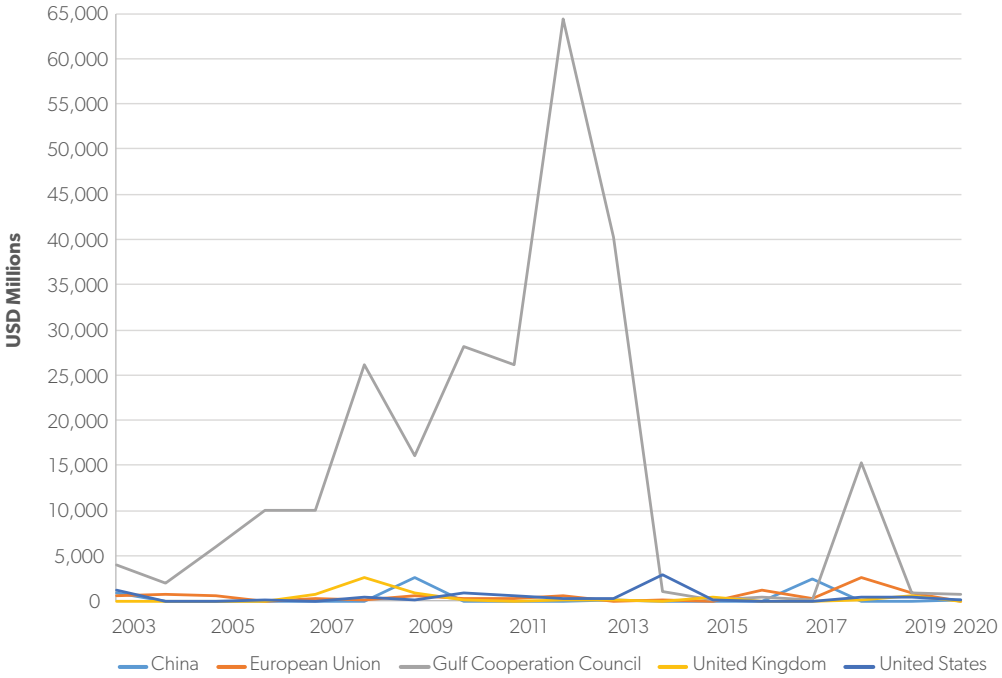
Source: fDi Markets.

Figure B16. Oman Total Jobs Created (2003–May 2020)



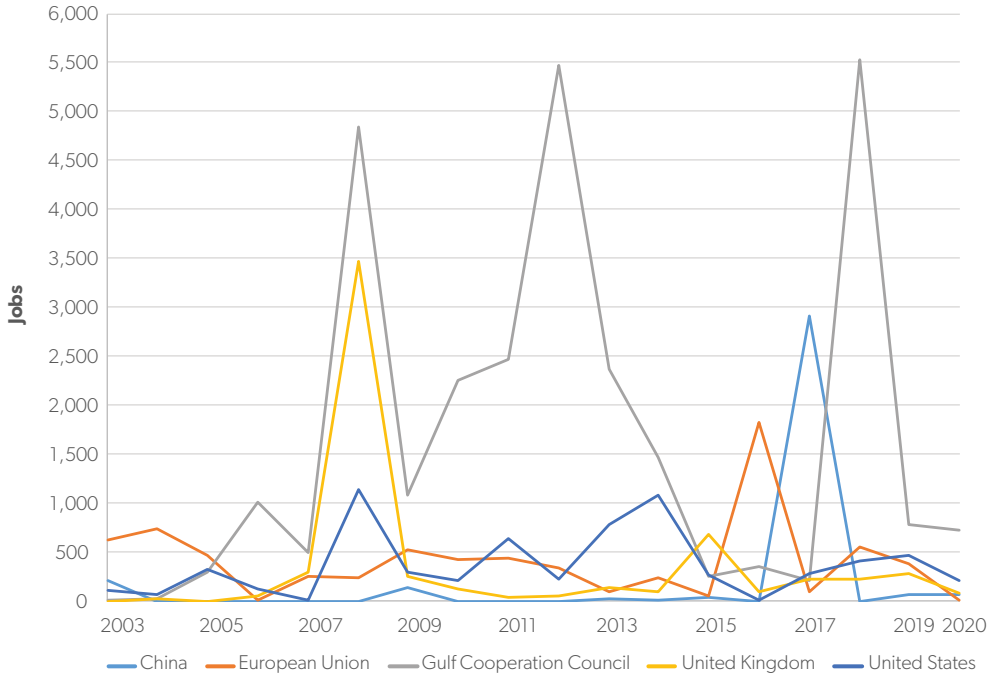
Source: fDi Markets.

Figure B17. Capital Investment in Oman (2003–May 2020)



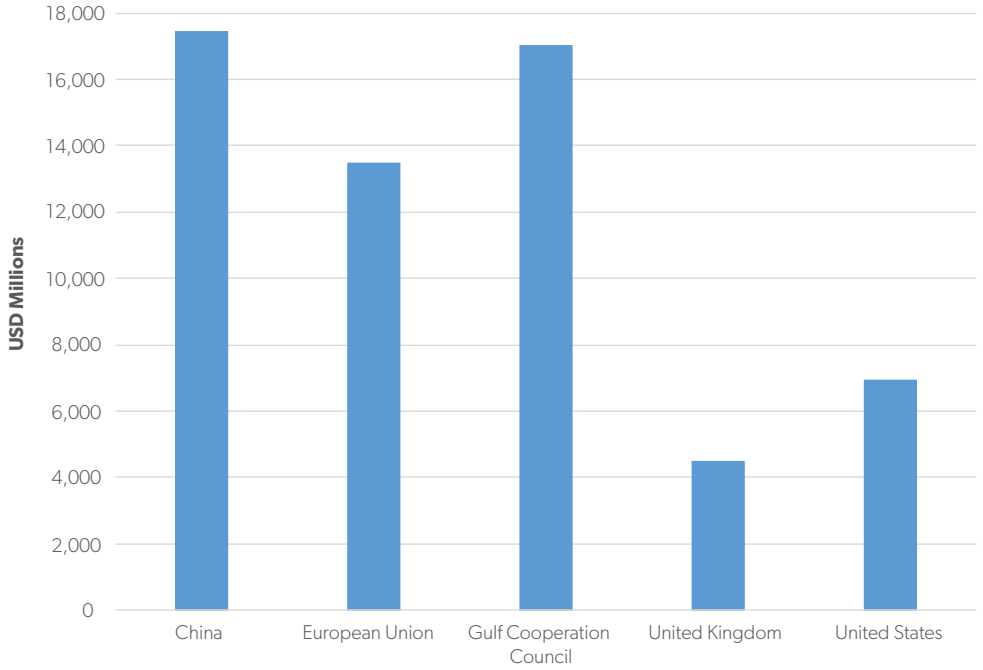
Source: fDi Markets.

Figure B18. Jobs Created in Oman (2003–May 2020)



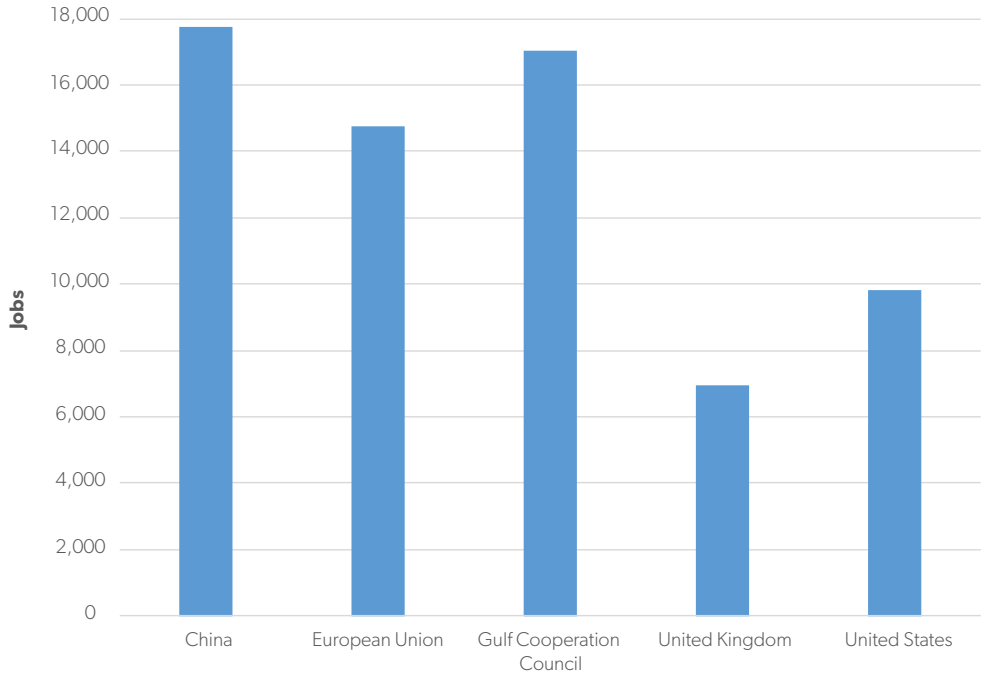
Source: fDi Markets.

Figure B19. Pakistan Total Capital Investment (2003–May 2020)



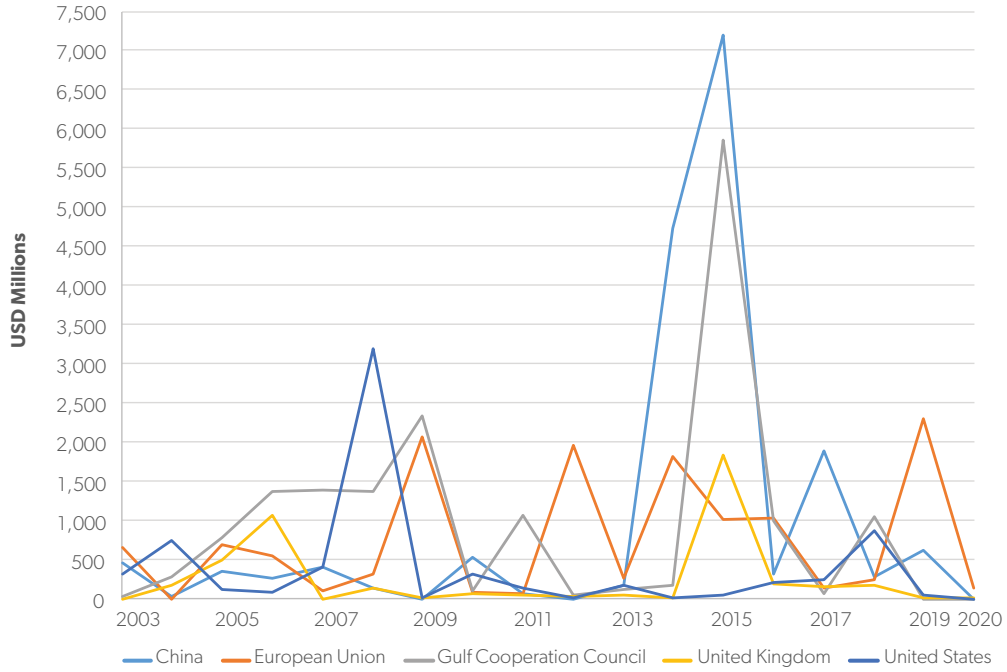
Source: fDi Markets.

Figure B20. Pakistan Total Jobs Created (2003–May 2020)



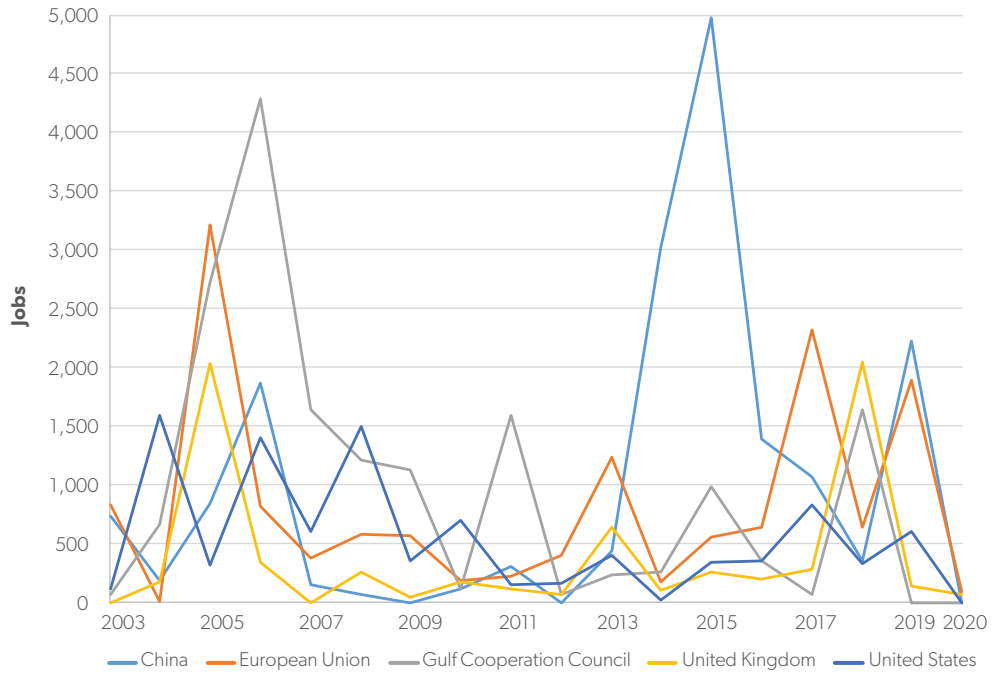
Source: fDi Markets.

Figure B21. Capital Investment in Pakistan (2003–May 2020)



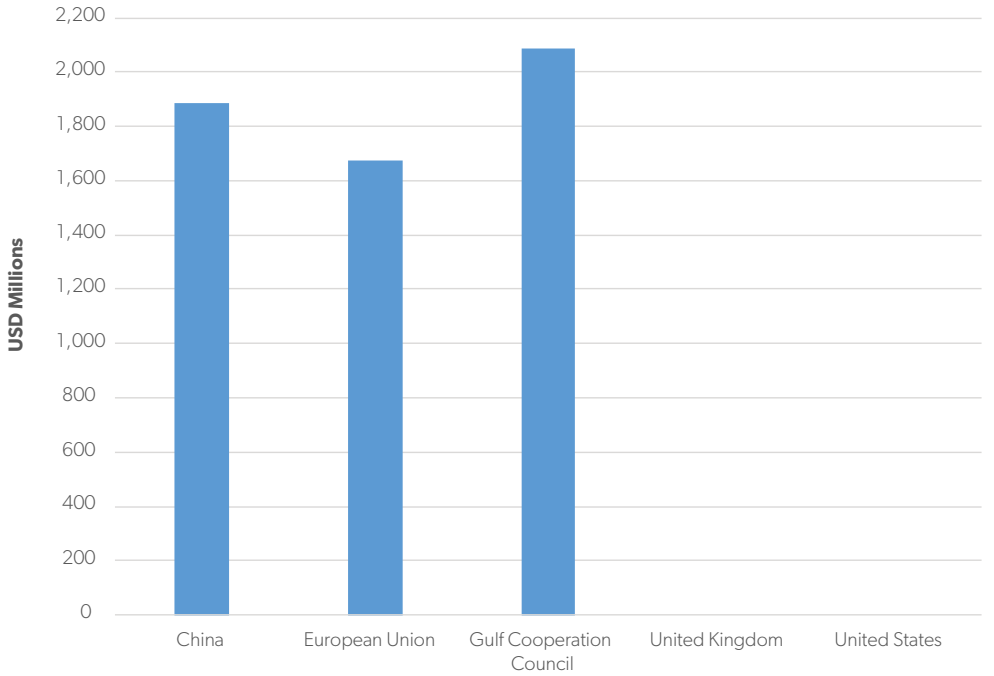
Source: fDi Markets.

Figure B22. Jobs Created in Pakistan (2003–May 2020)



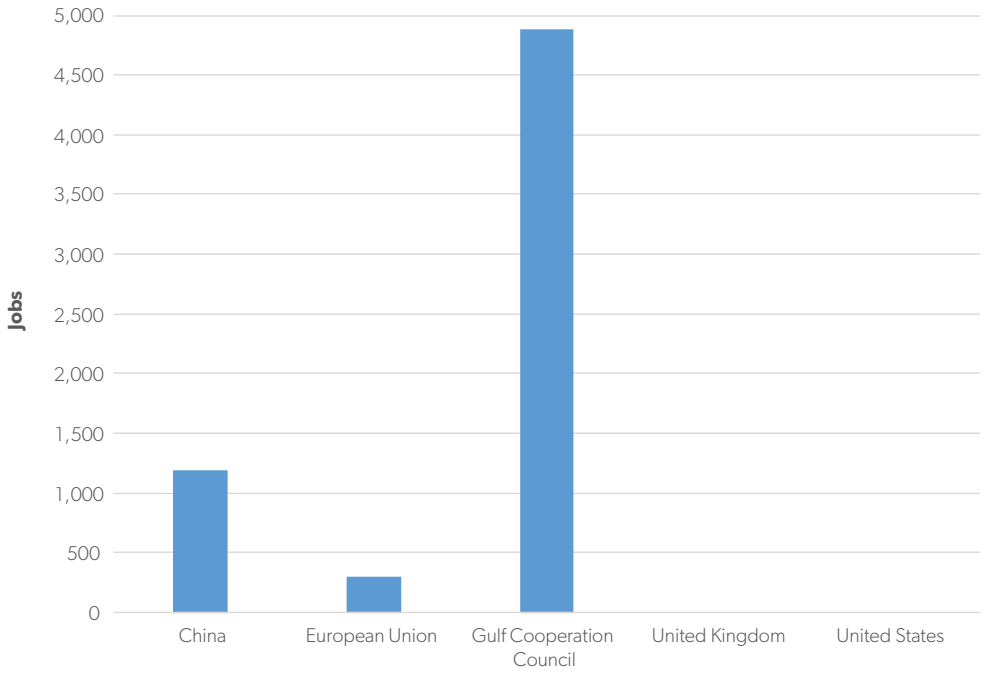
Source: fDi Markets.

Figure B23. Sudan Total Capital Investment (2003–May 2020)



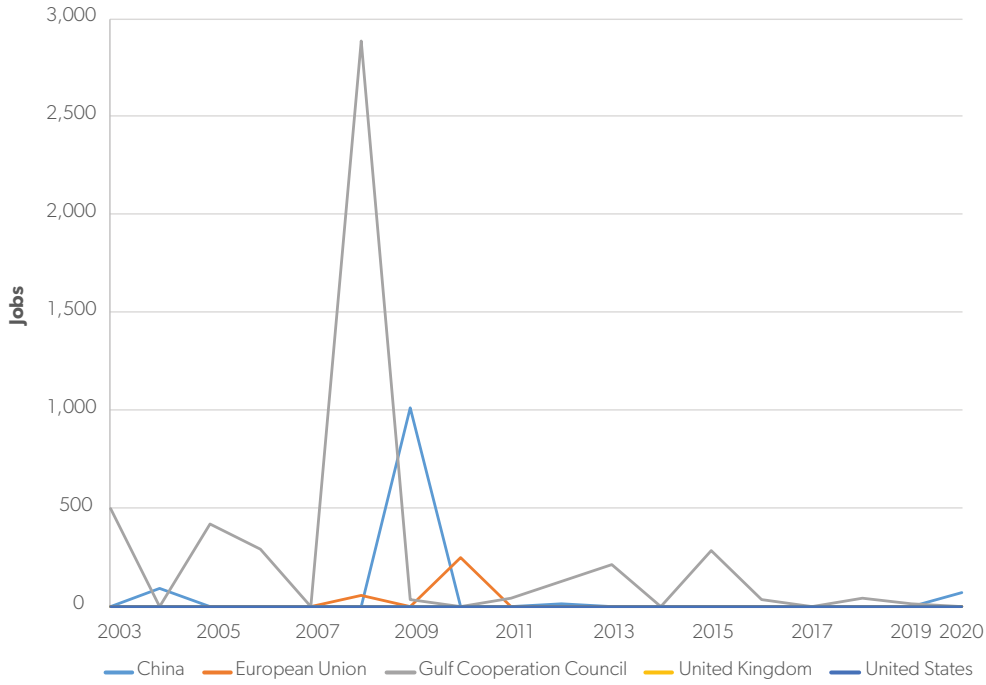
Source: fDi Markets.

Figure B24. Sudan Total Jobs Created (2003–May 2020)



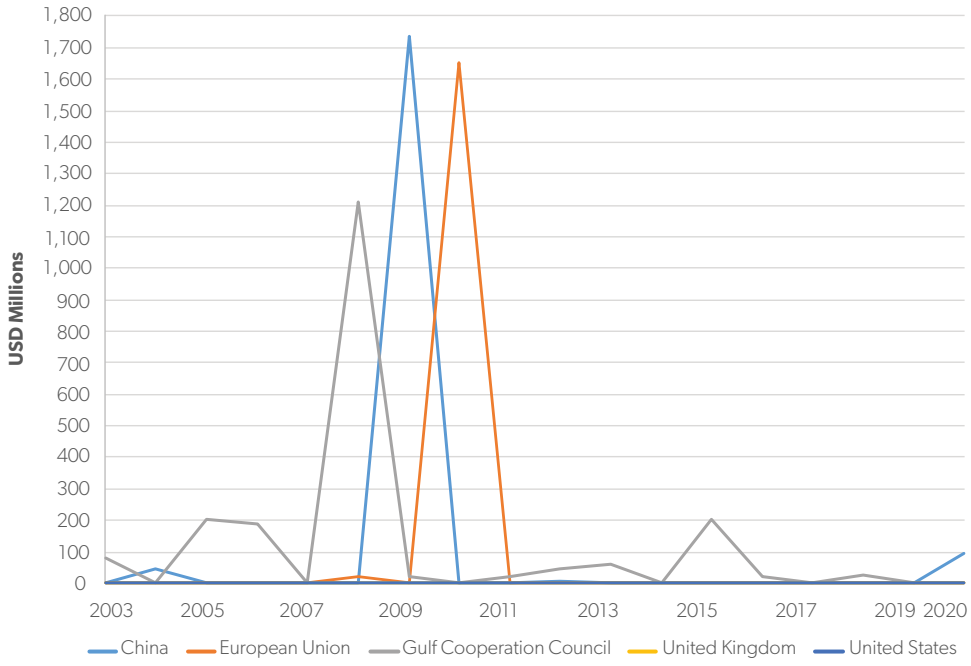
Source: fDi Markets.

Figure B25. Jobs Created in Sudan (2003–May 2020)



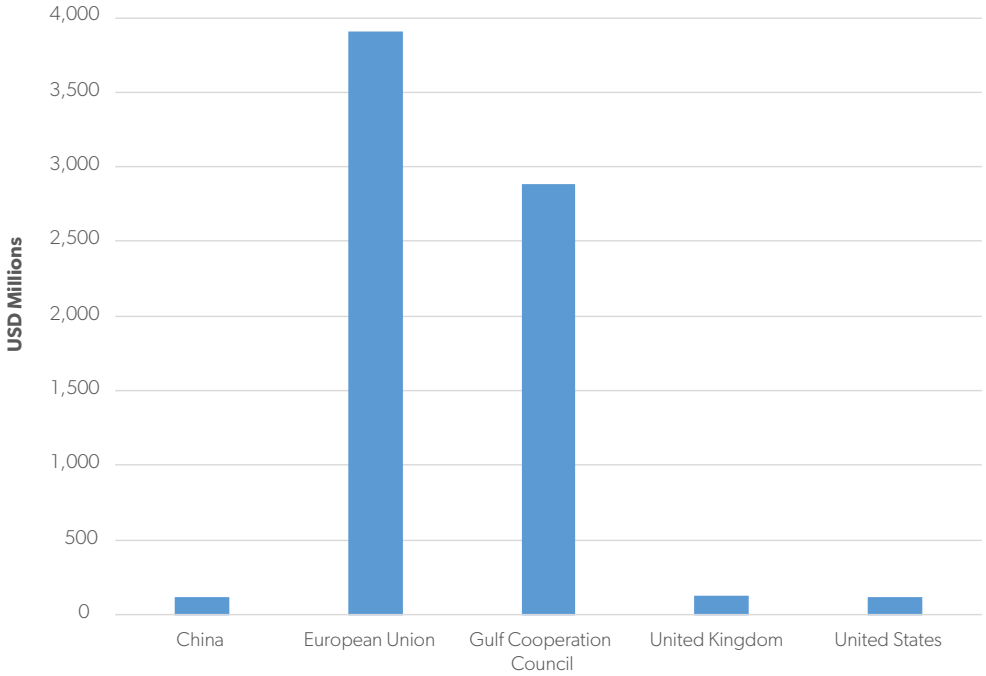
Source: fDi Markets.

Figure B26. Capital Investment in Sudan (2003–May 2020)



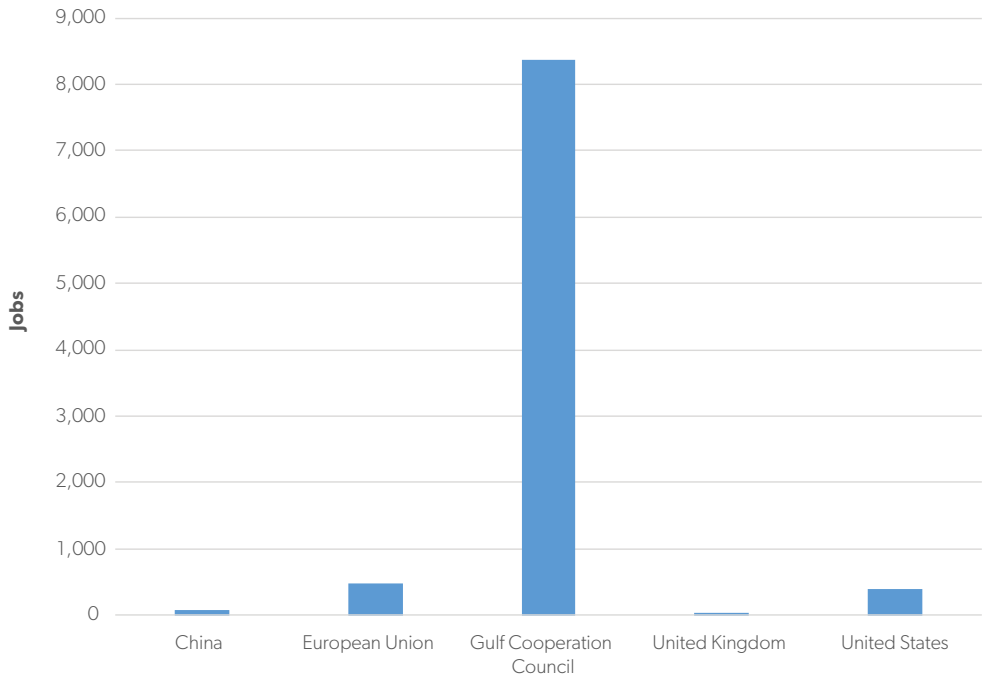
Source: fDi Markets.

Figure B27. Yemen Total Capital Investment (2003–May 2020)



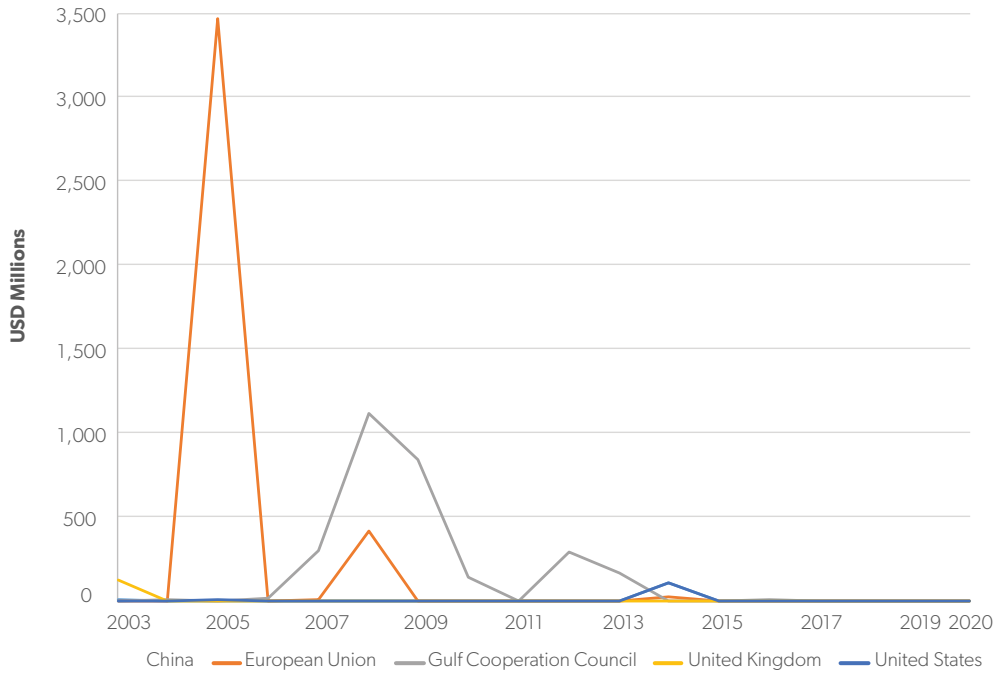
Source: fDi Markets.

Figure B28. Yemen Total Jobs Created (2003–May 2020)



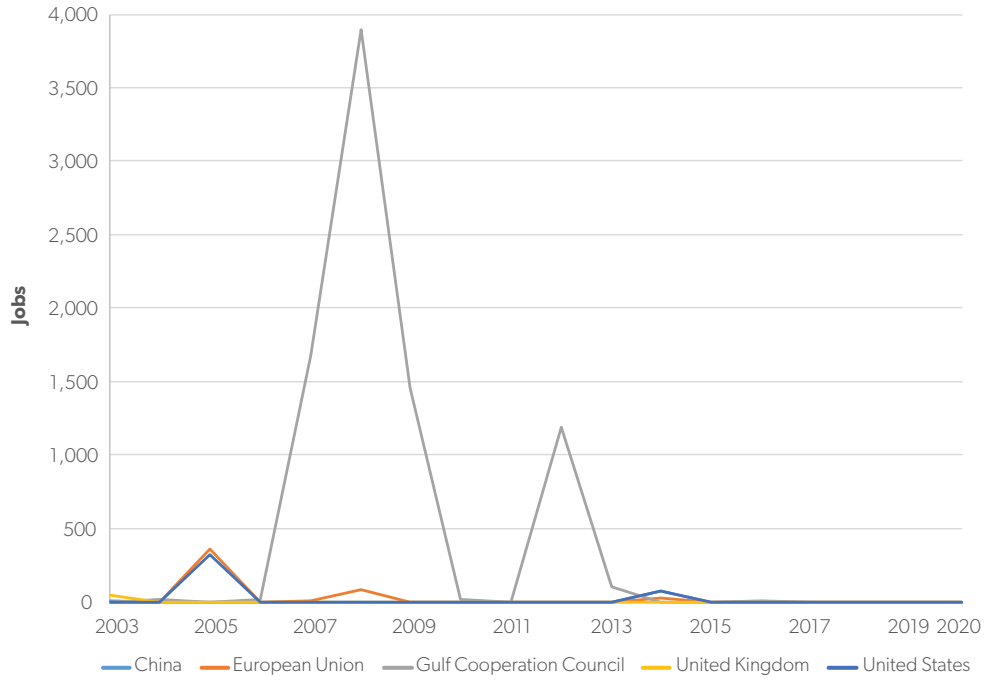
Source: fDi Markets.

Figure B29. Capital Investment in Yemen (2003–May 2020)



Source: fDi Markets.

Figure B30. Jobs Created in Yemen (2003–May 2020)



Source: fDi Markets.

Notes

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33. There are other substantial capital investments into the broader region not explored in the Gulf Financial Aid and Direct Investment Tracker or this report. For example, South Korea and Japan are important investors and providers of technology in the Middle East and in the Gulf especially.

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