

INTERNATIONAL MONETARY FUND

MIDDLE EAST AND CENTRAL ASIA DEPARTMENT

Strengthening GCC-CCA Economic Cooperation

Prepared by an IMF team led by Said Bakhache and
Francois Painchaud and comprising Hoda Assem,
Muayad Ismail, Jeong Dae Lee, Nasir Rao, Alejandro Simone,
Haytem Troug, Jarin Tasnim Nashin, and Nihal Haider

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Executive Summary

Heightened global uncertainty, geoeconomic fragmentation, and trade tensions have made deepening economic ties among countries more important to boost growth and resilience. Although economic ties between countries of the Gulf Cooperation Council (GCC) and the Caucasus and Central Asia (CCA) are still limited, deliberate policy actions could help expand and diversify trade and investment.¹ This paper focuses on cross-cutting policies, which would benefit GCC–CCA bilateral economic ties and beyond. The key findings are as follows:

The GCC and the CCA have similar export structures, but they also have important complementarities that could be leveraged. The GCC and the CCA exhibit high trade openness, with countries in both regions typically having an important comparative advantage in hydrocarbons and other natural resources. However, there has been a gradual reduction in the share of hydrocarbons in exports for both the GCC and the CCA, reflecting the impact of ongoing diversification policies. The growing non-hydrocarbon trade (goods and services) of the GCC and the CCA is relatively well diversified, which bodes well in the current environment. In addition to non-hydrocarbon trade, there are other complementarities that offer promising avenues for strengthening economic ties, including emerging signs of bilateral investment activities and the fact that the GCC typically exports capital, whereas the CCA imports capital.

Strengthening GCC–CCA ties will require leveraging these complementarities and enhancing cross-cutting policies. Typically, the trade- and investment-enabling environment in the GCC is better than that in the CCA, including in terms of infrastructure and logistics, aggregate trade restrictions, governance, regulatory burden, product market policies, and cross-border payment (XBP) systems. In contrast, the CCA region performs better in terms of having fewer nontariff measures and a lower state footprint in the economy. Both regions perform well in terms of bilateral investment agreements but lag in terms of trade agreements.

CCA and GCC trade could be significantly enhanced with appropriate reforms. Improving policies to the level of top 25 percent of global performers in the areas of logistics and governance could boost CCA trade in goods by about 150 and 120 percent, respectively. Reducing CCA tariffs, aggregate trade restrictions, and the regulatory burden would also enhance trade substantially. Given that GCC countries typically have smaller policy gaps than CCA countries, closing these gaps would yield lower but still material gains, especially in the areas of governance, logistics, and regulatory burden reduction. Similar results hold for trade in services. Trade agreements should be considered to help lift trade impediments, while GCC and CCA countries should review their nontariff measures and improve trade facilitation.

A comprehensive structural reform strategy can boost foreign direct investment (FDI) inflows to CCA and GCC countries. This would cover a wide array of reform areas including institutional quality, trade liberalization, labor and product market reforms, financial sector development, and human and physical capital enhancement. The FDI gains from closing the policy gaps are larger in the CCA (0.7 percent of GDP) compared with those in the GCC (0.14 percent of GDP) because of the larger policy gaps in CCA countries in these structural areas. Investment treaties would also be beneficial in reducing the binding constraints private sector players face when undertaking FDI.

Complementary measures could be carefully considered, but their mixed results warrant caution. Special economic zones (SEZs), targeted subsidies, insurance schemes, and private–public partnerships could help in limited circumstances, but the bar to get it right is high. For example, SEZs should resolve a market failure

¹ The Caucasus and Central Asia (CCA) comprises Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. The Gulf Cooperation Council (GCC) comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE.

better than other alternatives and be time-bound, cost-effective, transparent, and consistent with preserving domestic macroeconomic stability, fiscal and external sustainability, and avoiding negative cross-border spillovers. SEZs should complement broader structural reform efforts and not substitute for them.

Efforts are also required to enhance XBPs, especially in the CCA. Although XBPs can facilitate trade and investment, there is a high degree of interdependence between them. The G20 road map on XBPs can serve as a broad guide for enhancing GCC and CCA XBPs. It entails three priority themes: (1) payment system interoperability and extension; (2) legal, regulatory, and supervisory frameworks; and (3) data exchange and message standards. The heterogeneity of XBP systems across the GCC and the CCA countries suggests that solutions will need to be tailored to country-specific circumstances.

Acronyms and Abbreviations

AE	advanced economy
AML/CFT	anti-money laundering/combating the financing of terrorism
API	application programming interface
AREAER	Annual Report on Exchange Arrangements and Exchange
BACI	Base pour l'Analyse du Commerce International
CBR	correspondent banking relations
CCA	Caucasus and Central Asia
CEPA	Comprehensive Economic Partnership Agreement
CEPII	Centre d'Études Prospectives et d'Informations Internationales
EACU	Eurasian Economic Union
EMDE	emerging market and developing economy
FDIAI	foreign direct investment attractiveness index
FPS	fast payment systems
GCC	Gulf Cooperation Council
IPS	instant payment system
LPI	Logistics Performance Index
MERCOSUR	Southern Common Market (South America)
NTM	nontariff measure
OECD	Organisation for Economic Co-operation and Development
OLS	ordinary least squares
PPML	Poisson pseudo maximum likelihood
PPP	public-private partnership
RTGS	real-time gross settlement
SEZ	special economic zone
SWF	sovereign wealth fund
UAE	United Arab Emirates
UNCTAD	UN Trade and Development
WDI	World Development Indicators
WEO	World Economic Outlook
WITS	World Integrated Trade Solution
WTO	World Trade Organization
XBP	cross-border payment

1. Introduction

Economic diversification has been a key objective of the countries in the Gulf Cooperation Council (GCC) and the Caucasus and Central Asia (CCA) to strengthen resilience and support robust growth. Most GCC and CCA countries have long-term national development strategies, which articulate broad areas of reform to reach socioeconomic objectives, among them accelerating economic diversification. They include enhancing governance, skills, infrastructure and connectivity, business environment, innovation, and trade facilitation and partnerships. These reforms support the expansion of trade, diversification of markets, and stronger integration into global financial markets, which would help countries in both regions boost their growth and enhance their resilience.

To support diversification, in recent years, GCC and CCA countries have taken steps toward deepening their relations in a wide range of areas and have recently sought the IMF's advice on how to further strengthen their economic cooperation. Efforts on the economic and financial front appear to be aimed at diversifying investment opportunities and markets on the GCC side, building up physical, human, and IT capital; and expanding trade opportunities on the CCA side. Although trade and financial linkages between the GCC and the CCA are still limited, deliberate policy actions have begun to improve economic ties. There is growing evidence of strengthening relationships between GCC and CCA countries, including more high-level bilateral exchanges,² while the building blocks for greater cooperation are gradually being assembled. The latter includes reducing tariffs, loosening visa requirements, introducing direct flights, opening embassies, discussing agreements on how to avoid double taxation, and seeking business opportunities through trade shows and business forums. Over the past few years, development funds from GCC countries have also supported infrastructure and energy projects across the CCA region, including in Uzbekistan, Azerbaijan, and Tajikistan.

The drive to deepen GCC–CCA economic ties is taking place during a period of heightened global uncertainty, increased geoeconomic fragmentation, and trade tension. As noted in IMF (2025b), continued elevated trade policy uncertainty could spark new momentum toward regional, plurilateral, and multi-lateral agreements, which could mitigate risks and foster policy predictability. Ultimately, expanding and deepening international cooperation and intra- and interregional integration could increase investment, boost productivity, raise potential growth, and enhance countries' resilience to external shocks, by expanding the reference market and diversifying trading partners. The global context, with its challenges and opportunities, has made deepening economic ties more important, including between the GCC and the CCA, which have some complementarities that offer promising ground for scaling up both foreign direct investment (FDI) and trade flows.

Against this background, this paper focuses on macroeconomic and structural issues relevant for deepening GCC–CCA economic cooperation. Significant reforms and proactive policies are needed to facilitate economic integration, especially given that both regions have, by and large, a comparative advantage in hydrocarbons and other natural resources and have a still relatively narrow domestic non-resource production base. This paper does not discuss sector-specific issues and reforms, including which sectors to develop and how to do so, as those fall outside the mandate of the IMF. Instead, it aims to identify key cross-cutting issues that are necessary to expand trade and FDI across the board and facilitate financial transactions.

² For example, a summit between leaders of the GCC countries and five Central Asian (CA) countries was held in Saudi Arabia in July 2023. In April 2024, a high-level meeting of GCC and CA Foreign Ministers took place in Uzbekistan. In April 2025, GCC and CA Foreign Ministers met in Kuwait. Azerbaijan and the GCC have established a joint action plan and held an economic forum in September 2024. High-level bilateral meetings between the GCC and Georgia and Armenia were also held in May and June 2025, respectively.

This paper highlights that although considerable efforts are needed to enhance cooperation between the two regions, the payoffs could be significant. To facilitate integration and support diversification, this paper finds that GCC and CCA countries should improve governance, human capital, business environment, and FDI attractiveness, consistent with their own development strategies. But other policies could also increase trade and investment, including reducing tariffs, nontariff measures (NTMs), and trade and exchange restrictions, while liberalizing product and labor markets, and deepening the financial sector. In this regard, consideration should be given to expanding trade agreements and bilateral investment treaties. In addition, reducing the state footprint in the economy would typically enhance FDI attractiveness, although in some cases, targeted state interventions could support FDI. This paper also highlights that improvements in infrastructure, logistics, and cross-border payment (XBP) systems would support trade and FDI, especially in the CCA. Given the different levels of development and the heterogeneity of countries' characteristics, reform priorities and expected outcomes will differ across countries and regions. Importantly, the reforms would benefit the GCC and the CCA well beyond strengthening their bilateral economic ties.

This paper is divided into four sections and focuses on two broad topics, namely, trade and FDI, while also discussing XBP issues. It is important to recognize that there is a high degree of interdependence between trade, FDI, and XBPs. For example, effective XBPs are needed to expand trade and attract FDI; a supportive and open trade environment facilitates FDI attraction; FDI can help boost trade; and FDI and external trade encourage the development of more efficient XBPs. The next section discusses some of the salient characteristics of trade in goods and services, capital and financial flows, and XBPs in the GCC and the CCA. The subsequent section discusses the enabling environment for economic ties. The penultimate section presents empirical results of the drivers of bilateral trade and FDI. The final section presents recommendations.

2. Current State of Economic Ties

This section presents stylized facts about trade in goods and services and financial flows in the GCC and the CCA. It shows that GCC-CCA economic ties are growing but still limited, despite both regions having relatively high trade openness and complementary saving-investment needs (CCA is a net importer of capital, whereas the GCC is a net exporter).³

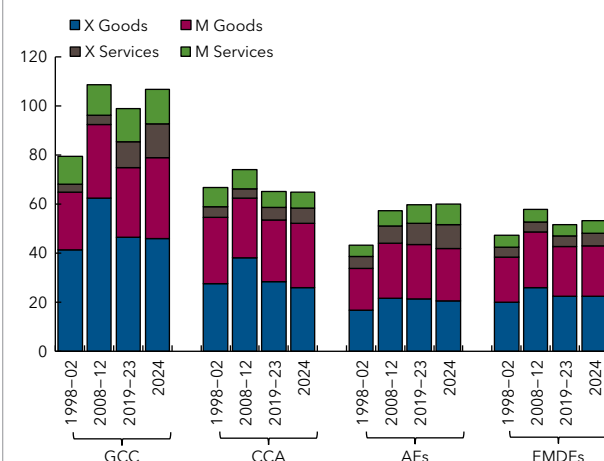
A. Trade in Goods and Services

Trade openness is relatively high in both regions, especially in the GCC (Figure 1). Trade openness, as measured by the ratio of export plus import of goods and services to GDP, is higher in the GCC and CCA than in emerging market and developing economies (EMDEs) and advanced economies (AEs). Although goods account for most of the trade, the importance of trade in services has increased during the past decades, especially for the GCC where services account for almost one-third of non-hydrocarbon trade.⁴ Excluding hydrocarbons highlights the significantly higher share of imports to non-hydrocarbon GDP of the GCC, and, to a lesser extent, the CCA, which may reflect their limited albeit improving diversification.

Figure 1. Trade Openness

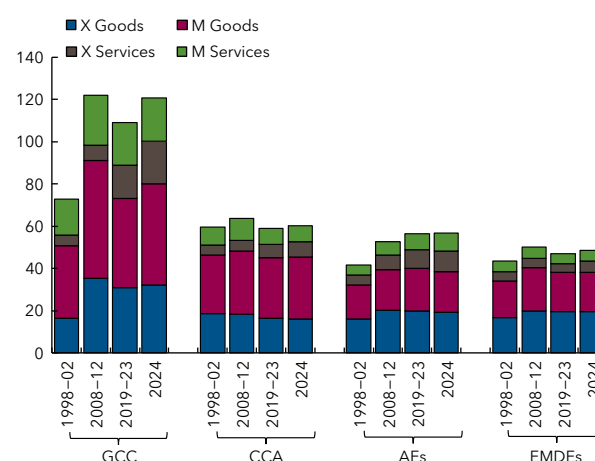
1. Trade Openness

(Percent of GDP)



2. Non-hydrocarbon Trade Openness

(Percent of non-hydrocarbon GDP)



Sources: World Economic Outlook Database; and IMF staff calculations.

Note: AEs = advanced economies; CCA = Caucasus and Central Asia; EMDEs = emerging market and developing economies; GCC = Gulf Cooperation Council.

The structure of GCC and CCA exports is generally comparable, although a few notable differences exist (Figure 2). Both regions have a comparative advantage in hydrocarbon (minerals and fuels), stones and metals, and basic manufacturing.⁵ Noteworthy is the gradual reduction in the share of minerals and fuels in exports for both the GCC and the CCA, reflecting the impact of the ongoing diversification policies. The

³ Another avenue to strengthen GCC-CCA economic ties could be labor mobility. The GCC countries, with their high demand for labor, represent a potential destination for CCA workers. Although the UN data do not cover migration between GCC and CCA, mobility between the two regions is likely very limited at present. Greater labor mobility between the GCC and the CCA could deliver mutual benefits, including remittances.

⁴ This is especially the case in the UAE, which is among the largest services exporters and importers in the world. See Global Trade Outlook and Statistics.

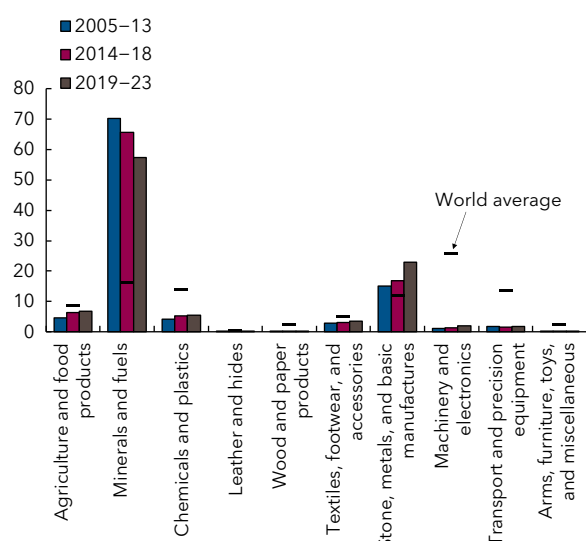
⁵ A country is deemed to have a comparative advantage when the share of its export of product "i" in its total exports is greater than the share of export of product "i" for the entire world.

CCA is also relatively close to having a comparative advantage in textiles and agriculture, whereas the GCC almost has a comparative advantage in chemicals and plastics. Services exports are more diversified, with both regions having comparative advantages in transport, travel, and construction services. In addition, the GCC has comparative advantages in insurance and pension; government; and personal, cultural, and recreational services, whereas the CCA has a comparative advantage in telecommunication, computer, and information services.

Figure 2. Comparative Advantage and Structure of Exports

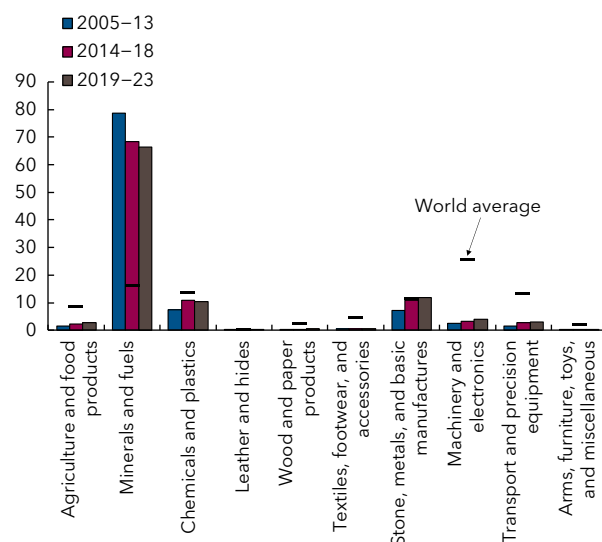
1. CCA: Structure of Goods Exports

(Percent of total exports)



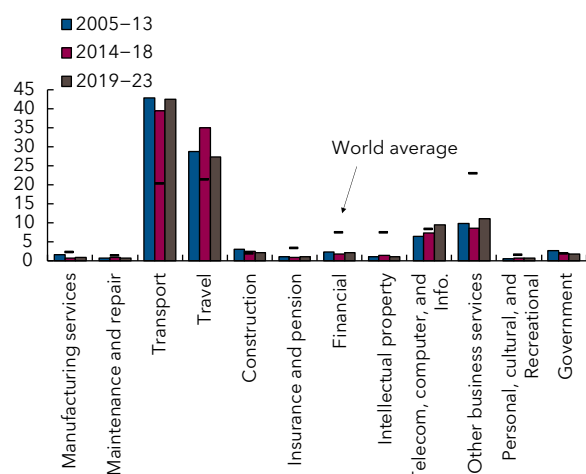
2. GCC: Structure of Goods Exports

(Percent of total exports)



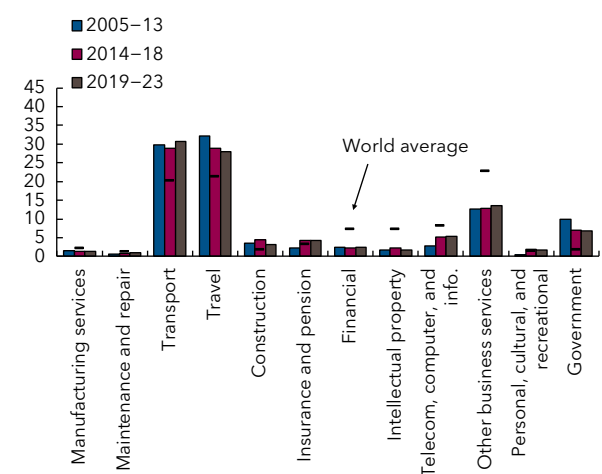
3. CCA: Structure of Services Exports

(Percent of total exports)



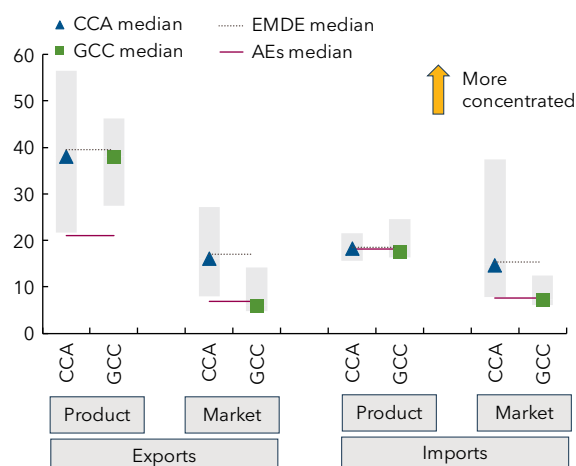
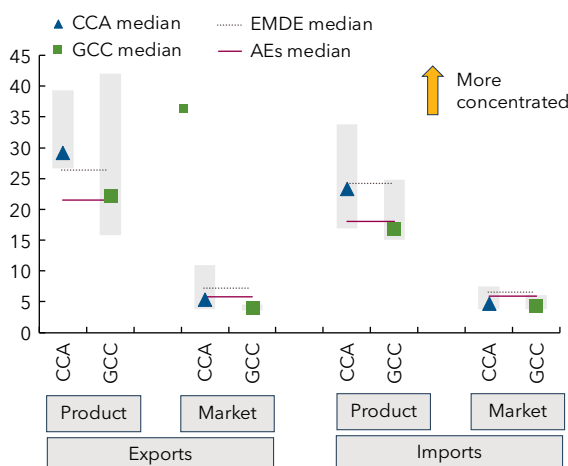
4. GCC: Structure of Services Exports

(Percent of total exports)



Sources: BACI (Base pour l'Analyse du Commerce International) database from the Centre d'Études Prospectives et d'Informations Internationales (CEPII); WTO-OECD Balanced Trade in Services dataset; and IMF staff calculations.

Note: Government services include embassies and consulates, military units and agencies, other government services.

Figure 3. GCC and CCA Exports and Imports: Product and Market Concentration**1. Non-hydrocarbon: Goods Product and Market Concentration***(Herfindahl–Hirschman Index, 2023)***2. Services: Product and Market Concentration**
(Herfindahl–Hirschman Index, 2023)

Sources: BACI (Base pour l'Analyse du Commerce International) database from the Centre d'Études Prospectives et d'Informations Internationales (CEPII); WTO–OECD Balanced Trade in Services dataset; and IMF staff calculations.

Note: AEs = advanced economies; CCA = Caucasus and Central Asia; EMDEs = emerging market and developing economies; GCC = Gulf Cooperation Council.

The GCC's and the CCA's growing non-hydrocarbon trade (goods and services) is relatively well diversified, which bodes well in the current environment. The GCC is typically more diversified than the CCA in terms of non-hydrocarbon trade, both in terms of product and market diversification, with shaded areas in Figure 3 showing the distribution (minimum and maximum) within the respective regions.⁶ Typically, the CCA's diversification is in line with EMDEs, while the GCC's is comparable to AEs, except for the diversification of non-hydrocarbon product exports. For both the GCC and the CCA, market concentration is lower than product concentration.

Non-hydrocarbon trade between the GCC and the CCA is broadly in line with their comparative advantages, but it remains relatively low and concentrated. The share of GCC (CCA) non-hydrocarbon goods exports to the CCA (GCC) is relatively low, except in 2023, when CCA exports to the GCC reached almost 4 percent of its total exports because of a sharp increase in export of stones, metals, and basic manufactures (Figure 4). The GCC's exports to the CCA also increased significantly in 2022.⁷ For services trade, the share of GCC's exports to the CCA is also low (1 percent), although the share of CCA's services exports to the GCC is close to 7 percent of its export of services, mostly reflecting export of travel and transportation services (Figure 5). Over 2010–23, the UAE accounted for close to 96 (63) percent of GCC goods (services) exports to the CCA. During the same period, the UAE accounted for close to 90 (40) percent of the GCC goods (services) imports from the CCA. This likely reflects the role of the UAE as a transportation and trade hub. The UAE has also signed a comprehensive economic partnership agreement (CEPA) with Georgia in 2023, which is in force, and more recently with Azerbaijan and the Eurasian Economic Union (which includes Armenia, Kazakhstan,

⁶ The Herfindahl–Hirschman Index is the sum of trade shares squared and is calculated by product (product concentration) and geographic location (market concentration). The index ranges between 0 (not concentrated) and 1 (concentrated).

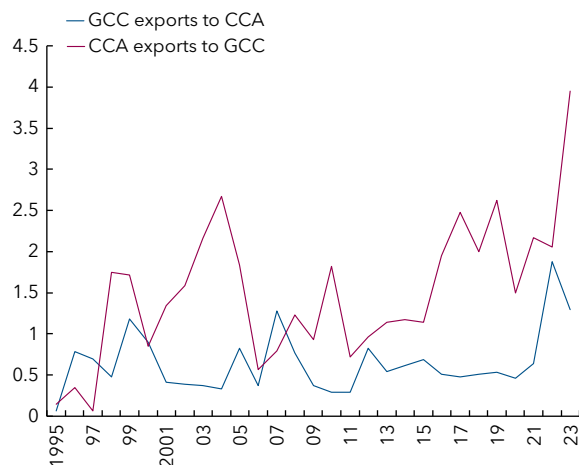
⁷ Changes in trade patterns in 2022 and 2023 may reflect the impact on global trade of Russia's invasion of Ukraine and the ensuing trade sanctions.

and the Kyrgyz Republic).⁸ Although existing trade is limited, there is scope to leverage existing comparative advantage in sectors such as chemicals, textiles, and agriculture and in services to expand trade opportunities. There is also scope to boost intra-regional trade, as intra-regional goods exports, as a percentage of total exports, is lower in the CCA (8.9 percent) and the GCC (15 percent), compared with the Association of Southeast Asian Nations (23.6 percent) and Europe (59 percent), and broadly in line with MERCOSUR, the South American trade block (13 percent), and the Central American Common Market (12.1 percent).

Figure 4. Share of GCC-CCA Trade

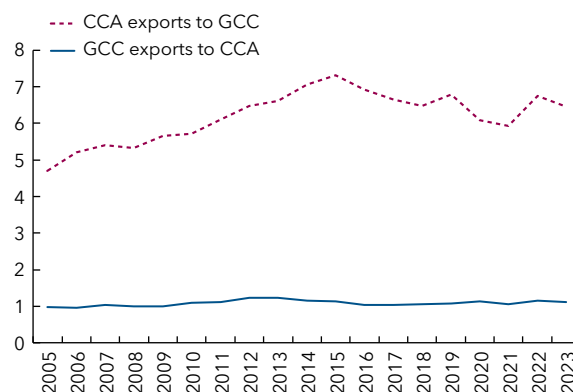
1. Non-hydrocarbon Trade between GCC and CCA

(Percent of non-hydrocarbon exports)



2. Services Exports between GCC and CCA

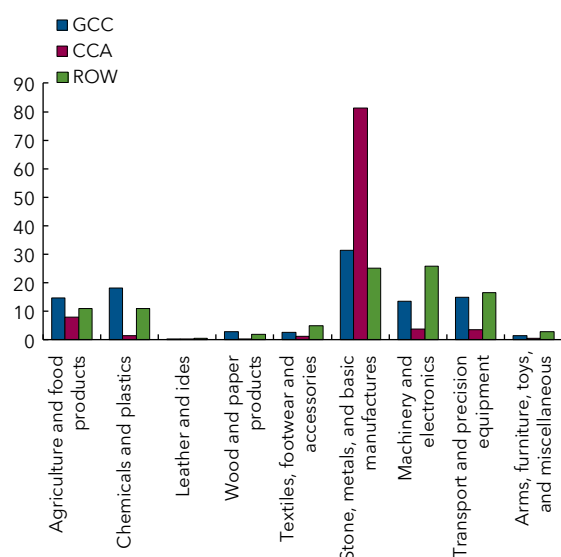
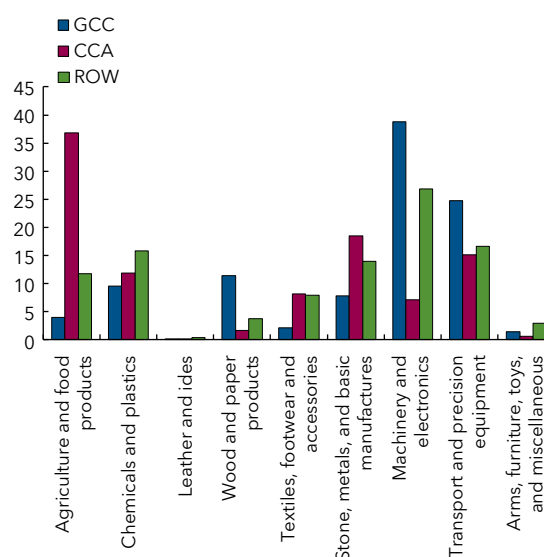
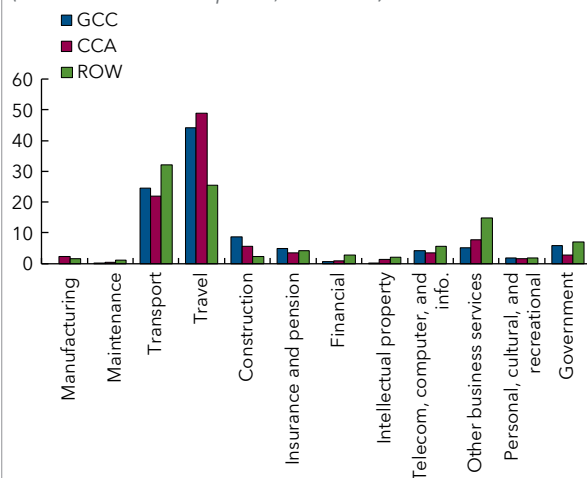
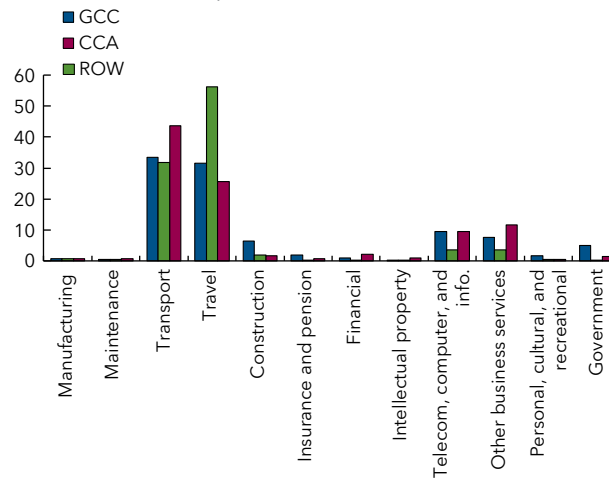
(Percent of total exports)



Sources: BACI (Base pour l'Analyse du Commerce International) database from the Centre d'Études Prospectives et d'Informations Internationales (CEPII); WTO-OECD Balanced Trade in Services dataset; and IMF staff calculations.

Note: CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council.

⁸ Since February 2022, the UAE has signed or ratified a number of comprehensive economic partnership agreements (CEPAs), including with India, Israel, Indonesia, Türkiye, Cambodia, Georgia, South Korea, Kenya, Australia, and Vietnam. More UAE CEPAs are under negotiation. CEPAs appear broader than free trade agreements, and although they may differ in content, they have covered some of the following: tariffs and goods market access, services and digital trade, nontariff measures (NTMs) including technical barriers to trade, trade facilitation, and streamlining customs procedures, government procurement, antidumping, intellectual property, competition, sustainability, labor mobility, and investment. Other GCC countries have used other forms of economic diplomacy to improve cooperation with economic partners.

Figure 5. Structure of GCC and CCA Imports**1. Structure of GCC Imports by Regions***(Percent of non-hydrocarbon imports, 2019-23)***2. Structure of CCA Imports by Regions***(Percent of non-hydrocarbon imports, 2019-23)***3. GCC: Structure of Services Imports by Regions***(Percent of total exports, 2019-23)***4. CCA: Structure of Services Imports by Regions***(Percent of total exports, 2019-23)*

Sources: BACI (Base pour l'Analyse du Commerce International) database from the Centre d'Études Prospectives et d'Informations Internationales (CEPII); WTO-OECD Balanced Trade in Services dataset; and IMF staff calculations.

Note: CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council.

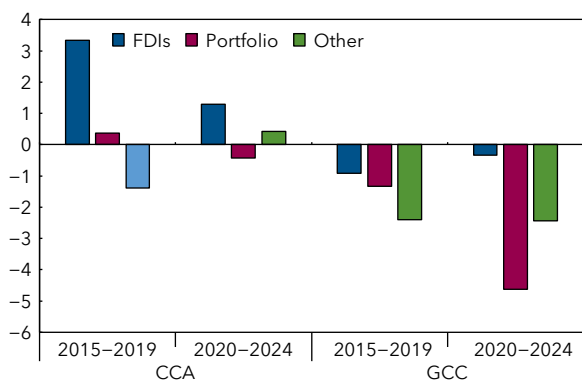
B. Capital and Financial Flows

The GCC and the CCA have complementary external investment dynamics. By typically registering current account surpluses, the GCC is a net provider of financing to the rest of the world. In contrast, the CCA region is a net recipient of financial flows from the rest of the world, largely reflecting sustained FDI inflows (Figure 6). Most of the GCC's investments abroad are in the form of portfolio investments or other investments. Sovereign wealth funds (SWFs) generally spearhead GCC's FDI outflows, accounting for over 80 percent of

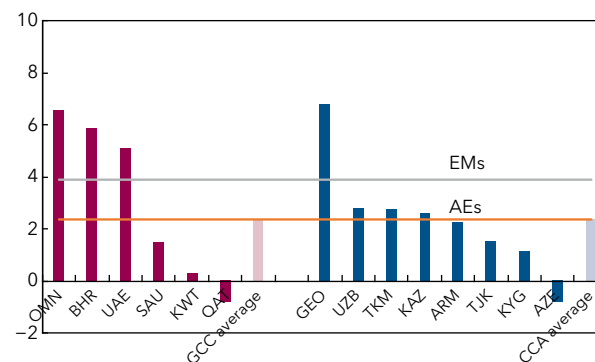
total outward investment from the region (Korniyenko and others 2025). Although Saudi Arabia and the UAE lead these outflows, the overall pattern of FDI outflows of other GCC countries resembles the overall trends. FDI dominated inflows to the CCA have declined after the COVID-19 pandemic, with the decline partially offset by an increase in other investment flows in the form of deposits and external loans.

Figure 6. Financial and FDI Flows in the GCC and the CCA

1. Financial Flows in GCC and CCA Economies
(Percent of GDP)



2. FDI Inflows 2019-23
(Percent of GDP)

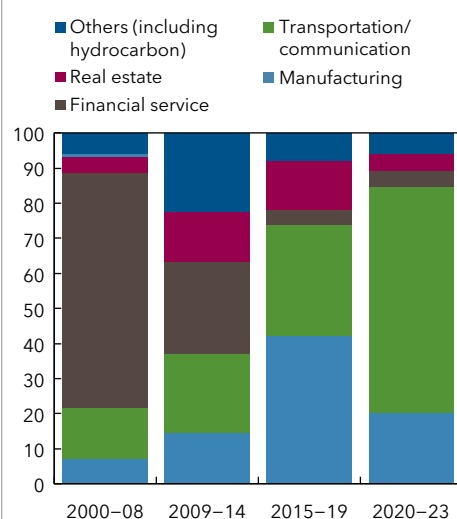
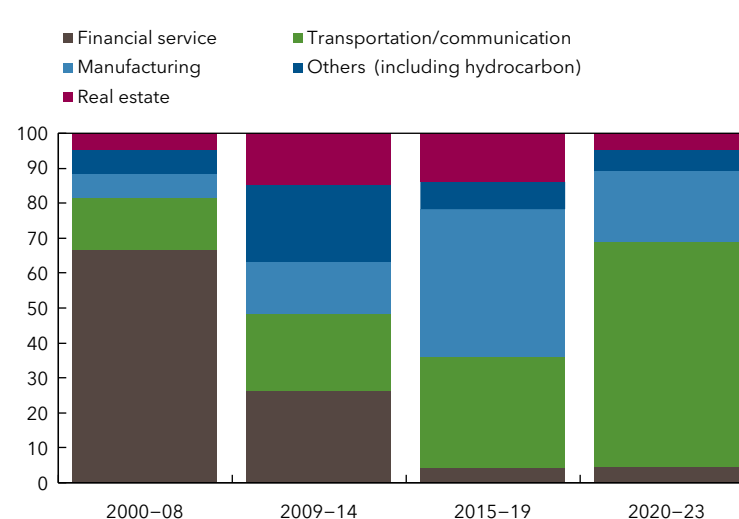


Sources: World Economic Outlook; and IMF staff calculations.

Note: Data in both charts are presented on net basis following BPM5 definitions. AEs = advanced economies; CCA = Caucasus and Central Asia; EMs = emerging markets; FDI = foreign direct investment; GCC = Gulf Cooperation Council.

Realized FDI inflows point to underperformance in some GCC and CCA countries during 2019-23. Although some countries attracted significant FDI inflows, the GCC and the CCA overall lagged the broader EM average, suggesting substantial areas for improvement. In the GCC, Oman, Bahrain, and the UAE overperformed compared to EMs, whereas other countries in the region significantly underperformed. In the CCA region, Georgia stood out with inflows well above EMs during that period, whereas countries such as Uzbekistan, Turkmenistan, Kazakhstan, and Armenia reported inflows well below EMs.

Anecdotal evidence suggests that the sectoral composition of GCC inward and outward FDI is evolving. As noted in Korniyenko and others (2025), cross-border investment inflows into the GCC have traditionally been skewed toward the hydrocarbon sector, but this has changed significantly since the early 2000s. This likely reflects the authorities' diversification efforts. Based on "deal-level" information, the sectoral focus of inward FDI commitments and announcements continues to evolve with a notable shift away from financial services and into transportation and other services (Figure 7). However, regional figures reflect the dynamics of the largest economies (Saudi Arabia and the UAE) as FDI inflows to other GCC countries continue to exhibit high concentration in more traditional sectors. GCC outward FDI, spearheaded by SWFs, is directed primarily towards transportation, communication, and manufacturing, with a growing focus on renewable energy and new EMs.

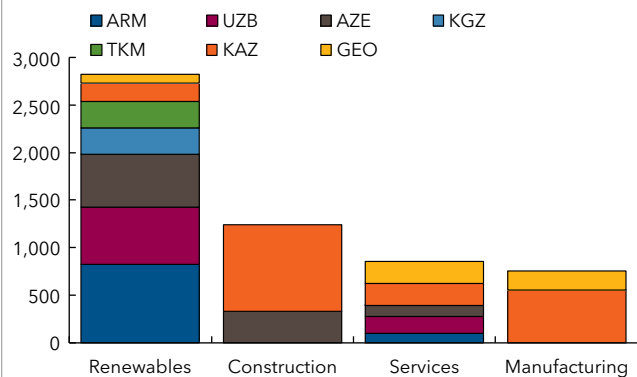
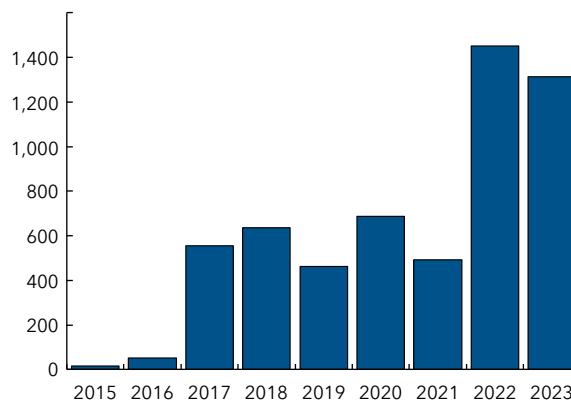
Figure 7. GCC Sectoral Flows**1. GCC Inward FDI by Target Industry**
(Percent of total)**2. GCC Outward FDI by Target Industry**
(Percent of total)

Source: Korniyenko and others (2025).

Note: The primary data sources for sectoral FDI inflows are the BvD Zephyr and SWFI databases. Both databases provide deal-level information on mergers and acquisitions, joint ventures, and investment holdings, covering transactions that are completed, announced, or pending. FDI = foreign direct investment; GCC = Gulf Cooperation Council.

FDI inflows to the CCA have shifted from resource-driven investments dominated by Kazakhstan to a more diversified and regionally balanced landscape. Before the pandemic, Kazakhstan attracted the bulk of FDI, particularly in upstream hydrocarbon activities (UNCTAD 2020). Although a breakdown of recent investments is not available, aggregate investment flows to most CCA countries rebounded strongly after the pandemic, with Uzbekistan emerging as a major destination because of reforms and large-scale digital and energy projects (EEAS 2024). Intra-regional investment surged, particularly among Kazakhstan, Uzbekistan, and Azerbaijan. Overall, the region is undergoing a strategic shift toward diversification, renewable energy, and digital sectors, driven by reforms and growing regional cooperation (EBRD 2023).

Although the flow of capital between the GCC and the CCA remains limited, there are promising signs of activity and diversification (Figure 8). GCC investment stock in the CCA accounts for 0.5 percent of the CCA's GDP and represents 0.5 percent of the total stock of FDI outflows from the GCC during 2015–23. GCC FDI inflows and investment commitments to CCA countries have shown signs of diversification, with an increasing focus on renewable energy, construction, and services sectors, especially in Armenia (renewable energy), Uzbekistan (renewable energy and services), and Kazakhstan (construction and manufacturing). CCA countries have also invested in the GCC, although the amounts are very small. For example, Kazakhstan's SWF has invested in the energy, infrastructure, and banking sectors in the GCC; Azerbaijan's State Oil Company (SOCAR) has invested in oil exploration and refining partnerships; and private investors from Kazakhstan, Azerbaijan, and Uzbekistan have made real estate investments in the GCC.

Figure 8. GCC Investments in the CCA**1. Announced and Actual Cumulative GCC Investments in the CCA per Economic Activity (2015-23)***(US\$ million)***2. Announced and Realized GCC Investments in the CCA***(US\$ million)*

Sources: fDi Markets; and IMF staff calculations.

Note: FDI announcements are sourced from fDi Markets and reflect publicly reported investment announcements, which may not always translate into realized flows. Data labels in the figure use International Organization for Standardization (ISO) country codes. CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council.

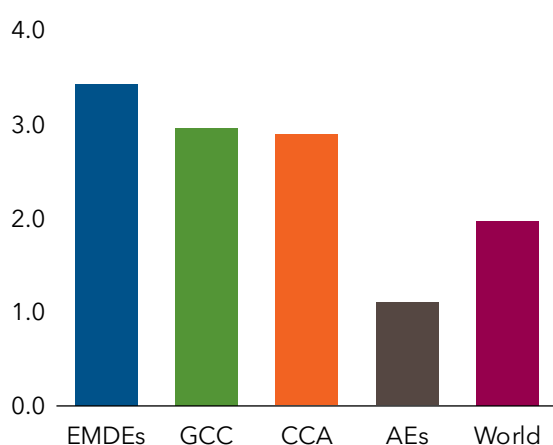
3. Trade and Investment Enabling Environment

Economic ties can be facilitated or impeded by several factors. In addition to exogenous considerations (such as distance between countries, cultural proximity, and landlocked status), trade can be affected by policy-dependent factors including tariffs and NTMs, the quality of infrastructure, logistics and trade facilitation measures, exchange restrictions, governance, and the regulatory burden (see Francois and Manchin 2007; Yotov and others 2016; IMF 2023b). Similar factors can also affect FDI in addition to financial development, labor and product market, and the state footprint in the economy (see Lim 2001; Bouzid and Toumi 2020; Paul and Feliciano-Cestero 2021). Finally, trade and bilateral investment agreements, integration in global value chains (GVCs), and special economic zones (SEZs) can also have an impact on trade and FDI. This section discusses the extent to which countries in the GCC and CCA are positioned with respect to these factors and the scope for improvements in this regard.

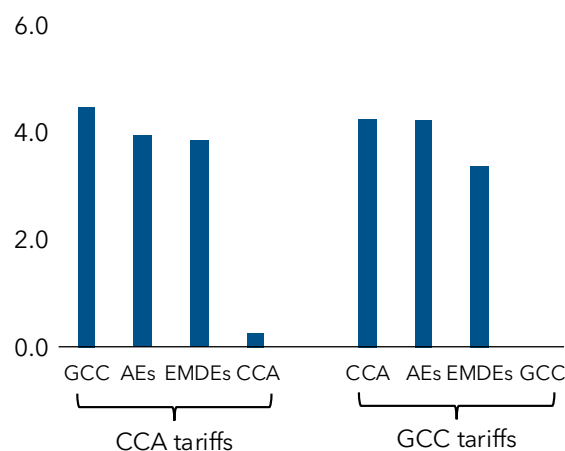
GCC and CCA tariffs are slightly lower than in EMDEs but much higher than in AEs (Figure 9). CCA countries also apply higher tariffs on the GCC than on AEs and EMDEs. For example, the average tariff on CCA's imports from the GCC is 4.5 percent in 2023 but 4.0 percent for imports from AEs, whereas the average tariff on GCC imports from the CCA and AEs is 4.3 percent, and 3.4 percent for imports from EMDEs. Intra-regional tariffs are low, especially in the GCC, given the customs union. Applied tariffs on agricultural, textile, and footwear products remain much higher than on other goods. Recent changes to the constellation of global tariffs, especially in AEs, are not captured in this analysis.

Figure 9. Tariffs

1. Average Tariffs
(Percent, 2023)



2. Average Tariff of the CCA and GCC by Groups
(Percent, 2023)



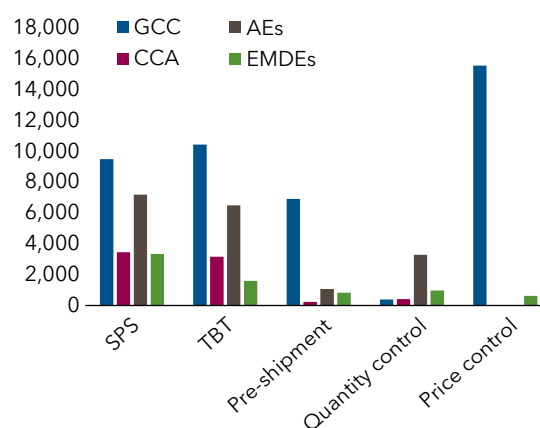
Sources: World Integrated Trade Solution (WITS); and IMF staff calculations.

Note: AEs = advanced economies; CCA = Caucasus and Central Asia; EMDEs = emerging market and developing economies; GCC = Gulf Cooperation Council.

NTMs typically have a negative impact on trade (Box 1). NTMs are more prevalent on imports than on exports. For imports, they include sanitary and phytosanitary (SPS) measures, technical barriers to trade (TBTs), and other types of measures. NTMs can be introduced to improve social welfare (for example, protecting health), for cultural and religious reasons, or for other reasons, including protecting local producers. Although some NTMs may be necessary and even improve trade, especially SPSs, most NTMs restrict trade and increase trade costs. NTMs are more heavily used in the GCC, including SPSs, TBTs, pre-shipment measures, and price controls.⁹ Although the number of NTMs is higher in the GCC (Figure 10), their impact on trade seems broadly similar to that in the CCA and EMDEs (Figure 11). This may reflect the fact that better trade facilitation in the GCC tends to reduce the cost of enforcing NTMs, thus making them less burdensome. The extent to which NTMs are enforced is likely to also affect their impact on trade (Kravchenko and others 2022). The ad valorem equivalent (AVE) methodology may also capture the presence of NTMs rather than their intensity.

Figure 10. NTMs by Region and Type

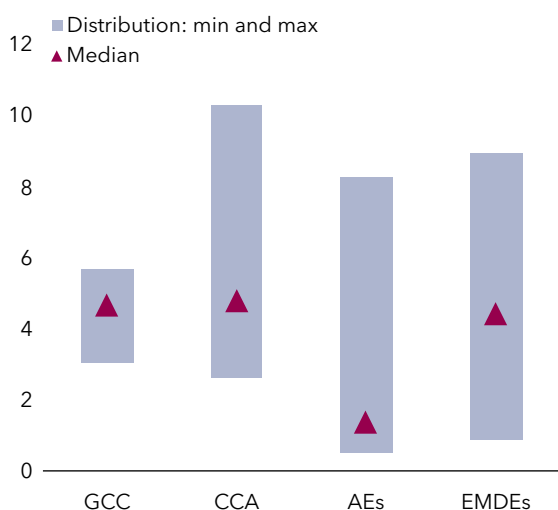
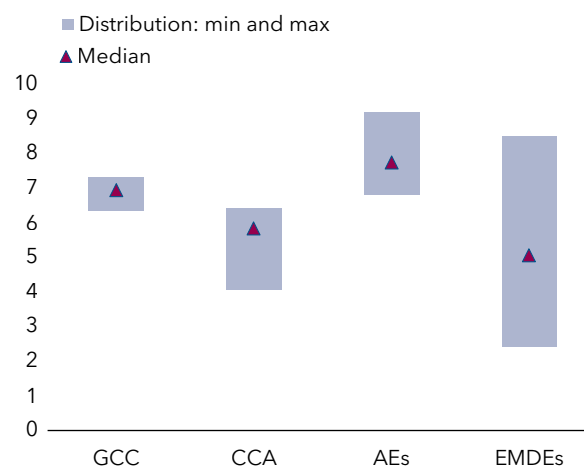
(Latest year, median number by region)



Sources: UNCTAD TRAINS database; World Bank Logistics Performance Index; and IMF staff calculations.

Note: This includes the average number of bilateral NTMs and NTMs applied to all countries. Border NTMs are defined as in Nicita and Koloskova (2025). Border NTMs focus on measures applied at the border, which include customs controls, quota licensing, pre-shipment inspections, and additional fees paid at customs, among many others. AEs = advanced economies; CCA = Caucasus and Central Asia; EMDEs = emerging market and developing economies; GCC = Gulf Cooperation Council; NTMs = nontariff measures; SPS = sanitary and phytosanitary; TBT = technical barrier to trade.

⁹ In the GCC, the number of measures related to price controls is high for customs inspection, processing, and servicing fees; merchandise-handling or storage fees; and import license fees. The number of price-control measures is highest in Bahrain, Oman, and Qatar.

Figure 11. Nontariff Measures**1. AVE of Border NTMs***(Percent, 2017)***2. Impact of Tariffs and NTMs on the Ability of Imported Goods to Compete Domestically***(Median, 1 = burdensome to 10 = not burdensome, 2022)*

Sources: Global Trade Analysis Project (GTAP); and IMF staff calculations.

Note: GTAP AVE estimates follow the methodology of Kee and Nicita (2022), with data available for only 2017. Treating the EU as one country would bring the median AVE of AEs much closer to the rest of the world. AEs = advanced economies; AVE = ad valorem equivalent; CCA = Caucasus and Central Asia; EMDEs = emerging market and developing economies; GCC = Gulf Cooperation Council; NTMs = nontariff measures.

Sources: Global Competitiveness Report; and IMF staff calculations.

Note: AEs = advanced economies; CCA = Caucasus and Central Asia; EMDEs = emerging market and developing economies; GCC = Gulf Cooperation Council; NTMs = nontariff measures.

Box 1. Nontariff Measures

NTMs are defined as policy measures, other than customs tariffs, that can potentially have an impact on trade either through quantities, prices, or both (UNCTAD 2018). NTMs can be applied to imports or exports. As per the International Classification of NTMs, NTMs on imports are currently classified in one of the following categories: (1) SPS measures; (2) TBTs; (3) pre-shipment inspection and other formalities; (4) nonautomatic import licensing, quotas, prohibitions, quantity-control measures, and other restrictions not including SPS measures or measures relating to technical barriers to trade; (5) price-control measures, including additional taxes and charges; (6) finance measures; (7) measures affecting competition; and (8) trade-related investment measures. The UNCTAD classification does not judge the legitimacy, adequacy, necessity, or discriminative nature of NTMs.

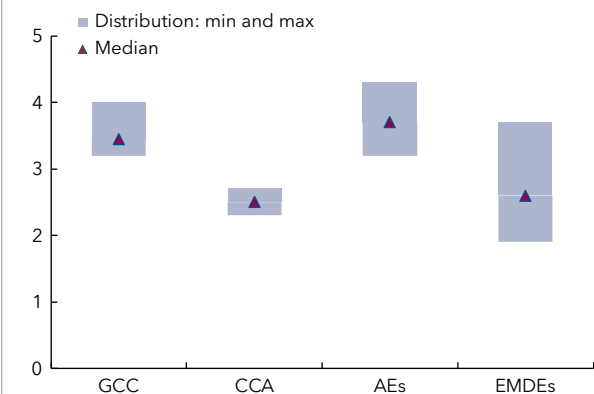
NTMs have been under growing scrutiny because of their potential dual objectives and increased use. NTMs can not only be used to improve social welfare (for example, protecting human health) but also be used as protectionist measures. The growing use of NTMs has come when tariffs were being reduced, raising concerns that NTMs have been employed to substitute for the reduction in tariff “protection” to local producers (Beverelli, Boffa, and Keck 2014; Kravchenko and others 2022).

NTMs may have a significant impact on trade. Several studies have tried to estimate the tariff equivalents or AVEs of NTMs to capture their impact. Kee, Nicita, and Olarreaga (2006) estimate trade restrictiveness indices incorporating both tariffs and AVEs and find that NTMs account for 70 percent of the trade restrictiveness of policies in 91 developing and developed countries. Ghodsi, Gruebler,

and Stehrer (2016) find more evidence of positive AVEs (trade impeding) than negative ones (trade facilitating), with the beneficial impact of NTMs stemming possibly from a reduction in information asymmetries or an increase in product quality, for example. They also find that in countries where NTMs were statistically significant, AVEs from SPS and TBT were close to twice as large as tariffs. Cadot, Gourdon, and van Tongeren (2017) also find that NTMs typically reduce trade volumes, but sometimes they can have a trade-facilitating impact, especially SPSs. They estimate AVEs of SPS on agricultural products ranging from 5 to 18 percent, and AVEs of TBT on manufactured products ranging from 1.5 to 30 percent. Kravchenko and others (2022) find that the average AVEs for technical measures (which include SPS, TBTs, and pre-shipment inspection) and nontechnical measures are 7.2 and 6.1 percent, respectively. They further find that AVEs tend to decline with the country's level of income, which they associate with the more efficient trade facilitation measures. Finally, Nicita and Koloskova (2025) find that NTMs significantly raise trade costs and that they vary depending on the product, exporters, and importers; AVEs range from less than 1 percent on construction, utilities, fossil fuels, and mining products to 6 to 16 percent on food and forestry products, and from 0.3 percent in Western Europe to 13.7 percent for Latin American and sub-Saharan exporters.

Note: AVEs = ad valorem equivalents; NTMs = nontariff measures; SPS = sanitary and phytosanitary; TBTs = technical barriers to trade.

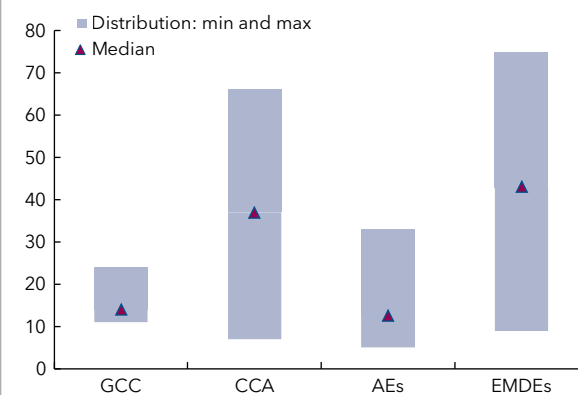
Figure 12. Logistics Performance Index
(Latest data available; 1 = low to 5 = high)



Sources: World Bank Logistics Performance Index; and IMF staff calculations.

Note: AEs = advanced economies; CCA = Caucasus and Central Asia; EMDEs = emerging market and developing economies; GCC = Gulf Cooperation Council.

Figure 13. Measure of Aggregate Trade Restrictions
(Number of measures, 2022)



Sources: IMF AREAER database; and IMF staff calculations.

Note: Aggregate measure of trade restrictions based on the unweighted sum of the IMF's AREAER binary variables related to (1) exchange measures, (2) arrangements for payments and receipts, (3) imports and import payments, (4) exports and export proceeds, and (5) payment and proceeds from invisible transfers and current transfers. AEs = advanced economies; AREAER = Annual Report on Exchange Arrangements and Exchange Restrictions; CCA = Caucasus and Central Asia; EMDEs = emerging market and developing economies; GCC = Gulf Cooperation Council.

In logistics, infrastructure, and trade facilitation, GCC performs at a level comparable to AEs, while the CCA is closer to the EMDE median (Figure 12). GCC countries have a Logistics Performance Index (LPI)¹⁰ similar to AEs. CCA countries have less favorable LPIs and much less variability within the region. However,

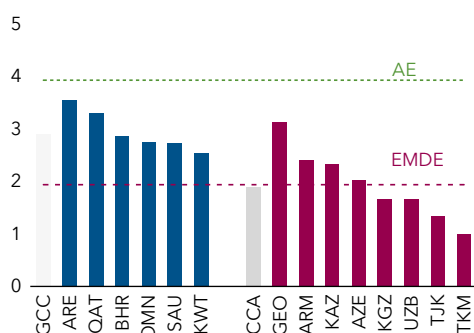
¹⁰ The World Bank Logistics Performance Index (LPI, <https://lpi.worldbank.org/>) has six subindicators covering: (1) ability to track and trace consignments, (2) competence and quality of logistics services, (3) ease of arranging competitively priced international shipments, (4) efficiency of the clearance process, (5) frequency with which shipments reach consignee within scheduled or expected time, and (6) quality trade and transport-related infrastructure. We show here only the overall LPI, but all the subindicators convey a similar message.

efforts are underway by the CCA countries (and their partners) to improve connectivity. They are developing further multimodal transport infrastructure, including the East–West Middle Corridor (World Bank 2023a) from China to Europe and the North–South Corridor from Russia to India through Central Asia and Iran. Azerbaijan, Kazakhstan, the Kyrgyz Republic, Uzbekistan, and Türkiye have ratified an agreement to create a simplified customs corridor. Although progress has been made, more needs to be done to enhance not only infrastructure and logistics but also trade facilitation, by streamlining procedures and enhancing digitalization, harmonization of standards, and border agency cooperation (OECD 2023).

Countries in the CCA typically have significant aggregate trade payment restrictions (Figure 13).¹¹ For example, these restrictions would include prescriptions on currency requirements, financing requirements for imports, import licenses, repatriation of export proceeds, export licenses, and controls on trade and investment payments.¹² Payments, exchanges, and transfers in the GCC are facilitated by a liberalized policy framework, comparable to AEs. CCA countries, however, have a large number of restrictions, especially related to payments for invisible transactions.¹³ There is also a significant variation within the CCA, with Georgia having a liberalized framework, whereas Turkmenistan has the highest number of restrictions in the region.

Improving governance would benefit all countries and support more trade and FDI, especially those in the CCA that are lagging behind (Figure 14). Governance in the CCA, as measured by the average score on the World Bank Governance Indicators for government effectiveness, regulatory quality, rule of law, and control of corruption, is below that of EMDEs. Both the GCC and the CCA perform well in terms of regulatory burden (Figure 15).

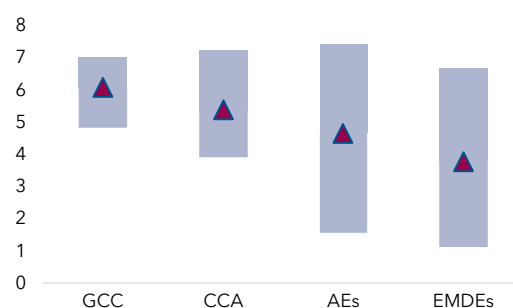
Figure 14. Governance Performance Index
(Average 2019–23, range 0–5)



Source: World Bank's WGI.

Note: The index is a simple average of the following governance indices: rule of law, government effectiveness, control of corruption, and regulatory quality indices. All indices have been normalized by adding 2.5 to the original values. Data labels in the figure use International Organization for Standardization (ISO) country codes. AE = advanced economy; EMDEs = emerging market and developing economies.

Figure 15. Regulatory Burden
(2022; 1 = burdensome to 7 = not burdensome)



Sources: Fraser Institute; and IMF staff calculations.

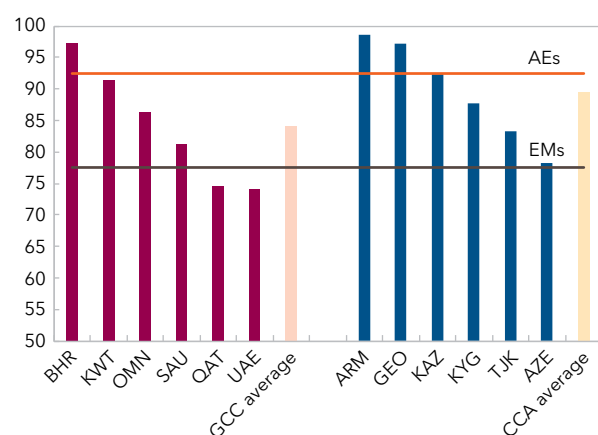
Note: Data for Turkmenistan and Uzbekistan are unavailable. AEs = advanced economies; CCA = Caucasus and Central Asia; EMDEs = emerging market and developing economies; GCC = Gulf Cooperation Council.

¹¹ The IMF's Annual Report on Exchange Arrangements and Exchange Restrictions (<https://www.elibrary-areaer.imf.org/Pages/Home.aspx>) database provides a comprehensive description of exchange measures, restrictions on international trade, and payments and transfers, including payments and proceeds from invisible transactions. Invisible transactions are related to non-merchandise trade, such as trade in services and transfers. See Estefania-Flores and others (2022).

¹² Not all controls and restrictions should be interpreted as placing a burden on trade; for example, controls on the export and import of banknotes are ubiquitous across most countries.

¹³ Invisible transactions cover intangible items such as services, income, and transfers.

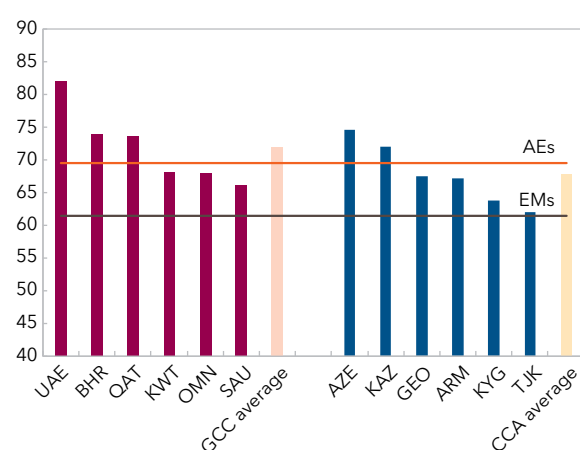
Figure 16. Financial Regulations
(Average 2018–22)



Source: Fraser Institute.

Note: Data for Turkmenistan and Uzbekistan are unavailable. Data labels in the figure use International Organization for Standardization (ISO) country codes. AEs = advanced economies; EMs = emerging markets.

Figure 17. Labor Market
(Average 2018–22)



Sources: Fraser Institute; UNDP; and IMF staff calculations.

Note: Data for Turkmenistan and Uzbekistan are unavailable. Data labels in the figure use International Organization for Standardization (ISO) country codes. AEs = advanced economies; EMs = emerging markets.

The CCA countries generally perform well on financial regulations (Figure 16), whereas the GCC countries have more developed financing sectors (see Annex III). This index captures: net credit to the private sector, interest rate controls, ownership of banks, and foreign currency bank accounts.¹⁴ Although some CCA countries still have a large state influence in their financial sector, the CCA generally allows more competition and flexibility in credit pricing. In contrast, GCC countries retain significant interest rate controls, especially for consumer and small and medium enterprise lending, often using regulatory ceilings or state-directed incentives as part of broader economic strategies. However, GCC countries perform better in foreign currency account openness, thanks to their globally integrated financial systems. Both regions lag AEs across all indicators, whereas they fare better than most EMs.

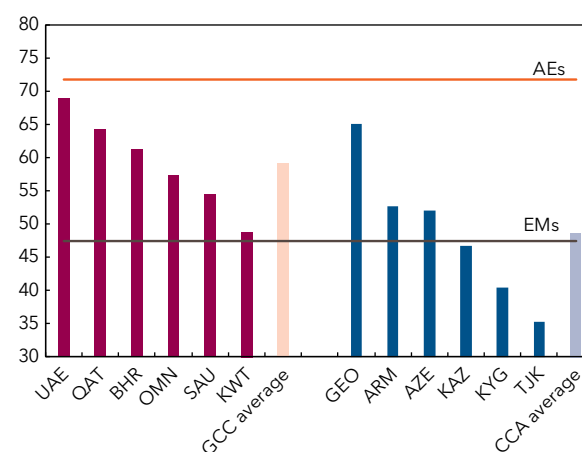
The GCC and CCA labor market regulatory frameworks are broadly in line with AEs (Figure 17). The index incorporates both regulatory aspects—such as minimum wage policies, hiring and firing regulations, and centralized wage determination—and indicators of human capital accumulation. The index primarily reflects developments in the formal labor market and also provides a useful benchmark of institutional quality and workforce preparedness. Effective labor market regulation, when well designed and predictably enforced, combined with sustained investment in human capital, plays a critical role in enhancing labor productivity, reducing structural unemployment, and attracting capital. According to this index, both the GCC and CCA regions score close to AEs and outperform EMs. The GCC countries have been adopting measures to help integrate nationals more effectively into the private sector, traditionally dominated by expatriate workers, while maintaining labor market flexibility (IMF 2024a).

GCC and CCA countries lag AEs and some EMs in the product markets (Figure 18). The product market index captures impartial public administration, bureaucracy costs, regulatory burden, protection of foreign assets, property rights, business environment, and contract enforcement. GCC economies tend to score higher on protection of foreign assets and property rights, regulatory burden, and bureaucratic costs. In contrast, some CCA countries lag in the areas of public sector impartiality and contract enforcement, which continue to weigh on investor confidence and private sector competitiveness.

¹⁴ The index does not measure financial stability, supervisory quality, or the depth of financial markets.

Trade liberalization efforts in both the GCC and the CCA regions have advanced their performance above the average for Ems (Figure 19). The trade policy index captures tariffs, NTMs, financial openness, and capital controls. Both the CCA and the GCC lag AEs, primarily because of the persistence of capital account restrictions and, in some cases, limited financial openness. Within the GCC, countries such as the UAE and Bahrain are close to AEs. In the CCA region, Georgia stands out as a strong performer, underpinned by a liberal trade regime characterized by low tariffs, limited nontariff barriers, and a relatively open capital account. However, some other CCA countries continue to maintain elevated tariff levels and rely more extensively on capital controls, which constrain cross-border investment and limit the regions' attractiveness as destinations for FDI. Trade index emerges as a strong determinant of FDI inflows (see the following results).

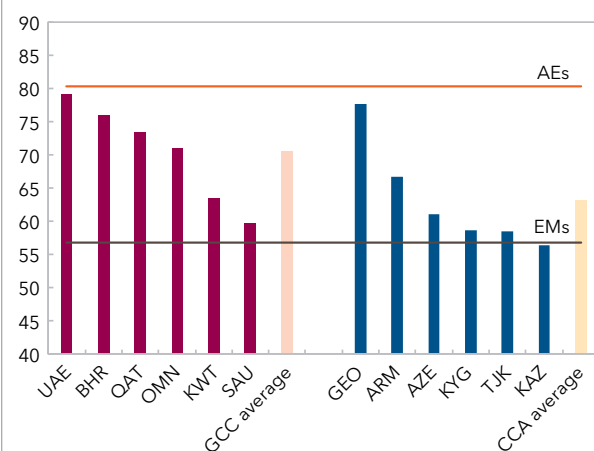
Figure 18. Product Market
(Average 2018–22)



Sources: Fraser Institute; World Bank; and IMF staff calculations.

Note: Data for Turkmenistan and Uzbekistan are unavailable. Data labels in the figure use International Organization for Standardization (ISO) country codes. AEs = advanced economies; EMs = emerging markets.

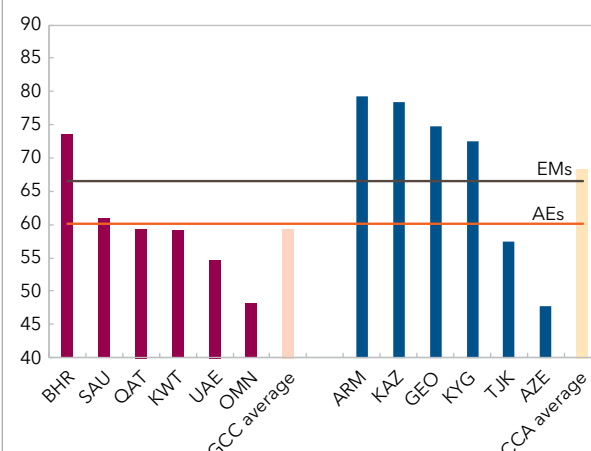
Figure 19. Trade Policy
(Average 2018–22)



Sources: Fraser Institute; and IMF staff calculations.

Note: Data for Turkmenistan and Uzbekistan are unavailable. Data labels in the figure use International Organization for Standardization (ISO) country codes. AEs = advanced economies; EMs = emerging markets.

Figure 20. State Footprint
(Average 2018–22)



Sources: Fraser Institute; and IMF staff calculations.

Note: Data for Turkmenistan and Uzbekistan are unavailable. A greater footprint means a lower index. Scores are robust to different state footprint measures. Data labels in the figure use International Organization for Standardization (ISO) country codes. AEs = advanced economies; EMs = emerging markets.

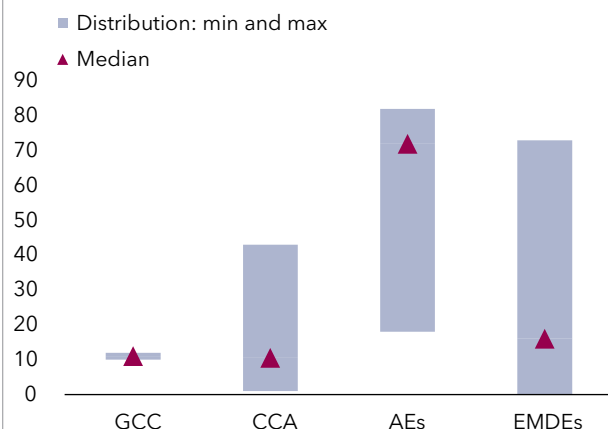
There are notable differences between the GCC and the CCA in terms of the state footprint (Figure 20). The literature presents mixed findings on the impact of the state footprint on FDI inflows, where a large government presence in the economy may deter FDI inflows when it creates an uneven playing field, particularly in sectors where state-owned enterprises (SOEs) dominate or market access is restricted (see Annex III). However, targeted government intervention can, in some cases, help catalyze investment by addressing market failures, reducing risk, and unlocking opportunities in more complex or nascent sectors (Rodrik

2004). To examine this, we construct the state footprint index, a composite of government consumption, government investments, and state ownership in the economy. This measure pertains to the state's direct involvement in the economy rather than its control through regulations (product market) or government effectiveness (governance). Accordingly, this indicator could understate the state footprint in countries where state involvement occurs with limited ownership. On average, GCC countries score below both EM and AE averages, reflecting the higher state presence in economic activity. Although Bahrain outperforms EMs, others in the region have a lower score because of the dominant presence of SOEs, particularly in energy sectors. In contrast, CCA countries score higher on average than EMs and AEs, indicating a lower state footprint. Several CCA countries—Armenia, Kazakhstan, and Georgia—score well above EM and AE averages, reflecting relatively liberalized economic structures.¹⁵

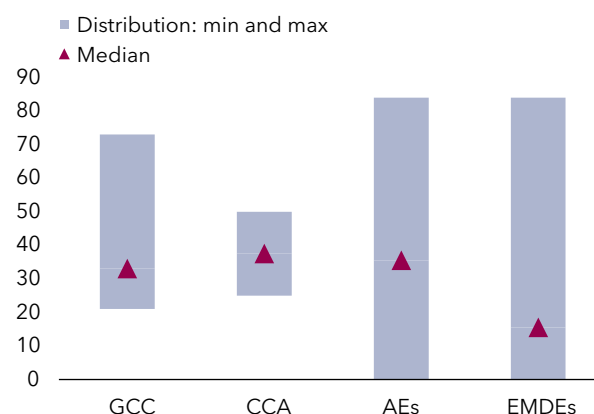
GCC and CCA countries perform well in terms of bilateral investment agreements but lag in terms of trade agreements (Figure 21). Trade agreements and bilateral investment agreements can support integration. All GCC countries and most CCA countries (except Azerbaijan, Turkmenistan, and Uzbekistan) are members of the World Trade Organization (WTO).¹⁶ The GCC and the CCA lag well behind AEs in terms of the number of bilateral trade agreements (except Georgia and Armenia),¹⁷ although they have a similar number of bilateral investment agreements as AEs. Although GCC countries are members of a customs union, there is no regional trade agreement (RTA) or customs union covering all CCA countries, but there are many bilateral trade agreements within the CCA. In addition, Armenia, Kazakhstan, and the Kyrgyz Republic are members of the Eurasian Economic Union, which also comprises Belarus and Russia.

Figure 21. Free Trade and Bilateral Investment Agreements

1. Number of Trade Agreements
(Median number by region, 2023)



2. Number of Bilateral Investment Agreements
(Latest available data, median number by region)



Sources: BACI (Base pour l'Analyse du Commerce International) database from the Centre d'Études Prospectives et d'Informations Internationales (CEPII); UNCTAD Investment Hub; and IMF staff calculations.

Note: AEs = advanced economies; CCA = Caucasus and Central Asia; EMDEs = emerging market and developing economies; GCC = Gulf Cooperation Council.

¹⁵ Despite relatively low scores concerning state footprint (because of heterogeneity in terms of economic models, social safety nets, and policy priorities), advanced economies still attract significant foreign direct investment (FDI), suggesting that the link between FDI and the state is multifaceted (for example taxes, safety nets, transparency, and regulatory burden).

¹⁶ Uzbekistan started its World Trade Organization (WTO) accession process in 1994, Azerbaijan in 1997, and Turkmenistan in 2022.

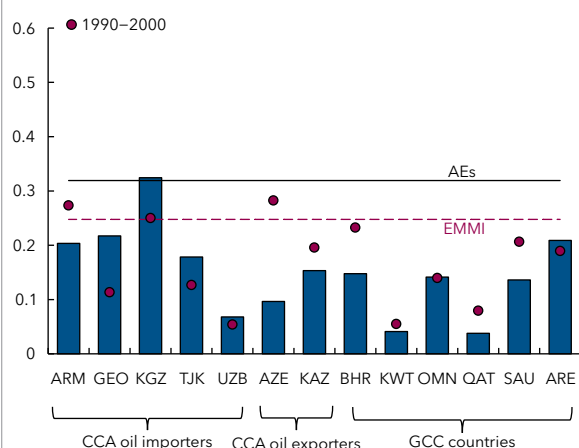
¹⁷ Results are similar if expressed in terms of the share of world GDP covered by trade agreements. The trade agreement database is from CEPII. This is the database that is used for most gravity models. More recent CEPAs have not yet been incorporated in the database.

In the current external environment, strengthening existing value chains and developing more robust ones, between the GCC and the CCA, could help safeguard growth and resilience.¹⁸ The expansion of GVCs has helped countries raise productivity and growth (IMF, World Bank, and WTO 2017). Countries can integrate value chains either through backward or forward participation. The share of foreign value-added in a country's export (backward participation) is relatively higher for CCA hydrocarbon importers compared to hydrocarbon exporters (Figure 22). Hydrocarbon exporters' backward integration is relatively low, suggesting that they import largely finished products rather than inputs used to produce exports (IMF 2017). The share of a country's exports used in other countries' exports (forward integration) is typically higher for hydrocarbon exporters, reflecting high hydrocarbon exports used by their trading partners. Most GCC and CCA hydrocarbon exporters have experienced a decline in backward participation since the 1990s and an increase in forward participation, likely reflecting efforts to diversify by processing hydrocarbon domestically. Backward participation in both the GCC and the CCA is below that of emerging markets and middle-income countries (EMMIs). Greater integration in value chains in the CCA and the GCC, and perhaps value chains encompassing the GCC–CCA, would help raise productivity while enhancing growth and resilience.

Figure 22. GVCs: Backward and Forward Participation

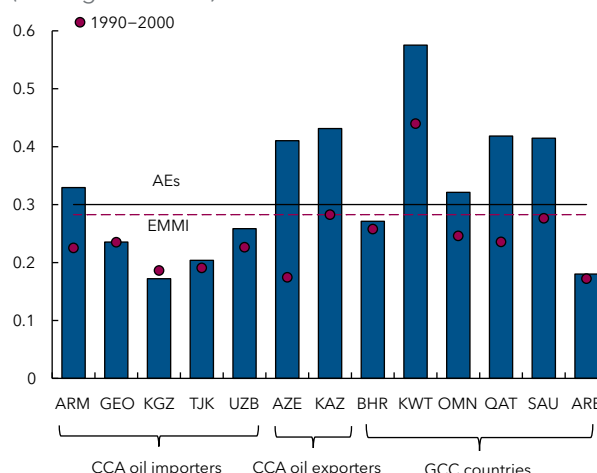
1. Backward Participation in GVCs

(Average 2010–20)



2. Forward Participation in GVCs

(Average 2010–20)



Sources: EORA Global Supply Chain Database; and IMF staff calculations.

Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. AEs = advanced economies; CCA = Caucasus and Central Asia; EMMIs = emerging markets and middle-income countries; GVCs = global value chains.

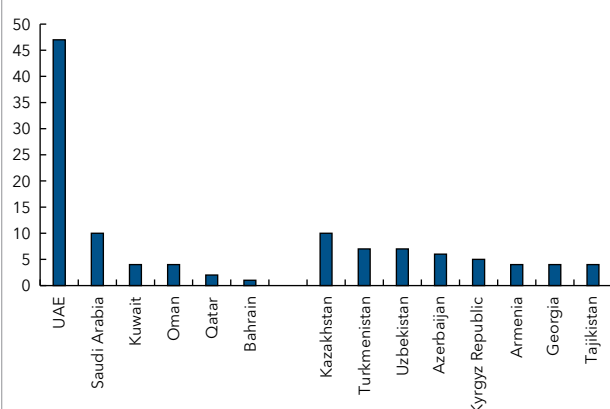
SEZs have had mixed results in promoting GVCs, supporting industrialization, and attracting FDI (UNCTAD 2019). In some cases, SEZs could possibly be useful if market failures and uneven reforms lead to malfunctioning land market, inadequate infrastructure, and weak regulatory and business environment (World Bank 2021), although a better policy would be to address the underlying problems facing the economy. The objectives of SEZs are typically associated with the level of development: Developing countries have used SEZs to support industrialization, attract FDI, and promote exports and GVC integration, whereas more developed economies have used SEZs to transition to service and high-tech industries, develop logistics hub, and promote innovation (see UNCTAD 2019). The SEZs that produced relatively better results shared several common factors, including the effectiveness of their governance, quality of their infrastructure, proximity to a port, and availability of human capital (EBRD 2024). However, historically, experience with SEZs has

¹⁸ The data for the discussion on global value chains come from EORA (<https://worldmrio.com/>).

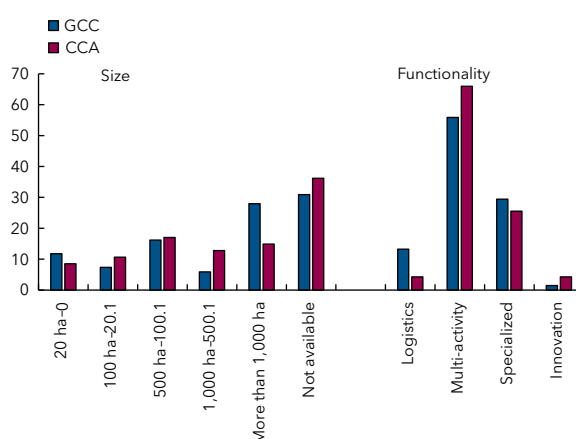
generally been uneven, especially because of high fiscal costs, including forgone revenues, and significant governance issues. The GCC and the CCA countries have several SEZs, with the UAE having a higher number than other countries (Figure 23). SEZs in the GCC appear to be slightly larger than in the CCA, with GCC SEZs slightly more focused on logistics hubs, while CCA are more multi-activities. As with other industrial policies, SEZs have a high bar to pass before being warranted, as noted in IMF (2024b). In particular, they should resolve a market failure better than other alternatives while addressing several pitfalls by providing time-bound incentives, being cost-effective and transparently deployed, and mitigating rent seeking and corruption, while avoiding breaches to international commitments and inflicting harm on trading partners.

Figure 23. Special Economic Zones

1. Number of Special Economic Zones by Country



2. Size and Functionality of Special Economic Zones by Region (Percent)



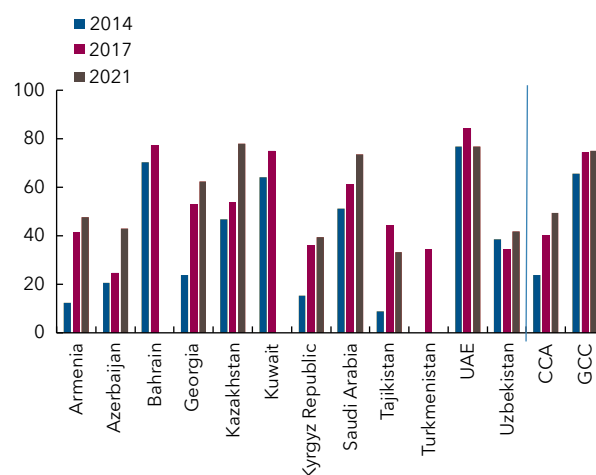
Sources: UNCTAD 2019; and IMF staff calculations.

Note: CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council.

Adequate XBP systems are essential to facilitate international trade and capital flows (Annex I). Payment systems are evolving rapidly with technological advances, but there is considerable heterogeneity across countries with implications for XBPs. Given the importance of XBPs, the G20 launched a road map to enhance XBPs in 2020 (Box 2). The use of digital payments—including fast or instant payment systems—is highly prevalent in the GCC countries but less so in the CCA (Figure 24), where some countries still rely heavily on cash transactions. Consistent with the high prevalence of digital payments, GCC countries use advanced XBP systems, including bilateral interlinking of their domestic payment infrastructures, whereas CCA countries rely more on correspondent banking (Annex Box 1.1).¹⁹ Some countries are exploring central bank digital currencies to enhance financial inclusion and XBP efficiency. Bahrain, Georgia, Saudi Arabia, and the UAE are at the more advanced “proof-of-concept” stage, whereas Kazakhstan completed two pilot programs. Advances in digital technology, facilitating lower transaction costs and faster processing times (for example, blockchain technology), are also enabling alternative private means to conduct XBPs such as stablecoins.

¹⁹ Correspondent banking involves two or more banks located in different countries establishing relationships to facilitate XBPs. One bank acts as a correspondent bank and provides services to another bank, the respondent bank. Correspondent banks make their payments by sending instructions (mainly through the SWIFT network) to debit or credit their accounts. Several payments between different intermediary correspondent banks might be necessary for a single underlying transaction, creating a payment chain.

Figure 24. Made or Received a Digital Payment (% Age 15+)
(Percent)



Sources: World Bank, Global Findex Database; and IMF staff calculations.

Note: CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council.

Box 2. What are XBPs, Challenges, and the G20 Road Map to Enhance XPBs

XBPs are fund transfers for which the senders and the recipients are located in different jurisdictions. They consist of the retail segment (that is, individuals and businesses) and the wholesale segment (that is, financial institutions making large-value transfers for their own accounts or on behalf of their customers).

XBPs face several challenges related to cost, speed, access, and transparency. High costs could be because of transaction fees, account fees, compliance costs, applied foreign exchange (FX) conversion rates and fees, and liquidity cost from prefunding. Speed is impacted by the dependence on several correspondents or providers, cutoff times, asynchronous opening times or regulatory checks, and lack of interoperability of systems and non-harmonized messaging and processing standards. There are often limitations for users in accessing services and for payment service providers, including nonbanks, in accessing payment systems. Meanwhile, limited transparency about costs, speed, processing chain, and payment status presents challenges for end users and providers alike.

In 2020, the G20 launched a road map to enhance XBPs. In 2021, it endorsed a set of quantitative targets, with the goal of achieving most of them by 2027. The G20 road map identifies three cross-cutting priority themes:

- **Payment system interoperability and extension:** This refers to the improvement of payment system interoperability and interlinking, the extension of real-time gross settlement system operating hours, and payment system access. Interlinking arrangements can shorten transaction chains, reduce overall costs, and increase the transparency and speed of payments but require upfront investment. Extending and aligning the operating hours of key payment systems across jurisdictions could speed up XBPs, improve liquidity management, and reduce settlement risk.

- **Legal, regulatory, and supervisory frameworks:** This refers to the promotion of an efficient legal, regulatory, and supervisory environment for XBPs while maintaining their safety, efficiency, and integrity. Although some payment system frictions are intended and necessary (for example, to prevent customer harm and illicit financial activity), a key goal is to mitigate unintended frictions. In this regard, there have been efforts to improve the consistency of AML/CFT and implementation of sanctions controls across jurisdictions. Addressing the effects of capital controls and exchange rate and payment restrictions on XBPs is another area of focus, as these controls and restrictions are frequently mentioned as influencing their speed. Another priority action is to enhance information for end users on total transaction costs with relevant charges broken down and the expected time to deliver funds.
- **Data exchange and message standards:** This refers to facilitating cross-border data exchange and increasing the use of standardized message formats, such as ISO 20022. Enhancing and harmonizing the data carried in most XBP messages can support increased straight-through processing, automated reconciliation, and more efficient implementation of AML/CFT and sanctions controls. Such harmonization can also advance the interoperability and interlinking of payment systems, while enhancing fraud prevention. A related priority action is the harmonization of APIs, which are currently being used for account validation, compliance screening, message repairs, and investigations.

Note: AML/CFT = anti-money laundering/combating the financing of terrorism; API = application programming interface; XBPs = cross-border payments.

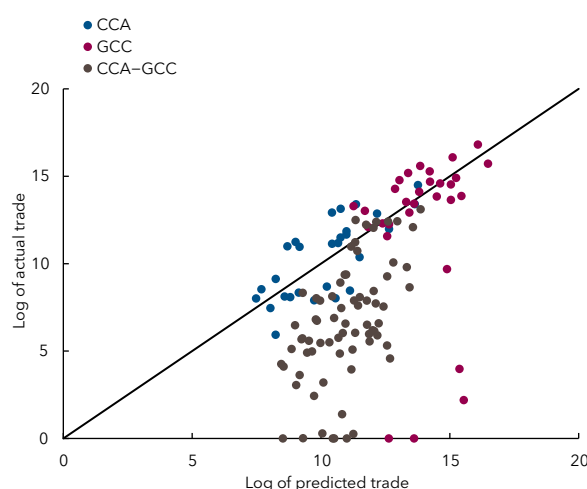
4. Drivers of Trade and Investment

This section presents the results of empirical models for trade in goods, trade in services, and FDI. They shed light on key determinants of these flows and offer clues on what policies and actions are needed to improve trade and FDI outcomes. The gravity model shows that liberalizing trade by signing trade agreements, reducing tariffs and NTMs, improves the trade performance. Trade can also be enhanced by improving governance and logistics and reducing the regulatory burdens and aggregate trade restrictions. The findings are broadly valid for both trade in goods and trade in services. Increasing FDI is associated with greater trade openness and a comprehensive and integrated reform strategy across markets, institutions, and governance.

A. Trade in Goods

A structural gravity model is estimated to examine bilateral trade in goods (see Annex II for details on data and the model).²⁰ The gravity model is the workhorse of international trade literature and has been used to examine the impact of exogenous factors such as geographical distance, contiguity, common language, and colonial links. It is also used to assess the impact of policy-dependent factors such as bilateral trade agreements, tariffs, NTMs, and institutional and infrastructure quality.

Figure 25. Actual vs. Predicted Trade



Sources: IMF staff calculations.

Note: CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council.

²⁰ The model is estimated using bilateral international and domestic trade for more than 150 countries from 2010 to 2023. Results shown in the main text are based on total exports, whereas results based on sectoral exports are presented in Annex 2 (using up to 10 sectors: agriculture and food; minerals and fuels; chemicals and plastics; leather and hides; wood and paper; textiles, footwear, and accessories; stone, metals, and basic manufactures; machinery and electronics; transport and precision equipment; and arms, furniture, toys, and miscellaneous).

GCC-CCA trade could potentially be scaled up significantly (Figure 25). After accounting for exogenous and policy-dependent factors, the gravity model estimates indicate that intra-GCC and intra-CCA trade may be close to their potential as predicted by the gravity model (without policy changes). However, trade between the two regions is typically well below what is predicted by the model, which suggests that it could be increased significantly. Greater trade integration between the GCC and the CCA could help both regions boost their growth and diversify their export baskets and trading partners, reducing vulnerability to external shocks and enhancing economic resilience. As for trade with other regions, the gravity model shows that GCC and CCA trade with China is broadly at potential; it is above (below) potential for CCA (GCC) trade with Russia; GCC trade with the United States is at potential, whereas CCA trade with the United States is below potential; and GCC and CCA trade with the European Union and the rest of the world is below potential. This suggests that there is scope for the GCC and the CCA to expand trade with other partners.

The model confirms that policy-dependent factors are key drivers of trade.²¹ Trade agreements have a significant impact on trade (Figure 26). The structural gravity model suggests that trade agreements have been associated with an 80 percent increase in bilateral trade—128 percent trade in food products, 76 percent in mining products, and 63 percent in manufactured products.²² Tariffs and NTMs reduce trade, although NTMs have a smaller effect. A 10 percent reduction in tariffs is associated with a 5 percent increase in trade, whereas a 10 percent decline in the number of border NTMs improves trade by 0.3 percent.^{23,24} Improving governance and infrastructure or reducing aggregate trade restrictions can also substantially enhance trade. In particular, the results indicate that trade responds most strongly to improvements in logistics (a 10 percent increase is associated with a 48 percent increase in trade), followed by improved governance (19 percent) and a reduction in the regulatory burden (10 percent) and in aggregate trade restrictions (10 percent).²⁵ Trade agreements have the greatest impact on the trade of food and agricultural products, whereas institutional variables such as logistics, governance, and regulatory burden have a greater impact on the trade of manufactured and mineral products.

²¹ The results discussed here are from the estimation of structural gravity models where policy variables are included one at a time (see Annex Table 2.3). Although this likely overstates the impact of specific policies on trade, it gives a sense of priority while avoiding multicollinearity issues.

²² This is broadly consistent with the literature. For example, WTO (2016) finds that regional trade agreements can boost trade by 75 percent. Note that as tariffs and NTMs are included in the specification, the impact of trade agreements on trade falls (see Annex Table 2.3), suggesting that the benefits of trade agreements are linked to tariff and NTMs' reduction. For example, our results show that signing a trade agreement is associated with a 45 percent increase in trade when we control for tariffs.

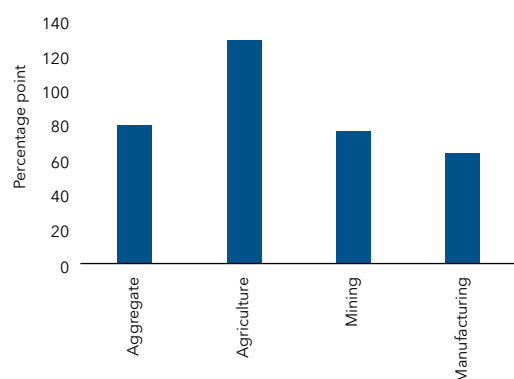
²³ We define border NTMs as NTMs applied at the border, which include customs controls, quota licensing, pre-shipment inspections, and additional fees paid at customs, among many others, as defined by Nicita and Koloskova (2025).

²⁴ The trade literature presents mixed theoretical predictions for the impact of NTMs on trade. Although NTMs may restrict trade through increasing compliance costs, they can also have a trade-enhancing effect by providing quality assurance to consumers. The empirical literature tends to find a negative impact, suggesting the dominance of the trade-restricting effects, although results vary significantly by type of NTM, product level, size of exporting firm, and country affected (Ronen 2017). Our NTM results are not strictly comparable to the literature on ad valorem equivalents (AVEs) (Box 2). The latter differentiates between the impact of NTMs on prices (AVEs) and volumes, whereas the gravity model is estimated using US\$ trade flows and does not differentiate between the impact on the cost of trade and volumes (with NTMs typically expected to increase the cost of trade while reducing trade volumes). Nicita and Koloskova (2025) find that a 50 percent reduction in global AVEs could boost exports by 1.3 percent, which is broadly similar to our results.

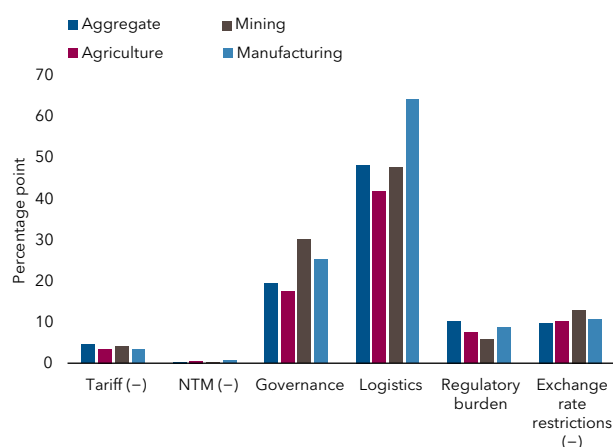
²⁵ We construct a composite indicator of institutional quality using principal component analysis, drawing on a set of variables commonly used to capture the quality of institutions. These include the World Bank Governance Indicators, the Fraser Institute's measure of regulatory burden, a Logistics Performance Index, and an index of aggregate trade restrictiveness. For detailed descriptions of the variables included, refer to Annex 2. Improvement in the institution's composite indicator is associated with an almost 1.7 percent increase in trade.

Figure 26. Impact on Bilateral Trade in Goods
(Percentage point)

1. Trade Agreement



2. Selected Policies (10 percent change)



Source: IMF staff calculations.

Note: NTM = nontariff measure.

Policy priorities to improve trade differ between the GCC and the CCA.²⁶ This reflects the fact that the policy gaps are very different for the two regions, that is, policy improvements needed to reach the 25th percentile of top performers per specific area. For example, the 25th percentile of top performers for logistics has an LPI of 3.4, while the GCC's and the CCA's averages are 3.3 and 2.5, respectively. Hence, improving logistics to the level of the top performer will not measurably improve trade in the GCC (the GCC is already very close to being a top performer) but would have a significant impact on the CCA, where logistics and infrastructure are weaker.

- Trade agreements should be considered to strengthen trade between the GCC and the CCA. These could be bilateral or RTAs. RTAs have grown in number and depth—covering policy issues such as competition, subsidies, SOEs, services, investment, and intellectual property rights—until recently (see IMF 2023a).²⁷ Open, stable, and transparent trade policies and nondiscriminatory agreements that cover a broad set of areas are preferable. Trade agreements would need to be fully consistent with WTO requirements, as well as with existing trade and customs agreements, including the Eurasian Economic Union and the GCC Customs Union.
- GCC and CCA countries should review their NTMs. NTMs likely have a significant impact on prices and trade volumes (see Box 2), even if the results on nominal trade indicate a limited impact. Countries should revisit their NTMs and improve trade facilitation by streamlining procedures and enhancing digitalization, harmonization of standards, and border agency cooperation.
- CCA countries should prioritize improving logistics and governance (Figure 27).²⁸ Closing the policy gaps in terms of logistics and governance would improve trade by about 148 and 122 percent, respectively, whereas reductions in tariffs and aggregate trade restrictions would boost trade by around 50 and 6 percent, reflecting lower regulatory burdens.²⁹ To improve infrastructure and logistics, CCA countries

²⁶ The results of the gap analysis are broadly consistent with the results from the MCD April 2024 Regional Economic Outlook.

²⁷ Countries should be mindful of the complications of an excessive proliferation of trade agreements (see Bhagwati 1996).

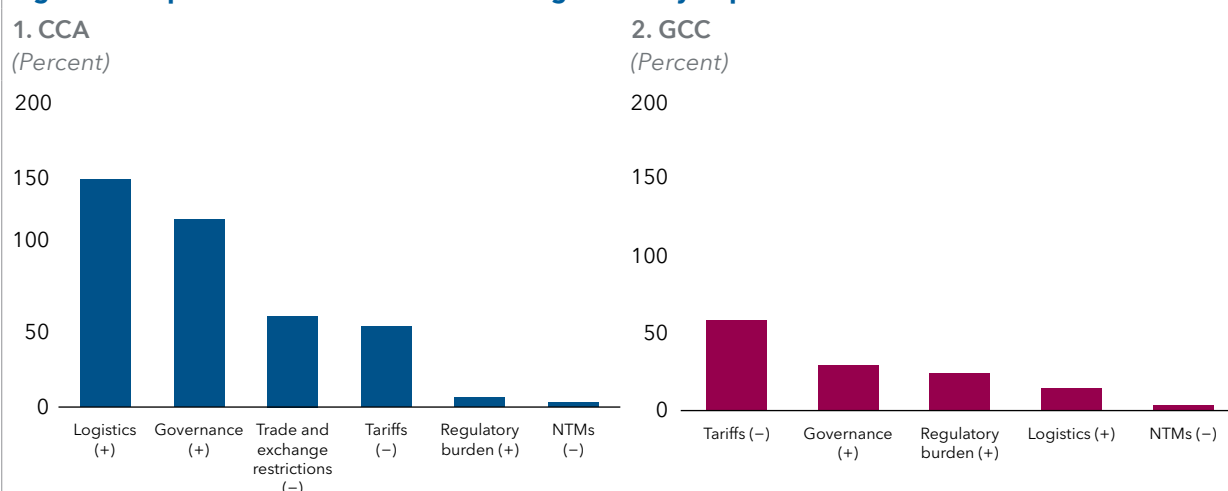
²⁸ This is consistent with findings in the literature. Francois and Manchin (2007) show that institutions and infrastructure are more important than tariffs to explain export performance. Portugal-Perez and Wilson (2008) show that improving infrastructure would have a greater impact on trade than reducing tariffs.

²⁹ Predicted trade gains or losses are estimated using average trade elasticities derived from the gravity model and the country's policy gap. These elasticities are not country specific but reflect the average impact of policy variables on a given country pair. Therefore, the estimates should not be interpreted as forecasts.

should continue their efforts to improve the Middle and North-South Corridors. Enhancing governance would be particularly beneficial for CCA countries. Strengthening the rule of law would be essential for creating a more predictable economic environment that encourages private sector investment, fosters FDI, and ultimately leads to stronger and more resilient GDP growth and trade. Aggregate trade restrictions should be reduced.

- GCC trade improvements from closing the policy gaps are less than in the CCA. This reflects the fact that the GCC's trade-enabling environment and policies are generally more favorable. Nonetheless, reducing tariffs GCC exporters face could still increase trade by about 58 percent, whereas closing the policy gaps in the GCC for governance, logistics, and regulatory burden could lift trade by 15 to 30 percent.³⁰ The reduction in tariffs could be achieved in the context of expanding trade agreements.

Figure 27. Impact on Trade in Goods of Closing the Policy Gaps¹



Source: IMF staff calculations.

Note: CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; NTMs = nontariff measures.

¹ Closing the policy gap means reducing (-) or improving (+) a policy to reach the 25th percentile of the distribution. We present tariffs and NTMs imposed on GCC and CCA exports. The boost to trade from a reduction in tariffs and NTMs would require policy actions from importers.

B. Trade in Services

A gravity model is estimated to assess the performance of bilateral trade in services and its drivers. The findings are broadly in line with those for trade in goods. The results show that a trade agreement is associated with higher bilateral trade in services by 45 percent. Policy-dependent factors such as governance, logistics, regulatory burden, and aggregate trade restrictions are also important drivers of trade in services. The model indicates that a 10 percent improvement in logistics is associated with a 30 percent increase in trade. A 10 percent improvement in governance or a reduction in the regulatory burden is associated with a 15 percent increase in trade, whereas trade would increase by 7 percent in response to a 10 percent reduction in aggregate trade restrictions. Overall, a 10 percent improvement in institutional quality is associated with an almost 13 percent increase in trade.³¹

Similar to trade in goods, policy priorities to improve trade in services are different for GCC and CCA countries, given the different policy gaps.

³⁰ For aggregate trade restrictions, the GCC scores above the 25th percentile of the top performers; hence, the results are not shown in the chart.

³¹ See Annex 2 for a discussion of the composite indicator of institutional quality.

- To improve bilateral trade in services between GCC and CCA, countries should consider signing trade agreements specifically including services or economic integration agreements. Economic integration agreements are more complex because, unlike goods, services are not typically restricted by conventional trade barriers such as tariffs or NTMs. Services trade is influenced by market access and requires deeper regulatory harmonization and mutual recognition of standards and qualifications (Cole and others 2015).
- Policy priorities for trade in services are similar to those for trade in goods. CCA countries should prioritize improving logistics and governance (Figure 28).³² Closing the policy gaps in terms of logistics and governance would improve trade by about 102 and 93 percent, respectively, while reducing regulatory burden and aggregate trade restrictions would boost trade by more than 40 percent. For GCC countries, improving governance and logistics would still be associated with about 20 and 10 percent increase in trade, respectively.³³

Figure 28. Impact on Trade in Services of Closing the Policy Gaps¹



Source: IMF staff calculations.

Note: CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council.

¹ Closing the policy gap means reducing (-) or improving (+) a policy to reach the 25th percentile of the distribution.

C. Foreign Direct Investment

This paper estimates a set of random-effects panel regressions to identify macroeconomic and structural drivers of FDI at the global and regional levels.³⁴ The global models refer to the full sample of countries, while regional models focus specifically on the GCC and CCA regions. The literature emphasizes the role of political and macroeconomic stability (Lim 2001), institutional quality (Bouazid and Toumi 2020), financial development, market size, infrastructure quality, digital transformation (IMF 2018; Mensah and Traore 2022) and geopolitical dynamics, and environmental considerations (IMF 2024c, 2025a; UNCTAD 2024). In line with the literature, our empirical models incorporate macroeconomic variables, encompassing both push

³² Trade in services is mostly concentrated in tourism and transportation, both of which depend heavily on infrastructure and logistics. Improvements in logistics, therefore, facilitate services trade by reducing travel and shipping costs and improving connectivity.

³³ For aggregate trade restrictions, the median GCC country is already at or above the level of the 25th percentile of top performers. Hence, the results are not shown in the bar chart.

³⁴ The random-effects model is selected to account for unobserved country-specific factors—such as monetary policy regimes, exchange rate frameworks, and institutional structures—that vary across countries but are broadly constant over time. Unlike fixed-effects, which assume a common intercept and exclude time-invariant variables, random-effects allow these differences to enter the model as random components, preserving key explanatory variables and enhancing estimation efficiency. The Hausman test results confirm that the assumptions of the random-effects model hold in this context, supporting its use over fixed-effects.

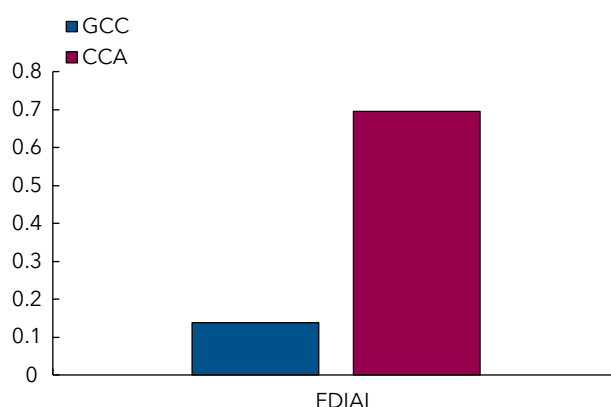
factors—external conditions that drive capital outflows—and pull factors—domestic conditions that attract investors (Annex III). In addition, structural indicators are constructed and incorporated into the models to capture the effects of key policy and institutional factors on FDI attractiveness. These include the state footprint, labor market efficiency, product market regulation, institutional quality, financial regulation, and trade policy. To examine the synergies among structural reforms, an FDI attractiveness index (FDIAI), which is a simple average of the structural indicators, has also been constructed and incorporated separately into the models, allowing for an assessment of the potential benefits of a coordinated reform strategy in improving investment attractiveness.

IMF staff estimates suggest that domestic GDP growth and trade openness are the most robust and statistically significant macroeconomic drivers of the FDI. A 1-percentage-point increase in GDP growth is associated with an increase in FDI inflows of approximately 0.2 percent of GDP, whereas a similar rise in trade openness leads to about 0.1 percent of GDP increase in FDI inflows. These findings underscore the importance of sustaining strong domestic growth and maintaining open trade regimes to enhance FDI attractiveness. In contrast, foreign GDP growth (proxied by US growth) is negatively associated with FDI inflows, suggesting that during periods of weaker global growth, countries with solid domestic fundamentals, including sound fiscal policy, become relatively more attractive FDI destinations. Other variables—including domestic and foreign policy rates, global fuel prices, the natural resource index, and the global volatility index—do not exhibit statistically significant effects, indicating that long-term structural and macroeconomic fundamentals outweigh short-term volatility and commodity cycles in shaping FDI decisions.

Structural factors also play a critical role in attracting FDI. The FDIAI, which collectively captures institutional quality, financial and product market regulation, labor market efficiency, trade regulation, and state involvement in the economy, is positive and significantly associated with FDI inflows at the global level. This suggests that countries that implement coordinated structural reforms can generate synergetic effects that substantially enhance their investment appeal. In addition, a smaller state footprint is found to be typically associated with higher FDI inflows in the global model, reflecting investor preference for market-oriented environments. Although financial market and labor market regulation are not consistently significant in the baseline model, they show positive effects in alternative specifications and are well supported in the literature. These findings reinforce the importance of structural reforms that reduce market distortions and enhance private sector participation.

Empirical analysis reveals differences in FDI determinants across the CCA, the GCC, and the global sample. In the CCA model, FDI is mainly driven by domestic growth and natural resources, with interest rate sensitivity reflecting reliance on external financing and monetary credibility, whereas product market efficiency signals the importance of regulatory quality. However, weak effects for financial development and institutional quality likely suggest lingering concerns over the depth and credibility of reforms. In the GCC model, FDI is less driven by GDP and more closely linked to state-led initiatives. The role of the state reveals the sharpest divergence across regions. The state footprint index—where higher values indicate less government involvement—is positively associated with FDI in the global and CCA models, as well as in the resource-rich countries, consistent with the view that a reduced state role supports private investment by limiting distortions and enhancing market access. In the GCC, however, the relationship reverses: FDI increases with a larger state footprint. This result is specific to the GCC, and holds even when excluding the UAE, which has been the largest recipient of FDI in the GCC region in nominal terms, and is relatively more diversified. This likely reflects the GCC's state-led development model, where FDI is directed toward large-scale, state-backed projects—particularly in energy and infrastructure. In this context, a strong state presence could serve not only as a signal of scale and policy certainty but also as a tool for de-risking investments. However, it is important to note that this result may reflect the rather blurred line between the state and private sectors in the GCC. This model underscores the need for further complementary reforms to deepen private sector participation and support more sustainable, broad-based investment, particularly for attracting FDI into non-hydrocarbon sectors, where investors are more responsive to competitive market conditions.

Figure 29. CCA and GCC: FDI Impact from Policy Improvements
(In Percent of GDP)



Source: IMF staff calculations.

Note: CCA = Caucasus and Central Asia; FDI = foreign direct investment; FDIAI = FDI attractiveness index; GCC = Gulf Cooperation Council.

Structural reforms could have a measurable impact on FDI, especially for the CCA. We assess the impact on FDI of improving structural policies to the level of the 25th percentile of top FDIAI performers (Figure 29). The FDI gains from closing the policy gaps are larger in the CCA (0.7 percent of GDP) compared to the GCC (0.14 percent of GDP) because CCA countries typically lag in terms of structural policies. Cross-country experience reinforces the importance of improving structural indicators for attracting FDI. When governments reduce market distortions, enhance the business climate, and improve transparency and legal frameworks, they make their economies more attractive to foreign investors. In the context of GCC-CCA cooperation, strengthening FDI frameworks in the CCA can also help attract capital from GCC countries, which are generally net exporters of capital. This would deepen economic ties between the regions and leverage the growing role of GCC SWFs and private investors.

5. Conclusions

With appropriate policies, there is significant potential for scaling up trade and FDI between the GCC and the CCA. Reform priorities for the two regions differ, given their different characteristics. They also need to be tailored to each country's needs, given the significant heterogeneity among countries within each of the regions. The reforms discussed here would benefit trade and investment between GCC-CCA and beyond.

The potential for increased trade can be significant with the appropriate reforms. In the CCA, reform priorities should focus on improving logistics and governance, as closing the policy gaps in those areas would yield the largest trade gains. Reducing aggregate trade restrictions and the regulatory burden would also materially impact trade in the CCA. Both the GCC and the CCA can benefit from tariff reduction on their exports, which could be done in the context of expanding trade agreements. Although closing the policy gaps in the GCC would yield lower gains than in the CCA, GCC countries would still benefit from improving governance and logistics and reducing the regulatory burden. Many of the relevant reforms needed to improve the business environment are consistent with the reform plans of the countries in both regions, as formulated in their development strategies. GCC and CCA countries could also review their NTMs; improve trade facilitation by streamlining procedures; and enhance digitalization, harmonization of standards, and border agency cooperation.

A comprehensive structural reform strategy can substantially boost FDI inflows in GCC and CCA countries. These reforms span a wide array of critical areas, including institutional quality, trade liberalization, labor and product market reforms, financial sector development, and human and physical capital enhancement. Since each country has its own unique structural challenges, reform priorities and depth must be tailored accordingly. Although some GCC countries already perform well in aspects of FDI attractiveness, a common goal across the regions is to foster sustainable growth and economic diversification through targeted improvements in investment environments. With respect to infrastructure, GCC countries could pursue strategic upgrades, whereas CCA nations should address larger infrastructure gaps. More targeted government interventions, instead of a larger state footprint, can encourage private sector growth and attract more FDI. However, state involvement in strategic areas like infrastructure through partnerships can also reduce investor risks, emphasizing the need for a balanced and well-regulated approach. A cautious approach to further state involvement is warranted to avoid the pitfalls of an uneven level playing field between the different actors in the economy. Financial, labor, and product market reforms would also help attract FDI.

In addition to cross-cutting reforms, trade agreements and investment treaties should be considered. Although not panaceas for removing all impediments to trade and investment, they could reduce existing binding constraints private sector players face as they enter and expand their operations in new foreign markets and reduce uncertainty in this regard. They would need to be fully consistent with WTO requirements, as well as with existing trade and customs agreements, including the Eurasian Economic Union and the GCC Customs Union.

Other supportive measures could be carefully considered to complement the abovementioned measures to boost FDI inflows and trade under certain conditions. Given that they have had mixed results, SEZs, targeted subsidies, insurance schemes, and private-public partnerships could complement in certain circumstances—but not substitute for—broader reform strategies aimed at ensuring a stable and attractive investment climate. In particular, if SEZs are pursued, they should resolve a market failure, provide time-bound incentives, be cost-effective and transparently deployed, and mitigate rent seeking and corruption, while avoiding breaching international commitments and harming trading partners. If targeted subsidies,

insurance schemes, and public-private partnerships are considered, they must be carefully managed to limit fiscal risks. De-risking support from international and regional financial institutions could help mitigate some of the risks associated with FDI.

The G20 road map can serve as a broad guide for enhancing XBPs between GCC and CCA, which facilitate trade and FDI. It entails three priority themes: (1) payment system interoperability and extension; (2) legal, regulatory, and supervisory frameworks; and (3) data exchange and message standards. Given that GCC countries are generally more advanced, more work may be needed on the CCA side, including to enhance interoperability. Extending and aligning the operating hours of key payment systems across GCC and CCA jurisdictions could also speed up XBPs, improve liquidity management, and reduce settlement risk. On legal and regulatory frameworks, more dialogue and information exchange between the GCC and CCA central banks could also help, especially in the area of anti-money laundering/combating the financing of terrorism and other compliance requirements. At the same time, the heterogeneity of XBPs across the GCC and the CCA countries suggests that solutions will need to be tailored to country-specific circumstances. For countries with less advanced payment systems, the modernization and digitalization of domestic payment systems and the analysis of issues creating problems with correspondent banking relations would be a good starting point. For countries with more advanced payment systems, interlinking or shared system (Buna style) and even central bank digital currencies could be options to explore, while ensuring that the prerequisites for such options are in place. Countries could also take advantage of the IMF and the World Bank (WB) technical assistance (TA) for enhancing XBPs (IMF and World Bank 2023).

Annex 1. Facilitating Cross-Border Payments (XBPs) between the Gulf Cooperation Council (GCC) and the Caucasus and Central Asia (CCA)

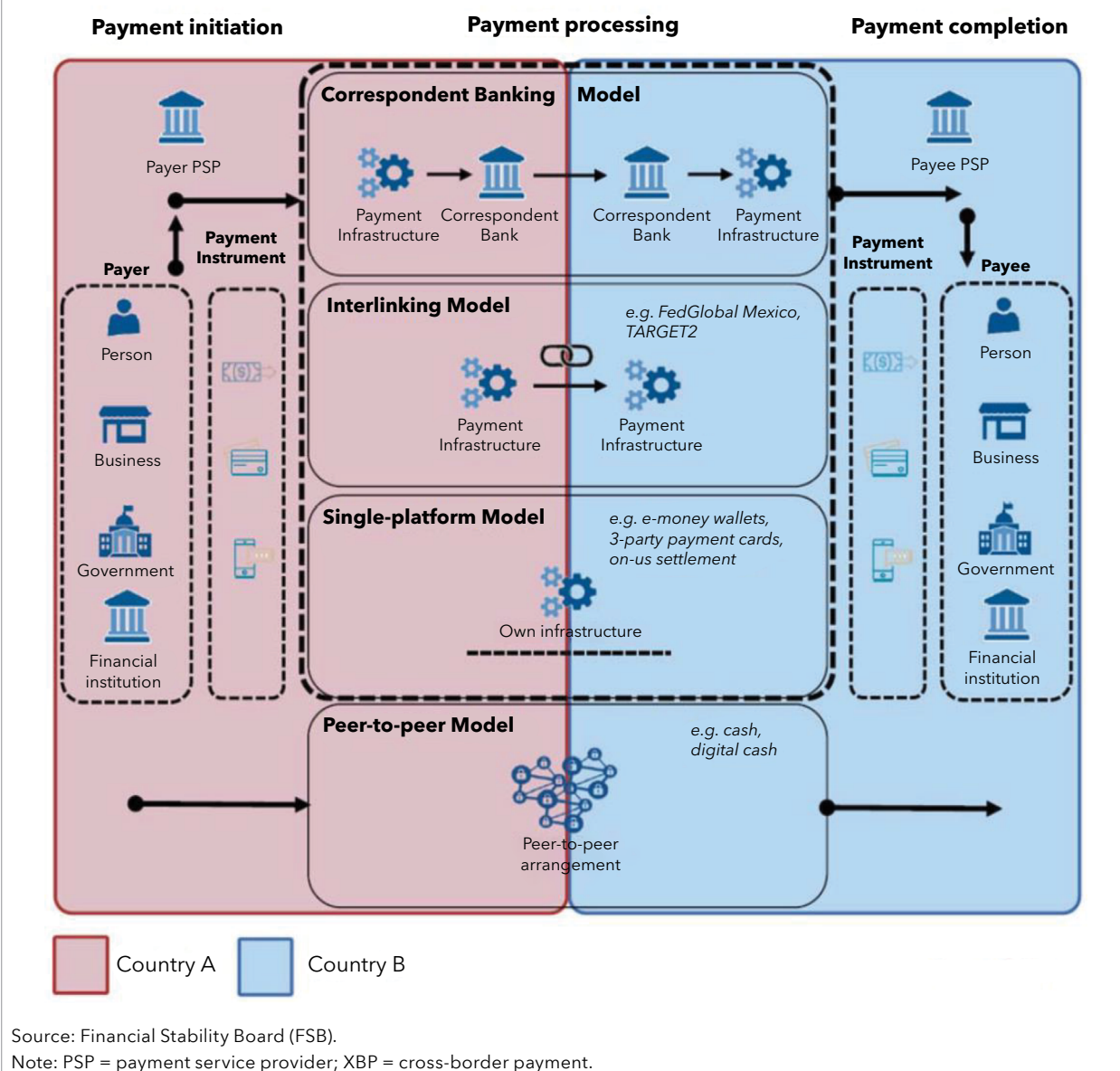
XBPs are indispensable for facilitating international trade and capital flows. Although XBPs build upon domestic payment systems, they face additional challenges, including diverse national legal and regulatory frameworks, transactions in multiple currencies, varying time zones, involvement of multiple intermediaries, and financial market infrastructures. These factors contribute to higher costs, longer execution times, and limited accessibility for economic agents. XBPs can take several days to process and may cost up to 10 times more than domestic payments.

Correspondent banking relation (CBR) is one of the most common methods to facilitate XBPs. However, its network has been shrinking, given the advent of more efficient alternatives, anti-money laundering/combating the financing of terrorism (AML/CFT) challenges, low profitability, and reputational damage in case of financial integrity issues. Globally, the number of correspondent banks fell by more than one-fifth between 2011 and 2022, raising concerns that some jurisdictions could face inadequate access to the global financial system or be confined to less efficient payment chains. Banks withdrew more from countries where governance and controls on illicit financing were poor, and less where economic growth and trade were robust. In countries with more advanced financial systems, the decline in CBRs also reflects the availability of alternative XBP options, such as interlinked payment systems (Annex Figure 1.1). In the GCC and CCA, all countries except Georgia saw the number of counterparties abroad decline, even though transaction volumes and values generally increased, in line with global trends.

There are potentially more efficient XBP arrangements than CBRs. These include bilateral interlinking of domestic payment infrastructures (such as the real-time gross settlement and fast payment systems) and platforms that are multi-jurisdictional by design. Such arrangements can enhance XBPs by reducing the need for intermediaries and allowing payment service providers (PSPs) in different jurisdictions to transact directly with each other. They can substitute or operate alongside traditional CBRs. For instance, XBPs in the Middle East have undergone rapid advancements in recent years, led by the AFAQ Gulf payment system (which connects the domestic real-time gross settlement systems of the GCC countries) and the Buna, a multilateral platform developed by the Arab Monetary Fund (see Annex Box 1.1). By supporting multiple currencies in real time, these systems encourage economic integration.³⁵ The GCC countries are also looking into linking up their fast payment systems (such as UAE's Aani instant payment platform, Saudi Arabia's Saudi Payments Network, and Oman's MPCSS instant payment system). In comparison, most CCA countries seem to have fewer options, mostly relying on CBRs.

³⁵ The use of application programming interfaces enables them to offer overlay services that cut the time and cost of clearing and settlement of FX transactions.

Annex Figure 1.1. Models of XBP



XBPs face several challenges related to cost, speed, access, and transparency. Underlying these challenges are frictions arising from three basic processes each intermediary in an XBP chain performs. To transmit a payment along an XBP chain from the original sender to the ultimate beneficiary, each intermediary typically performs three basic processes. First, validation: gathering data on the parties to the payment, confirming the legitimacy and regulatory (including AML/CFT) compliance of the transaction, checking format and content of the payment message, and verifying sufficient availability of funds. Second, transmission: identifying the next recipient in the chain and transforming the data for onward sending to the next recipient. Third, funding: receiving incoming funds and changing the currency if needed, releasing funds to the next recipient.

Annex Box 1.1. Innovations in GCC Cross-Border Payments

In recent years, GCC XBPs have undergone a significant transformation. Although correspondent banking continues to play an important role, more integrated and efficient platforms have been developed—most notably, the AFAQ Gulf payment system and, at a wider regional level, the Buna platform developed by the AMF. They have enhanced the speed, cost-effectiveness, and security of cross-border payments.

The Arabian Gulf System for Financial Automated Quick Payment Transfer (AFAQ) connects the RTGS systems of each GCC member state, facilitating the instant processing of financial transfers between them with the additional advantages of same-day settlement finality and irrevocability. With AFAQ, companies can execute most cross-border payments through a single domestic account, streamlining payment processes and liquidity management. In 2016, GCC leaders endorsed a plan to link the payment systems of the GCC member states. This resulted in the establishment of the GPC, which is owned and funded by GCC's central banks. Under the GPC, the AFAQ service went live in 2021, starting with Saudi Arabia and Bahrain; this was followed by Kuwait joining the service in 2022, the UAE in 2023, and Oman in 2024. The use of AFAQ services has seen rapid growth, with values of transfer and financial settlements rising by 300 and 270 percent, respectively, in 2023 and 2024.¹

The GCC central banks are also founding members of the Buna, a centralized cross-border and multicurrency payment system that enables direct settlement between banks in the Arab region. Operated by the ARPCSO under the AMF, Buna offers a wide range of wholesale and retail payment services and also provides participants with tools for liquidity management and FX management. It went live in 2020, following the decision by the Council of Governors of the Arab Central Banks and Monetary Authorities in 2018. It started with three Arab currencies (the UAE dirham, Egyptian pound, and Saudi riyal) and the US dollar and recently added the Jordanian dinar and the euro. The number of transactions grew rapidly, from less than 2,000 in 2022 to more than 110,000 in 2024, when the total value of transactions neared US\$ 3.2 billion.² More than 15 countries and 100 institutions were participating in the Buna platform.

Their success rests on several factors, including having a common vision, robust security measures, and standardized processes. The vision for a regional payment system to support trade, investment, and economic diversification was shared by the highest political level (the GCC Supreme Council, composed of the heads of state) in the case of AFAQ and by the Arab central bank governors for Buna. This enabled the establishment of new entities such as the GPC and the ARPCSO. Another success factor was the prioritization of not only speed but also security in cross-border payments. The AFAQ incorporates advanced security features to safeguard sensitive data and ensure the integrity and confidentiality of transactions, whereas Buna provides an additional layer of compliance on top of participants' own compliance obligations to promote the safety of the platform and its ecosystem.³ Finally, having standardization of payment formats, cutoff times, and delivery times and subscribing to international standards has enhanced interoperability and efficiency.

Note: AMF = Arab Monetary Fund; ARPCSO = Arab Regional Payments Clearing and Settlement Organization; GCC = Gulf Cooperation Council; GPC = Gulf Payments Company; RTGS = real-time gross settlement; XBPs = cross-border payments.

¹ See Gulf Payments Company (2023).

² See BUNA (2024a).

³ See BUNA (2024b).

Key frictions within the validation, transmission, and funding processes are as follows:

- **Fragmented and truncated data formats:** The payment messages need to contain sufficient information to confirm the identity of parties and the legitimacy of the payment. Data standards and formats vary significantly across jurisdictions, systems, and message networks.³⁶
- **Complex processing of compliance checks:** Uneven implementation of regulatory regimes for sanctions screening and financial crime means the same transaction may need to be checked several times to ensure that the parties are not exposing themselves to illicit finance.³⁷
- **Limited operating hours:** Balances in bank accounts can only be updated during the hours when the underlying settlement systems are available. Banks also need to hold enough cash to cover the unknown costs of the eventual FX rate, which fluctuates during the waiting time, driving up the overall cost of the transaction.
- **Legacy technology platforms:** A significant proportion of the technology supporting XBP remains on platforms built when paper-based payment processes were first migrated to electronic systems. They have limitations, such as reliance on batch processing, lack of real-time monitoring, and low data processing capacity, which create delays in settlement and trapped liquidity. These limitations affect domestic operations but become even more of a barrier to achieving cross-border automation of payments when different legacy infrastructures need to interact with each other. The requirement to interface with legacy technology can act as barriers for emerging business models and technologies to enter the market.
- **High funding costs:** To enable quick settlement, banks are required to provide funding in advance, often across multiple currencies, or to have access to FX markets. This creates risks for the banks that they will need to put aside capital to cover, which means that capital cannot be used to support other activities. The uncertainty about the timing of incoming funds often leads to overfunding of positions, which increases costs.
- **Weak competition:** There are significant barriers to entry for nonbank service providers seeking to provide XBP services. It is also difficult for end users making payments to accurately assess the cost of initiating a payment, which makes it difficult to gauge the value for money on offer by different providers. These barriers can increase prices for end users and firms and dampen investment in modernizing XBP processes.

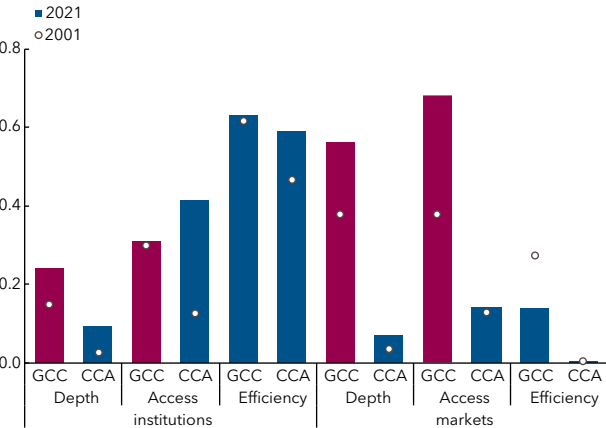
XBP challenges could also involve gaps in the domestic payment system, including its infrastructure and governance. Some of the XBP frictions such as legacy technology platforms highlight the need to modernize the domestic payment system. Such issues could be more severe in countries with low degree of financial development, weak competition in the banking sector, or dominance of state-owned banks. Based on a composite indicator, CCA countries, in general, lag behind GCC countries in terms of financial development, especially on financial institutions' depth and financial markets (Annex Figure 1.2). At the same time, when it comes to the governance of payment services and systems, some countries may have gaps in legal and regulatory provisions, and some of the qualitative dimensions may not be well captured in existing payment surveys. For instance, in some countries, a formal framework for the central bank's oversight of payments may be underdeveloped.

³⁶ For example, some formats only allow Latin characters and some formats allow more data than others, meaning names and addresses in other scripts have to be translated, leading to divergences in precise spellings.

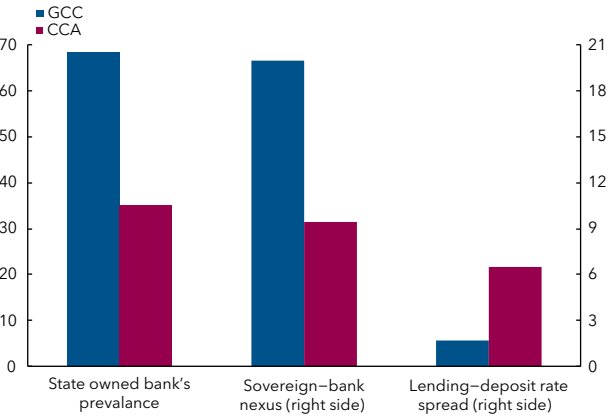
³⁷ Banks may use different sources for conducting their checks, which can lead to payments being incorrectly flagged. This complexity increases with the number of intermediaries in a chain, as the original data provided to meet initial checks may not contain elements needed for checks under other national regimes. This makes compliance checks more costly to design, hampers automation, and leads to delays or the rejection of payments.

Annex Figure 1.2. Financial Development in GCC and CCA

1. Financial Institutions and Markets Development
(Index level, 0-1, simple averages)



2. Bank's State Ownership Prevalence, Sovereign-Bank Nexus, and Profitability
(Percent; medians; 2022)



Sources: Fitch Connect; IMF Financial Development Index; IMF WEO database; and IMF staff calculations.
Note: CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council.

Annex 2. Trade Model, Data and Results

We use a structural gravity model to estimate trade in goods between country pairs.³⁸ The structural gravity model is the workhorse of the empirical trade literature and has been used extensively to estimate the impact of trade determinants such as distance, trade agreements, World Trade Organization (WTO) membership, tariffs, nontariff measures (NTMs), and the quality of institutions (Baier and Bergstrand 2007; Disdier and Head 2008; Yotov and others 2016b; Beverelli and others 2018, and Beverelli and others 2024), to name a few. The structural gravity model can be derived theoretically from a large class of microeconomic foundations. It can be expressed with the following equations:

$$X_{ijt} = \frac{Y_{it} E_{jt}}{Y_t} \left[\frac{t_{ijt}}{\Pi_{it} P_{jt}} \right]^{1-\sigma} \quad (1)$$

$$\Pi_{it}^{1-\sigma} = \sum_j \left[\frac{t_{ijt}}{P_{jt}} \right]^{1-\sigma} \frac{E_{jt}}{Y_t} \quad (2)$$

$$P_{jt}^{1-\sigma} = \sum_i \left[\frac{t_{ijt}}{\Pi_{it}} \right]^{1-\sigma} \frac{Y_{it}}{Y_t} \quad (3)$$

where X_{ijt} is the bilateral trade flow between exporter i and importer j , Y_{it} is the total value of production in exporter i , Y_t is the global production, E_{jt} is the total value of expenditure in importer j , Π_{it} is the outward multilateral resistance, P_{jt} is the inward multilateral resistance, and σ is the elasticity of substitution between goods from different countries.

The first term of equation (1) is the “size term” ($Y_{it}E_{jt}/Y_t$) that captures the hypothetical level of frictionless trade between country i and country j , assuming no trade costs. The second term ($t_{ijt}/\Pi_{it}P_{jt}$) captures the effect of trade costs that drives a wedge between realized trade and frictionless trade (Beverelli and others 2018). The structural terms Π_{it} and P_{jt} represent the outward and inward multilateral resistance terms, respectively (Anderson and van Wincoop 2003). These terms capture the fact that bilateral trade between countries i and j depends on how isolated they are from the rest of the world. The specification means that any change in trade costs between any two countries would affect all other countries (Beverelli and others 2018).

The structural gravity model can be estimated econometrically as follows:

$$X_{ijt} = \exp\left(\ln S_{it} + \ln M_{jt} + Z_{ijt}\right) + e_{ijt}, \quad (4)$$

where X_{ijt} is the bilateral trade flow between exporter i and importer j in year t , S_{it} is an origin-time fixed effect, M_{jt} is a destination-time fixed effect, D_{ij} is a country-pair fixed effect, Z_{ijt} includes all trade-related bilateral variables such as regional trade agreements, and e_{ijt} is the error term.

³⁸ For trade in goods, a structural gravity model is estimated with exporter-year and importer-year fixed effects. We included domestic trade flows and a border dummy variable in order to estimate the impact of country-specific policies as discussed by the gravity literature (Heid and others 2014; Yotov and others 2016). For trade in services, we don't have domestic trade flows, so we are not able to include destination-time and origin-time fixed effects and estimate for country-specific policies. Instead, we construct remoteness indices that can proxy for multilateral resistance term (Yotov and others 2016).

Origin-time (S_i) and destination-time fixed effects (M_j) are crucial to account for the multilateral resistance terms (Baldwin and Taglioni 2006; Feenstra 2015). Failure to include them will lead to biased and inconsistent gravity estimates (Anderson and van Wincoop 2003). In addition, these fixed effects absorb the size variables, Y_i and E_j , as well as any other country-specific variable that varies over time (Yotov and others 2016). Equation (4) uses Poisson pseudo maximum likelihood (PPML) instead of ordinary least squares, as PPML takes into account zero trade flows, which are otherwise dropped from the estimation when ordinary least squares is used. In addition, trade data suffer from heteroscedasticity, and PPML can help overcome this problem (Silva and Tenreyro 2006; Yotov and others 2016).

The data used to estimate the structural gravity model cover more than 150 countries over the period 2010–23. Annex Table 2.1 provides a description of the variables used in the gravity model. Bilateral trade flows are calculated in three levels of aggregation: total trade; three sectors (agriculture, mining, and manufacturing); and 10 sectors as shown in Annex Table 2.2. Relevant policy variables include (1) a binary variable for bilateral trade agreement; (2) trade weighted tariffs; (3) the number of border NTMs (as defined in Nicita and Koloskova 2025); (4) the quality of governance based on the World Bank Worldwide Governance Indicators; (5) the quality of logistics and infrastructure; (6) the regulatory burden as measured by the Fraser Institute; and (7) a measure of aggregate trade restrictions. Given that the governance indicators, such as measure of the regulatory burden, quality of logistics, and trade restrictions, are highly correlated, we also calculate a composite index of institutional quality as the first principal component of these indicators.

The results of the gravity model highlight the key drivers of trade in goods. Results of the gravity model for aggregate trade are in line with the literature (Annex Table 2.3). Distance, contiguity, common language, and colonial ties are all highly statistically significant and with the expected sign. We include a border dummy that is equal to one if trade flows across an international border. This dummy is negative and highly significant, which reflects the home bias effect; in other words, domestic trade tends to be much larger than international trade. In addition, the border dummy is a way to control for any other unobserved variables that may affect international trade flows differently from intranational flows (Anderson and Yotov 2010; Yotov and others 2016). The domestic policy indicators are introduced as an interaction term between the policy variable and the dummy for international trade flow (border). The results show that trade agreements significantly and positively impact the level of trade between countries with the result in line with the literature (Yotov and others 2016). In contrast, tariffs and NTMs negatively impact trade, as expected. The results for other policy variables (such as governance, logistics, regulatory burden, and aggregate trade restrictions) are shown in columns 4–7 and are introduced individually in the regressions, given that these indicators are correlated—they are all highly significant and with the expected sign. When the policy variables are simultaneously included in the regression (column 8), the impact of governance on trade turns negative and remains significant, highlighting the correlation between the policy variables. The composite index of institutional quality is also positive and statistically significant. Results for agriculture, mining, and manufacturing (Annex Tables 2.4–2.6) are similar, although they show that (1) NTMs have their most adverse impact on manufacturing and agricultural products and the least impact on mining products³⁹; (2) the quality of logistics affects trade of manufacturing products the most; (3) governance and the composite index of institutional quality have their greatest impact on manufacturing and mining products; and (4) the regulatory burden has its greatest impact on trade of manufacturing and agricultural products. The results appear robust to (1) different fixed-effects specifications as shown in Annex Table 2.8 (no fixed effects; exporter, importer, and year fixed effects; sector fixed effects; and exporter-year and importer-year fixed effects);

³⁹ Nicita and Koloskova (2025) find that AVEs are highest for agricultural products and lowest for commodities.

(2) different subcategories of NTMs in Annex Table 2.9 (sanitary and phytosanitary measures, technical barriers measures, nontechnical measures, price controls, and other measures); and (3) different broad measures of NTMs in Annex Table 2.10.⁴⁰

We estimate a simple gravity model for bilateral trade in services. Data on bilateral trade in services are obtained from the World Trade Organization–Organisation for Economic Co-operation and Development (WTO–OECD) Balanced Trade in Services (BaTiS) dataset. BaTiS is a balanced matrix of international trade in services for over 200 countries and their partners by 26 sectors for the period 2005–23. Bilateral trade flows are reconciled where exports mirror imports (WTO 2025; WTO Stats 2025). Gravity data and other country-specific data are obtained from different sources such as Centre d’Études Prospectives et d’Informations Internationales (CEPII) and the World Bank, as outlined in Annex Table 2.1.

The results of the gravity model for trade in services are in line with the structural gravity model for trade in goods. Annex Table 2.11 reports the estimates of the gravity model. The model is estimated using PPML. Column 1 reports the estimates of the gravity model with no fixed effects. The results are in line with the estimates of the gravity model in trade literature: GDP of the exporter and that of the importer are both positively associated with bilateral trade, whereas distance is negatively correlated. Exogenous factors such as common language, colonial links, and trade agreements are also strongly associated with trade. The coefficient for contiguity is insignificant, which may suggest that sharing a border is less important in services trade relative to goods trade. Column 2 reports the estimates with exporter-year and importer-year fixed effects. The results are qualitatively similar to column 1 except that the contiguity variable is positively and significantly associated with bilateral trade.

We include remoteness indices to account for multilateral resistance terms. Ideally, including origin-time and destination-time fixed effects is the best way to properly account for the multilateral resistance terms. Otherwise, gravity estimates may be biased and inconsistent (Anderson and van Wincoop 2003; Baldwin and Taglioni 2006; Head and Meyer 2014; Feenstra 2015; Yotov and others 2016). However, including these fixed effects will absorb the GDP variables in addition to any country-specific variable that varies over time, specifically any variables related to institutional quality (Yotov and others 2016). We were able to deal with this issue for the trade in goods gravity model because of the presence of domestic trade flows, which allows for the identification of country-specific variables within a structural gravity model even with directional time-varying fixed effects (Yotov and others 2016; Heid and others 2021). Unfortunately, domestic trade flows are not available for trade in services data. One possible solution is to construct remoteness indices for the exporter and importer to proxy for the multilateral resistance terms.⁴¹ These remoteness indices are a function of bilateral distance and GDP of a country’s trade partners. The disadvantage of using such indices is that they are not theoretically consistent and, therefore, may lead to biased estimates (Baier and Bergstrand 2009; Head and others 2014; Yotov and others 2016).

Institutional policy variables such as governance, logistics, regulatory burden, and aggregate trade restrictions can be important drivers for trade in services. Column 3 includes exporter and importer remoteness indices to the gravity model, which allows us to estimate the impact of several country-specific variables in columns 4–9. The estimates of the standard gravity model in column 3 are qualitatively identical to those in columns 1 and 2. Exporter remoteness index is positive and significant in line with the literature (Yotov and others 2016). However, importer remoteness index is not significant, which may suggest that remoteness

⁴⁰ As a robustness check, we include a subcomponent of Fraser Institute’s perception-based indicator of regulatory trade barriers, titled nontariff trade barriers, derived from the Global Competitiveness Report survey question: “In your country, tariff and nontariff barriers significantly reduce the ability of imported goods to compete in the domestic market?” The indicator captures both tariff and nontariff barriers. The coefficient is positive and statistically significant, indicating that lower regulatory trade barriers are associated with higher trade. Importantly, its inclusion does not alter the results qualitatively.

⁴¹ Exporter and importer remoteness indices are constructed as logarithms of expenditure and output weighted averages of bilateral distance (Head 2003; Yotov and others 2016):

$$\ln \text{RemEXP}_i = \ln \left(\frac{D_i}{\sum_j E_j / Y_i} \right) \text{ and } \ln \text{RemIMP}_j = \ln \left(\frac{D_j}{\sum_i Y_i / Y_j} \right).$$

measured using geographical distance is less important for trade in services compared to trade in goods. Columns 4–7 individually introduce measures of governance, logistics, regulatory burden, and aggregate trade restrictions, while column 8 presents all measures in one specification. The results are qualitatively in line with the gravity model for trade in goods; better governance, logistics performance, regulatory quality, and lower aggregate trade restrictiveness are all positively associated with bilateral trade in services. According to column 4, a 1 percent improvement in governance in importer or exporter indicator is significantly associated with a 1 to 1.5 percent increase in bilateral trade. The impact is larger for logistics performance, where a 1 percent improvement could be associated with a 2.5 to 3 percent increase in bilateral trade in services. Column 6 shows that a 1 percent increase in regulatory quality is associated with a 1.2 to 1.7 percent increase in bilateral trade, while column 7 shows that lowering trade and exchange restrictiveness by 1 percent could be correlated with 0.5 to 0.7 percent higher bilateral trade. Column 9 includes a composite indicator of institutional quality using the set of variables used in columns 4–8. Improvement in the composite indicator is associated with an almost 1 to 1.3 percent increase in trade.

Annex Table 2.1. Gravity Model Data¹

Variable	Description	Source
International trade in goods	Value of goods trade flow (in thousand current US\$). The trade flow is identified by the exporter <i>i</i> , the importer <i>j</i> , the product category <i>k</i> , and the year <i>t</i> . The data set provides information on trade flows' value (<i>v_{ijkt}</i> , in thousand current US\$). Data are provided at the six-digit HS level, covering around 5,000 products. We aggregate trade flows at two-digit HS level or chapter level. Data are then further aggregated into 10 sectors. The sectors are defined as shown in Annex Table 2.2.	BACI by CEPII
Domestic trade in goods	Data on production and internal trade flows are obtained from the TradeProd data from CEPII. Internal trade flows are obtained by subtracting a country's exports from its gross production. Data are provided at the sectoral level for 10 sectors.	TradeProd by CEPII
Trade in services	Value of services trade flow (in million US\$). Data are available for 12 sectors: (1) manufacturing services; (2) maintenance and repair services; (3) transport; (4) travel; (5) construction; (6) insurance and pension services; (7) financial services; (8) charges for the use of intellectual property; (9) telecommunications, computer, and information services; (10) other business services; (11) personal, cultural, and recreational services; and (12) government goods and services.	OECD-WTO
Distance	Population-weighted average distance between the most populated cities of each country, arithmetic mean, in km bilateral.	CEPII
Contiguity	1 if the countries are contiguous (neighbors), bilateral.	CEPII
Common language	1 if countries share common official or primary language, bilateral.	CEPII
Colonial links	1 if country pair is or was in colonial relationship post-1945.	CEPII
Free trade agreement	1 if country pair is engaged in an RTA as notified to the WTO. This is supplemented by the bilateral trade agreements data by Thierry Mayer.	CEPII
Tariff	Effectively applied weighted average tariff; the average of tariffs weighted by their corresponding trade value.	World Integrated Trade Solution (WITS)

Annex Table 2.1. Gravity Model Data¹ (continued)

Variable	Description	Source
NTMs	Total number of NTMs (all types of NTMs included, excluding exports) with the same reporter, partner, product category, and year. Border NTMs are constructed using the definition from Nicita and Koloskova (2025). NTMs are further divided into (1) sanitary and phytosanitary measures, (2) technical barriers, (3) nontechnical measures, and (4) price controls and other measures.	UNCTAD
Governance	Simple average of the following WGI: government effectiveness, regulatory quality, rule of law, and control of corruption.	World Bank, World Governance Indicators
Regulatory burden	Measure of the cost of complying with administrative requirements (permits, regulations, and reporting) issued by the government.	Fraser Institute
Infrastructure	The Logistics Performance Index reflects perceptions of a country's logistics based on efficiency of customs clearance process, quality of trade and transport-related infrastructure, ease of arranging competitively priced shipments, quality of logistics services, ability to track and trace consignments, and frequency with which shipments reach the consignee within the scheduled time. The index ranges from 1 to 5, with a higher score representing better performance.	World Bank, Logistics Performance Index
Measure of aggregate trade restrictions	Aggregate measure of trade restrictions based on the unweighted sum of the IMF's AREAER binary variables related to (1) exchange measures, (2) arrangements for payments and receipts, (3) imports and import payments, (4) exports and export proceeds, and (5) payment and proceeds from invisible transfers and current transfers. This follows Estefania-Flores and others (2022).	IMF's AREAER

Source: Authors.

Note: AREAER = Annual Report on Exchange Arrangements and Exchange Restrictions; CEPPI = Centre d'Études Prospectives et d'Informations Internationales; NTMs = nontariff measures; RTA = regional trade agreement; WGI = Worldwide Governance Indicators; WTO = World Trade Organization.

¹ Data used here are compliant with the IMF rules on the use of third-party indicators in Fund reports.

Annex Table 2.2. Goods Classification

Sector	HS Chapters	Description
1	01-24	Agriculture and Food Products (Live Animals, Food, and Beverages)
2	25-27	Minerals and Fuels (Incl. Crude Oil, Coal, and Salt)
3	28-40	Chemicals and Plastics
4	41-43	Leather and Hides
5	44-49	Wood and Paper Products
6	50-67	Textiles, Footwear, and Accessories
7	68-83	Stone, Metals, and Basic Manufactures
8	84-85	Machinery and Electronics
9	86-92	Transport and Precision Equipment
10	93-97	Arms, Furniture, Toys, and Miscellaneous

Source: Authors.

Annex Table 2.3. Gravity Model Estimates—Aggregate Trade

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Log of distance	−0.512*** (0.0278)	−0.506*** (0.0277)	−0.532*** (0.0251)	−0.528*** (0.0318)	−0.505*** (0.0292)	−0.504*** (0.0277)	−0.533*** (0.0292)	−0.516*** (0.0276)	−0.529*** (0.0306)
Contiguity	0.581*** (0.108)	0.535*** (0.102)	0.540*** (0.0938)	0.601*** (0.102)	0.597*** (0.108)	0.538*** (0.111)	0.563*** (0.0874)	0.576*** (0.0945)	0.609*** (0.0978)
Common language	0.264*** (0.0832)	0.270*** (0.0786)	0.252*** (0.0755)	0.158* (0.0841)	0.187** (0.0838)	0.187** (0.0798)	0.209*** (0.0774)	0.146* (0.0778)	0.144** (0.0831)
Colonial ties	0.402*** (0.0958)	0.373*** (0.0895)	0.387*** (0.0949)	0.402*** (0.116)	0.488*** (0.123)	0.433*** (0.0914)	0.435*** (0.0913)	0.531*** (0.112)	0.441*** (0.124)
Trade agreements	0.586*** (0.0599)	0.202*** (0.0640)	0.118* (0.0645)	0.201*** (0.0574)	0.195*** (0.0589)	0.205*** (0.0658)	0.229*** (0.0561)	0.230*** (0.0593)	0.204*** (0.0559)
Border	−2.996*** (0.102)	−2.391*** (0.110)	−2.068*** (0.125)	−4.708*** (0.181)	−8.656*** (0.353)	−3.811*** (0.186)	−0.627*** (0.221)	−6.715*** (0.780)	−5.648*** (0.205)
Log of tariff		−0.452*** (0.0361)	−0.377*** (0.0366)	−0.281*** (0.0339)	−0.325*** (0.0332)	−0.466*** (0.0381)	−0.267*** (0.0377)	−0.283*** (0.0389)	−0.253*** (0.0342)
Log of NTM			−0.032*** (0.00985)						
Log of governance				1.944*** (0.169)				−1.361*** (0.434)	
Log of Logistics Performance Index					4.820*** (0.293)			4.914*** (0.456)	
Log of regulatory burden						1.023*** (0.123)		0.715*** (0.120)	
Log of trade and exchange restrictiveness							−0.979*** (0.103)	−0.799*** (0.221)	
Log of composite index for institutional quality									1.956*** (0.132)
Constant	23.88*** (0.176)	23.84*** (0.174)	23.81*** (0.158)	24.04*** (0.196)	23.90*** (0.182)	23.87*** (0.175)	24.06*** (0.183)	23.98*** (0.173)	24.06*** (0.189)
Observations	277,415	263,092	156,381	238,101	233,685	225,178	241,243	216,307	216,307
Exporter-year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Importer-year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Authors' calculations.

Note: NTM = nontariff measure. Standard errors in parentheses.

* $p < .1$, ** $p < .05$, *** $p < .01$.

Annex Table 2.4. Gravity Model Estimates—Agriculture

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Log of distance	−0.602*** (0.0347)	−0.595*** (0.0309)	−0.609*** (0.0295)	−0.591*** (0.0371)	−0.576*** (0.0341)	−0.582*** (0.0318)	−0.622*** (0.0330)	−0.590*** (0.0317)	−0.594*** (0.0359)
Contiguity	0.779*** (0.114)	0.701*** (0.103)	0.689*** (0.102)	0.766*** (0.105)	0.751*** (0.104)	0.717*** (0.106)	0.718*** (0.0942)	0.720*** (0.0934)	0.753*** (0.101)
Common language	0.240*** (0.0870)	0.281*** (0.0768)	0.268*** (0.0783)	0.136 (0.0843)	0.183** (0.0817)	0.216*** (0.0818)	0.177** (0.0781)	0.168** (0.0786)	0.137 (0.0839)
Colonial ties	0.398** (0.164)	0.367** (0.175)	0.593*** (0.124)	0.630*** (0.141)	0.721*** (0.142)	0.383** (0.195)	0.595*** (0.143)	0.695*** (0.145)	0.658*** (0.142)
Trade agreements	0.825*** (0.0642)	0.504*** (0.0654)	0.386*** (0.0629)	0.421*** (0.0672)	0.418*** (0.0653)	0.479*** (0.0664)	0.442*** (0.0630)	0.415*** (0.0636)	0.394*** (0.0655)
Border	−4.130*** (0.116)	−3.514*** (0.117)	−3.028*** (0.127)	−5.547*** (0.207)	−8.849*** (0.400)	−4.499*** (0.215)	−1.633*** (0.239)	−6.777*** (0.720)	−6.225*** (0.253)
Log of tariff		−0.343*** (0.0244)	−0.259*** (0.0286)	−0.279*** (0.0253)	−0.303*** (0.0244)	−0.376*** (0.0269)	−0.243*** (0.0253)	−0.285*** (0.0278)	−0.282*** (0.0254)
Log of NTM			−0.0558*** (0.0119)						
Log of governance				1.737*** (0.174)				−1.162*** (0.354)	
Log of Logistics Performance Index					4.179*** (0.330)			4.188*** (0.491)	
Log of regulatory burden						0.751*** (0.141)		0.495*** (0.132)	
Log of trade and exchange restrictiveness							−1.012*** (0.109)	−0.743*** (0.186)	
Log of composite index for institutional quality									1.693*** (0.156)
Constant	22.76*** (0.216)	22.73*** (0.193)	22.61*** (0.182)	22.75*** (0.230)	22.66*** (0.212)	22.69*** (0.198)	22.94*** (0.205)	22.78*** (0.197)	22.80*** (0.223)
Observations	228,849	213,748	124,550	193,915	190,981	187,436	196,181	180,741	180,741
Exporter-year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Importer-year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Authors' calculations.

Note: NTMs = nontariff measures. Standard errors in parentheses.

* $p < .1$, ** $p < .05$, *** $p < .01$.

Annex Table 2.5. Gravity Model Estimates–Mining

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Log of distance	−0.875*** (0.0580)	−0.869*** (0.0576)	−0.955*** (0.0479)	−0.912*** (0.0544)	−0.868*** (0.0604)	−0.852*** (0.0609)	−0.914*** (0.0541)	−0.920*** (0.0522)	−0.892*** (0.0574)
Contiguity	0.538*** (0.140)	0.532*** (0.137)	0.623*** (0.116)	0.554*** (0.140)	0.551*** (0.149)	0.540*** (0.150)	0.511*** (0.130)	0.565*** (0.138)	0.558*** (0.143)
Common language	0.188 (0.122)	0.204* (0.122)	0.144 (0.121)	0.125 (0.124)	0.183 (0.124)	0.200 (0.128)	0.146 (0.124)	0.113 (0.129)	0.134 (0.127)
Colonial ties	0.193 (0.135)	0.160 (0.134)	0.182 (0.139)	0.278** (0.129)	0.304** (0.129)	0.230* (0.136)	0.264** (0.125)	0.221* (0.128)	0.304** (0.128)
Trade agreements	0.567*** (0.0946)	0.423*** (0.0972)	0.403*** (0.0992)	0.328*** (0.0924)	0.412*** (0.102)	0.449*** (0.102)	0.327*** (0.0891)	0.317*** (0.0890)	0.359*** (0.0957)
Border	−1.644*** (0.223)	−1.405*** (0.235)	−1.288*** (0.274)	−4.587*** (0.504)	−7.432*** (1.057)	−2.259*** (0.370)	1.303** (0.598)	−2.535* (1.529)	−5.035*** (0.627)
Log of tariff		−0.403*** (0.0699)	−0.410*** (0.0770)	−0.301*** (0.0712)	−0.323*** (0.0726)	−0.367*** (0.0748)	−0.304*** (0.0701)	−0.298*** (0.0728)	−0.284*** (0.0743)
Log of NTM			−0.0147 (0.0372)						
Log of governance				3.010*** (0.468)				5.353*** (1.036)	
Log of Logistics Performance Index					4.764*** (0.868)			−4.486*** (1.396)	
Log of regulatory burden						0.571** (0.260)		0.137 (0.291)	
Log of trade and exchange restrictiveness							−1.296*** (0.257)	0.423 (0.409)	
Log of composite index for institutional quality									2.360*** (0.399)
Constant	23.25*** (0.362)	23.18*** (0.357)	23.61*** (0.312)	23.72*** (0.331)	23.51*** (0.363)	23.07*** (0.376)	23.48*** (0.341)	23.61*** (0.336)	23.53*** (0.348)
Observations	153,470	139,709	84,684	127,154	126,734	124,029	128,646	120,914	120,914
Exporter-year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Importer-year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Authors' calculations.

Note: NTMs = nontariff measures. Standard errors in parentheses.

* $p < .1$, ** $p < .05$, *** $p < .01$.

Annex Table 2.6. Gravity Model Estimates—Manufacturing

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Log of distance	−0.587*** (0.0277)	−0.587*** (0.0268)	−0.574*** (0.0248)	−0.618*** (0.0275)	−0.590*** (0.0254)	−0.581*** (0.0264)	−0.615*** (0.0290)	−0.600*** (0.0261)	−0.613*** (0.0259)
Contiguity	0.449*** (0.0885)	0.423*** (0.0876)	0.425*** (0.0777)	0.457*** (0.0839)	0.459*** (0.0914)	0.422*** (0.0932)	0.422*** (0.0740)	0.447*** (0.0796)	0.459*** (0.0805)
Common language	0.139* (0.0806)	0.139* (0.0781)	0.166** (0.0718)	0.0658 (0.0738)	0.0813 (0.0788)	0.0968 (0.0793)	0.113 (0.0706)	0.0692 (0.0711)	0.0619 (0.0723)
Colonial ties	0.641*** (0.127)	0.589*** (0.139)	0.458*** (0.141)	0.527*** (0.160)	0.608*** (0.157)	0.614*** (0.139)	0.569*** (0.144)	0.599*** (0.151)	0.545*** (0.158)
Trade agreements	0.490*** (0.0618)	0.185*** (0.0686)	0.0718 (0.0670)	0.297*** (0.0596)	0.267*** (0.0618)	0.205*** (0.0703)	0.284*** (0.0610)	0.308*** (0.0610)	0.300*** (0.0585)
Border	−0.737*** (0.147)	−0.276* (0.151)	0.261* (0.140)	−3.338*** (0.330)	−8.750*** (0.728)	−1.561*** (0.291)	1.707*** (0.299)	−5.395*** (1.322)	−4.471*** (0.316)
Log of tariff		−0.340*** (0.0505)	−0.294*** (0.0473)	−0.136*** (0.0459)	−0.215*** (0.0435)	−0.341*** (0.0512)	−0.155*** (0.0481)	−0.144*** (0.0454)	−0.121*** (0.0451)
Log of NTM			−0.0571*** (0.00950)						
Log of governance				2.524*** (0.282)				−0.748 (0.749)	
Log of Logistics Performance Index					6.415*** (0.581)			5.117*** (0.820)	
Log of regulatory burden						0.866*** (0.172)		0.487*** (0.129)	
Log of trade and exchange restrictiveness							−1.078*** (0.144)	−0.800** (0.325)	
Log of composite index for institutional quality									2.463*** (0.197)
Constant	21.74*** (0.191)	21.73*** (0.183)	21.42*** (0.165)	21.95*** (0.180)	21.81*** (0.174)	21.73*** (0.176)	21.91*** (0.186)	21.87*** (0.171)	21.93*** (0.169)
Observations	268,336	254,297	150,813	230,198	226,178	218,308	233,284	209,903	209,903
Exporter-year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Importer-year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Authors' calculations.

Note: NTMs = nontariff measures. Standard errors in parentheses.

* $p < .1$, ** $p < .05$, *** $p < .01$.

Annex Table 2.7. Gravity Model Estimates—10 Sectors

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Log of distance	−0.536*** (0.0279)	−0.545*** (0.0286)	−0.559*** (0.0256)	−0.572*** (0.0339)	−0.548*** (0.0311)	−0.592*** (0.0323)	−0.569*** (0.0304)	−0.564*** (0.0300)	−0.577*** (0.0324)
Contiguity	0.543*** (0.107)	0.520*** (0.0999)	0.500*** (0.0926)	0.582*** (0.0987)	0.583*** (0.105)	0.542*** (0.0882)	0.534*** (0.0871)	0.553*** (0.0918)	0.576*** (0.0906)
Common language	0.233*** (0.0837)	0.211*** (0.0804)	0.222*** (0.0762)	0.0873 (0.0860)	0.111 (0.0855)	0.131 (0.0824)	0.159** (0.0792)	0.140* (0.0766)	0.112 (0.0842)
Colonial ties	0.400*** (0.0954)	0.352*** (0.0961)	0.351*** (0.104)	0.385*** (0.120)	0.489*** (0.128)	0.329*** (0.126)	0.395*** (0.0947)	0.456*** (0.139)	0.394*** (0.128)
Trade agreements	0.552*** (0.0612)	0.151** (0.0633)	0.0132 (0.0669)	0.105* (0.0623)	0.120* (0.0631)	0.0700 (0.0593)	0.123** (0.0589)	0.0808 (0.0585)	0.0843 (0.0596)
Border	−3.014*** (0.104)	−2.396*** (0.119)	−1.891*** (0.129)	−4.662*** (0.205)	−9.124*** (0.385)	−8.890*** (0.534)	−0.760*** (0.231)	−12.62*** (0.800)	−5.139*** (0.211)
Log of tariff		−0.459*** (0.0335)	−0.397*** (0.0327)	−0.336*** (0.0322)	−0.361*** (0.0327)	−0.339*** (0.0322)	−0.352*** (0.0331)	−0.354*** (0.0351)	−0.321*** (0.0326)
Log of NTM			−0.0739*** (0.0106)						
Log of governance				1.993*** (0.184)				−1.759*** (0.526)	
Log of Logistics Performance Index					5.225*** (0.316)			5.838*** (0.580)	
Log of regulatory burden						3.433*** (0.287)		2.602*** (0.424)	
Log of trade and exchange restrictiveness							−0.843*** (0.106)	−0.105 (0.195)	
Log of composite index for institutional quality									1.711*** (0.125)
Constant	22.02*** (0.177)	22.06*** (0.179)	22.28*** (0.162)	22.29*** (0.205)	22.15*** (0.190)	22.40*** (0.193)	22.25*** (0.187)	22.26*** (0.182)	22.33*** (0.196)
Observations	2027,129	1888,971	1111,940	1714,659	1695,674	1708,179	1736,857	1652,114	1651,443
Exporter-year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Importer-year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sector fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Authors' calculations.

Note: NTMs = nontariff measures. Standard errors in parentheses.

* $p < .1$, ** $p < .05$, *** $p < .01$.

Annex Table 2.8. Gravity Model Estimates—Fixed Effects

Variable	(1)	(2)	(3)	(4)
Log GDP (origin)	0.604*** (0.0496)	0.603*** (0.0491)	0.177** (0.0783)	
Log GDP (destination)	0.680*** (0.0368)	0.682*** (0.0364)	0.509*** (0.0820)	
Log of distance	-0.149 (0.143)	-0.152 (0.136)	-0.499*** (0.0289)	-0.529*** (0.0246)
Contiguity	1.128*** (0.175)	1.124*** (0.170)	0.618*** (0.115)	0.562*** (0.0866)
Common language	0.0775 (0.0980)	0.0756 (0.0970)	0.138 (0.0933)	0.139* (0.0745)
Colonial ties	0.321** (0.130)	0.321** (0.130)	0.401*** (0.113)	0.468*** (0.112)
Trade agreement	0.382*** (0.130)	0.394*** (0.129)	0.213*** (0.0683)	0.194*** (0.0615)
Log of tariff	-0.310*** (0.0434)	-0.305*** (0.0429)	-0.241*** (0.0353)	-0.274*** (0.0369)
Log of NTM	-0.0175 (0.0197)	-0.0158 (0.0192)	-0.0199 (0.0121)	-0.0226** (0.00964)
Log of governance	-1.178*** (0.321)	-1.214*** (0.327)	-0.642 (0.434)	-2.099*** (0.561)
Log of Logistics Performance Index	4.490*** (0.762)	4.529*** (0.775)	3.426*** (0.321)	5.112*** (0.444)
Log of regulatory burden	0.282*** (0.0724)	0.305*** (0.0748)	0.641*** (0.109)	0.914*** (0.149)
Log of AREAR index	0.338*** (0.120)	0.332*** (0.121)	-0.636*** (0.240)	-1.021*** (0.283)
Border	-9.016*** (0.840)	-9.038*** (0.827)	-5.811*** (0.828)	-5.825*** (0.987)
Constant	-6.325*** (2.096)	-6.334*** (2.062)	9.023*** (2.244)	23.90*** (0.153)
Observations	120,450	120,450	120,413	123,760
Exporter fixed effect	No	No	Yes	No
Importer fixed effect	No	No	Yes	No
Year fixed effect	No	Yes	Yes	No
Exporter-year fixed effect	No	No	No	Yes
Importer-year fixed effect	No	No	No	Yes

Source: Authors' calculations.

Note: NTMs = nontariff measures. Standard errors in parentheses.

* $p < .1$, ** $p < .05$, *** $p < .01$.

Annex Table 2.9. Gravity Model Estimates—Granular types of NTMs

Variable	(1)	(2)	(3)	(4)	(5)
Log of distance	−0.532*** (0.0251)	−0.530*** (0.0252)	−0.534*** (0.0251)	−0.532*** (0.0254)	−0.540*** (0.0258)
Contiguity	0.540*** (0.0938)	0.539*** (0.0938)	0.540*** (0.0938)	0.547*** (0.0905)	0.572*** (0.0888)
Common language	0.252*** (0.0755)	0.252*** (0.0755)	0.249*** (0.0752)	0.252*** (0.0730)	0.224*** (0.0748)
Colonial ties	0.387*** (0.0949)	0.383*** (0.0959)	0.386*** (0.0949)	0.339*** (0.112)	0.393*** (0.0946)
Trade agreements	0.118* (0.0645)	0.119* (0.0644)	0.117* (0.0647)	0.116* (0.0638)	0.132** (0.0639)
Log of tariff	−0.377*** (0.0366)	−0.375*** (0.0367)	−0.380*** (0.0365)	−0.345*** (0.0364)	−0.446*** (0.0348)
Border	−2.068*** (0.125)	−2.066*** (0.124)	−2.074*** (0.125)	−2.026*** (0.117)	−2.258*** (0.120)
Log of NTM	−0.0322*** (0.00985)				
Log of NTM A		−0.0369*** (0.0108)			
Log of NTM B			−0.0332*** (0.0106)		
Log of NTM E				−0.0888*** (0.0142)	
Log of NTM F					0.00457 (0.0146)
Constant	23.81*** (0.158)	23.81*** (0.158)	23.83*** (0.158)	23.82*** (0.159)	23.86*** (0.160)
Observations	156,381	156,381	156,381	156,381	156,381
Exporter-year fixed effect	Yes	Yes	Yes	Yes	Yes
Importer-year fixed effect	Yes	Yes	Yes	Yes	Yes

Source: Authors' calculations.

Note: NTMs = nontariff measures. Standard errors in parentheses.

* $p < .1$, ** $p < .05$, *** $p < .01$.**Annex Table 2.10. Gravity Model Estimates—Nontariff Trade Measures**

Variable	(1)	(2)	(3)	(4)	(5)
Log of distance	−0.532*** (0.0251)	−0.524*** (0.0262)	−0.558*** (0.0310)	−0.592*** (0.0291)	−0.580*** (0.0288)
Contiguity	0.540*** (0.0938)	0.546*** (0.0988)	0.585*** (0.0916)	0.599*** (0.0929)	0.597*** (0.0899)
Common official language	0.252*** (0.0755)	0.271*** (0.0788)	0.183** (0.0808)	0.153* (0.0810)	0.161** (0.0779)
Colonial links	0.387*** (0.0949)	0.386*** (0.0939)	0.473*** (0.108)	0.435*** (0.122)	0.431*** (0.117)
Regional trade agreement	0.118* (0.0645)	0.118* (0.0671)	0.134** (0.0581)	0.286*** (0.0578)	0.0882 (0.0604)

Annex Table 2.10. Gravity Model Estimates–Nontariff Trade Measures (continued)

Variable	(1)	(2)	(3)	(4)	(5)
Log of tariffs	−0.377*** (0.0366)	−0.382*** (0.0379)	−0.267*** (0.0350)		−0.270*** (0.0343)
Log of NTM	−0.0322*** (0.00985)	−0.0307*** (0.0103)		−0.0189* (0.0103)	−0.00746 (0.0103)
Log FRA NTM for the importer side		−2.096*** (0.131)	−7.361*** (0.369)	−8.459*** (0.518)	−7.629*** (0.491)
Border	−2.068*** (0.125)		2.678*** (0.214)	3.177*** (0.271)	2.851*** (0.258)
Constant	23.81***	23.80*** (0.164)	24.20*** (0.188)	24.26*** (0.175)	24.17*** (0.173)
Observations	156,381	133,834	233,699	135,574	133,834

Source: Authors' calculations.

Note: NTMs = nontariff measures. Standard errors in parentheses.

* $p < .1$, ** $p < .05$, *** $p < .01$.**Annex Table 2.11. Gravity Model Estimates–Trade in Services**

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Log of origin GDP	0.796*** (0.0233)		0.806*** (0.0243)	0.695*** (0.0229)	0.635*** (0.0265)	0.734*** (0.0219)	0.748*** (0.0200)	0.680*** (0.0280)	0.691*** (0.0230)
Log of destination GDP	0.787*** (0.0231)		0.786*** (0.0228)	0.695*** (0.0237)	0.643*** (0.0265)	0.724*** (0.0218)	0.746*** (0.0190)	0.677*** (0.0264)	0.693*** (0.0235)
Log of distance	−0.645*** (0.0346)	−0.562*** (0.0202)	−0.635*** (0.0350)	−0.530*** (0.0312)	−0.507*** (0.0332)	−0.559*** (0.0302)	−0.573*** (0.0295)	−0.527*** (0.0316)	−0.537*** (0.0313)
Contiguity	−0.126 (0.120)	0.287*** (0.0664)	−0.123 (0.118)	0.0354 (0.114)	0.000991 (0.112)	−0.0227 (0.113)	−0.0382 (0.0992)	−0.00973 (0.109)	0.00622 (0.111)
Common language	0.778*** (0.112)	0.326*** (0.0692)	0.778*** (0.110)	0.638*** (0.0979)	0.735*** (0.0973)	0.636*** (0.0975)	0.709*** (0.0931)	0.678*** (0.0917)	0.683*** (0.0961)
Colonial links	0.287** (0.135)	0.505*** (0.0886)	0.293** (0.133)	0.391*** (0.142)	0.426*** (0.133)	0.366** (0.156)	0.439*** (0.139)	0.393*** (0.148)	0.390** (0.153)
Trade agreement	0.366*** (0.0714)	0.221*** (0.0516)	0.372*** (0.0689)	0.0759 (0.0672)	0.0863 (0.0692)	0.106* (0.0628)	0.184*** (0.0621)	0.0587 (0.0647)	0.0484 (0.0666)
Exporter remoteness			0.479** (0.200)	0.194 (0.166)	0.311* (0.167)	0.293* (0.167)	−0.0521 (0.160)	0.107 (0.173)	0.165 (0.166)
Importer remoteness			−0.187	−0.358**	−0.247	−0.313*	−0.472***	−0.310*	−0.372**
Log of governance of exporter				1.484*** (0.100)				0.0948 (0.267)	
Log of governance of importer				1.071*** (0.112)				−0.316 (0.259)	
Log of Logistics Performance Index of exporter					3.332*** (0.213)			1.246*** (0.422)	

(continued)

Annex Table 2.11. Gravity Model Estimates—Trade in Services (continued)

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Log of Logistics Performance Index of importer					2.591*** (0.248)			1.494*** (0.421)	
Log of regulatory burden of exporter						1.719*** (0.117)		0.786*** (0.179)	
Log of regulatory burden of importer						1.279*** (0.134)		0.917*** (0.218)	
Log of trade and exchange restrictiveness of exporter							−0.734*** (0.0626)	−0.251** (0.111)	
Log of trade and exchange restrictiveness of importer							−0.491*** (0.0646)	−0.0957 (0.0965)	
Log of composite index for institutional quality of exporter									1.320*** (0.0913)
Log of composite index for institutional quality of importer									0.933*** (0.0991)
Constant	−20.61*** (0.652)	12.41*** (0.184)	−28.16*** (5.809)	−16.30*** (5.234)	−24.40*** (5.266)	−23.55*** (5.347)	−3.960 (4.540)	−17.34*** (4.848)	−15.85*** (5.297)
Observations	282,722	286,582	282,722	268,974	255,782	257,438	274,420	237,678	237,678
Exporter-year fixed effect	No	Yes	No	No	No	No	No	No	No
Importer-year fixed effect	No	Yes	No	No	No	No	No	No	No

Source: Authors' calculations.

Note: Standard errors in parentheses.

* $p < .1$, ** $p < .05$, *** $p < .01$.

Annex 3. Foreign Direct Investment (FDI) Model, Data and Results

To empirically assess the determinants of FDI inflows, this paper employs a random-effects panel regression model, supported by the Hausman test. It uses macroeconomic data for 86 advanced and emerging market developing economies over the period 2000–22.⁴² The random-effects panel regression model is selected to account for unobserved, time-invariant country-specific characteristics while preserving key explanatory variables, with the Hausman test confirming its appropriateness over fixed-effects.

In line with the empirical models used by Campos and Kinoshita (2008) and Walsh and Yu (2010), the baseline specification is defined as follows:

$$FDI_{i,t} = \alpha_{i,h} + \delta_h SR_{i,t} + \beta X_{i,t} + \epsilon_{i,t},$$

where $FDI_{i,t}$ denotes net FDI inflows as percentage of GDP, SR represents a set of structural indicators, and $X_{i,t}$ denotes a vector of control variables. The control variables account for key macroeconomic and external conditions influencing investment flows, including domestic and foreign GDP growth; foreign GDP growth; domestic and foreign policy rates; and global financial conditions measured by the VIX index, global fuel prices, trade openness, and a natural resource index.

Following the existing literature, structural indicators are as follows:

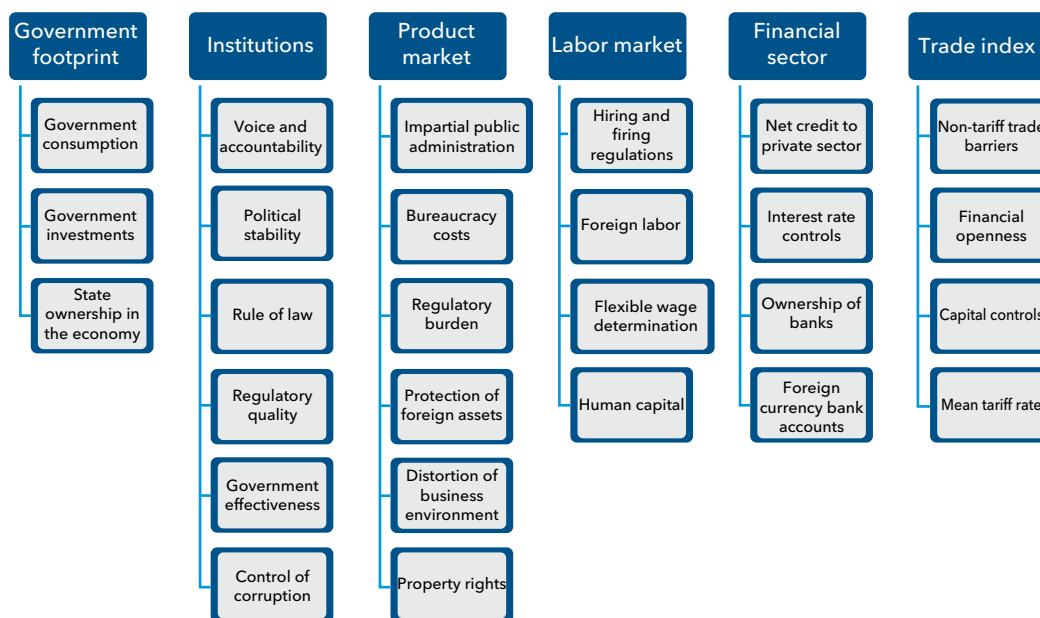
- **State footprint index.** A large state footprint is typically associated with less FDI (Campos and Kinoshita 2003; Gigineishvili and others 2023; World Bank 2023b). However, Othman and others (2018) and Yuan, Chen and Wang (2010) find that a larger government size can have a positive impact on FDI inflows. Other studies—including Bambe and Ouedraogo (2025) and Banga (2003)—have emphasized that spending efficiency can help attract FDI and, in some cases, fiscal incentives. This index includes three variables: (1) government consumption as a percent of total consumption, (2) government investment as a percent of total investment, and (3) the size of state-owned enterprises in the economy. Higher index values indicate less government intervention in the economy. The index does not distinguish between hydrocarbon and non-hydrocarbon sectors, nor does it capture the nature of public ownership (for example, minority stakes or GREs), which may vary across countries and limit its ability to fully capture nuanced differences in state involvement in the economy. In addition, it may not fully reflect other forms of state involvement, such as credit market interventions through subsidy schemes.
- **Institutions index.** The quality of institutions plays a critical role in attracting FDI, as strong institutions help create a stable, transparent, and predictable environment, which is highly valued by investors. This index includes all six of the Worldwide Governance Indicators (voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption).
- **Product market index.** Countries with markets that have minimal distortions, where competition is fair and efficient, provide investors with the opportunity to compete on a level playing field, driving innovation, improving efficiency, and ultimately fostering higher returns on investment (Aghion and others 2005). This index is sourced from the Fraser database and includes impartial public administration, bureaucratic costs for businesses, regulatory burdens, asset protection for nonresidents, market distortions, and property rights protection.

⁴² Although the Fraser Institute's indicators ensure consistency across the sample and with the empirical analysis and literature, they may not fully capture recent reform efforts, which have continued, particularly in the GCC regions, beyond the latest available data.

- **Labor market index.** Both effective labor market regulations and investments in human capital are vital for creating an attractive environment for FDI inflows. This index captures the degree of flexibility in the labor market, in addition to the quality of labor inputs (human capital) in the labor market (World Bank). It also captures labor market restrictions and collective bargaining (Fraser Institute).
- **Financial regulations index.** A well-developed financial market, supported by a sound and transparent regulatory framework, significantly enhances a country's ability to attract FDI. This index covers the depth and development of the financial sector. It includes credit market regulations, foreign currency bank accounts, ownership of banks, and interest rate controls.
- **Trade index.** Low tariffs, NTMs, and capital controls or preferential trade agreements (PTAs) can encourage FDI by providing firms with easier access to the local market and to regional markets through trade agreements (Krugman, Obstfeld, and Melitz 2009). This index includes capital controls, financial openness, nontariff trade barriers, and mean tariff rate. All subindicators are sourced from the Fraser Institute's database.

For each of these dimensions, we standardize each subindicator to vary between 0 and 100, take their unweighted average, and scale the score to 100, with a higher value showing favorable conditions to attract FDI inflows. Our indices are constructed by utilizing data from the World Development Indicators, the UNCTAD database, and the Fraser Institute's database covering the period 2000–22. In addition, a composite FDI structural index has been constructed to assess the combined impact of structural factors and the potential benefits of a coordinated reform approach.

Annex Figure 3.1. FDI Attractiveness Index



Source: IMF staff illustration.

Note: FDI = foreign direct investment.

The construction of the control variables ensures that both domestic and external economic conditions affecting FDI are adequately captured. Foreign GDP growth is proxied by US real GDP growth, reflecting the global economic cycle and serving as an indicator of investor-source market, given the dominant role of the United States in global capital flows and its influence on cross-border investment decisions. Similarly, the effective federal funds rate is used as a proxy for foreign policy rates, as it serves as a key benchmark for global borrowing costs and capital mobility. Trade openness, measured as the sum of exports and imports as a share of GDP, is included to assess the impact of market accessibility on FDI inflows, whereas the VIX

index captures global financial conditions. Furthermore, the natural resource index is included to control for the degree of resource richness across countries, accounting for a broad spectrum of minerals and extractive resources. By controlling for natural resource endowments, the model distinguishes between FDI that is primarily resource seeking and investment driven by broader macroeconomic and structural factors. The inclusion of global fuel prices captures the cyclical effects of commodity price fluctuations on investment decisions, particularly in resource-dependent economies.

Annex Table 3.1. Data Description¹

Macroeconomic Variables	Description	Source
Domestic GDP growth	Percentage change in the value of domestically produced goods and services (in US\$) in real term.	World Economic Outlook (WEO)
Foreign GDP growth	Percentage change in the value of GDP produced in the United States (in US\$) in real term.	World Economic Outlook (WEO)
Domestic policy rate	Rate of interest determined by the country's authorities.	Haver and country authorities
Foreign policy rate	Rate of interest in the United States.	Federal Reserve Board Fund Rate
Volatility index	A measure of global financial conditions proxied by the VIX index.	Haver
Global fuel prices	A measure of global oil prices (per barrel).	Brent/Haver
Trade openness	The sum of export and import of goods and services as a percentage of GDP. It captures the degree of integration with global markets.	World Economic Outlook (WEO)
Natural resource index	It is a dummy variable that takes the value of 1 for countries classified as resource-rich countries and 0 otherwise, allowing the model to capture structural differences in FDI patterns between resource-rich and non-resource-rich economies.	
Structural Variables		
Interest rate controls	Measure if interest rate is determined by authorities or market forces.	Fraser Institute
Credit market regulation	Measure of independence of credit markets.	Fraser Institute
Ownership of banks	Gauging the share of deposits held in privately owned banks.	Fraser Institute
Foreign currency bank account	Ease of opening and holding a foreign currency bank account.	Fraser Institute
Human Development Index		UNDP
Foreign labor presence	Regulations to hire a foreign national.	Fraser Institute
Flexible wage determination	Flexibility of wage determination.	Fraser Institute
Impartial public administration	Determination of nondiscriminatory governance.	Fraser Institute
Bureaucracy costs	Cost of business operations for administration.	Fraser Institute
Regulatory burden	Burden of regulations.	Fraser Institute
Protection of foreign assets	Safeguarding foreign-owned assets.	Fraser Institute
Property rights	Protection and prevalence of rights to own a property.	Fraser Institute
Size of government	General government consumption as a percentage of total consumption.	Fraser Institute

(continued)

Annex Table 3.1. Data Description¹ (continued)

Macroeconomic Variables	Description	Source
State ownership	Degree to which the state owns and controls capital.	Fraser Institute
Government investment	Government investment as a share of total investment.	Fraser Institute
Voice and accountability	Extent to which a country's citizens are able to participate in selecting their government.	World Governance Indicators
Political stability and absence of violence or terrorism	Measures perceptions of the likelihood of political instability or politically motivated violence, including terrorism.	World Governance Indicators
Government effectiveness	Captures perceptions of the quality of public services.	World Governance Indicators
Regulatory quality	Captures perceptions of the ability of the government to formulate and implement sound policies.	World Governance Indicators
Rule of law	The extent to which agents have confidence in and abide by the rules.	World Governance Indicators
Control of corruption	The extent to which public power is exercised for private gains.	World Governance Indicators
Trade index		
Nontariff trade barriers	Total number of NTMs (all types of NTMs included) with the same reporter, partner, product category, and year, weighted by the product trade shares corresponding to each partner country.	UNCTAD
Financial openness		
Capital controls	Control on the movement of capital and people.	Fraser Institute
Mean tariff rate	Measure based on the unweighted mean of tariff rates.	Fraser Institute
Regulatory trade barriers	Amount of tariff and nontariff barriers of trade.	Fraser Institute
Ability to track and trace consignment	Capability to monitor and trace shipments.	Fraser Institute
Competence and quality of logistics services	The competence and quality of logistics services in the country (index number ranging between 1 and 5).	World Bank
Ease of arranging competitively priced international shipments	The simplicity of organizing competitively priced international deliveries.	World Bank
Efficiency of the clearance process	The efficiency of customs and border management clearance.	World Bank
Frequency with which shipments reach consignee within expected time	The frequency of on-time shipments.	World Bank
Logistics Performance Index's overall score	The competence and quality of logistics services.	World Bank
Quality of trade and transport and transport-related infrastructure score	The standard of infrastructure associated with trade and transportation.	World Bank

Source: Authors.

Note: FDI = foreign direct investment; NTMs = nontariff measures.

¹ Data used here are compliant with the IMF rules on the use of third-party indicators in Fund reports.

The baseline model highlights key macroeconomic determinants of FDI inflows (Annex Table 3.2), with domestic GDP growth acting as a strong pull factor, signaling robust market potential and economic momentum. Conversely, foreign GDP growth operates as a push factor, where improved external conditions may divert capital away from the domestic economy toward more dynamic foreign markets.

Trade openness consistently shows a strong and positive association with FDI, underscoring the role of global integration and market accessibility in shaping investment decisions. The limited impact of short-term variables such as global fuel prices and market volatility suggests that investors are more influenced by structural fundamentals than by transient macroeconomic shocks.

The FDI attractiveness index is statistically significant in the baseline model. Its significance when included alone, coupled with the limited impact of its individual components when tested separately, highlights that a comprehensive and integrated reform strategy, where improvements across markets, institutions, and governance reinforce each other, appears more likely to create the conditions necessary to attract sustained foreign investment. The individual reform indices—such as the labor market index, product market index, financial development index, and institutional quality index—do not independently show strong effects. However, the state footprint index, when included on its own, is consistently positive and statistically significant.

Regional models shed interesting insights, which are as follows:

- In the CCA, GDP growth is a more important determinant of FDI than in the global model (Annex Table 3.3). Institutional quality significantly enhances FDI inflows, highlighting the benefits of reforms. In CCA, resource wealth strongly attracts foreign investment, supporting the resource-seeking FDI hypothesis. The positive link between trade openness and FDI underscores the transition from centrally planned economies to market-driven trade systems. However, FDI inflows to CCA economies are more sensitive to global volatility, suggesting weaker investor confidence.
- In the GCC, FDI is not significantly driven by domestic growth or fuel prices, suggesting limited resource-seeking motives (Annex Table 3.4). Unlike in the CCA and global models, reducing state dominance has a negative impact on FDI in the GCC model, perhaps reflecting the fact that government-led projects and SWFs dominate investment decisions. In addition, openness also shows a strong positive effect, highlighting the importance of liberal trade and investment policies.

To ensure the robustness of the empirical findings, this paper explores a range of alternative model specifications within the global and regional models. These include varying the definition of the state footprint variable—using different combinations of the size of government, state ownership, and public investment—to test the sensitivity of the results to different conceptualizations of state involvement in the economy (Annex Table 3.5). The analysis also excludes the UAE from the GCC regional models to assess whether the distinct structural features of the UAE economy, including its diversified investment base and unique policy frameworks, unduly influence regional models. Additional robustness checks incorporate regional dummy variables to account for unobserved heterogeneity across geographic blocs and the use of a country's share of global FDI as an alternative dependent variable to validate the consistency of the results across different FDI metrics. Finally, this paper estimates separate models for hydrocarbon-exporting and resource-rich countries to explore whether the drivers of FDI differ in resource-intensive contexts (Annex Table 3.6). Across all these specifications, the results remain stable and statistically robust, reinforcing the credibility of the baseline findings.

Annex Table 3.2. Drivers of FDI—Global Model Results

Dependent Variable: FDI Inflows	1	2	3	4	5	6	7	8
Domestic GDP growth	0.211** (0.085)	0.168** (0.071)	0.264*** (0.088)	0.242*** (0.089)	0.217*** (0.082)	0.198*** (0.076)	0.214*** (0.079)	0.199*** (0.077)
Foreign GDP growth	-0.290** (0.138)	-0.228* (0.122)	-0.292** (0.124)	-0.269** (0.125)	-0.231** (0.115)	-0.243** (0.108)	-0.239** (0.121)	-0.262** (0.132)
Domestic policy rate	0.024 (0.029)	0 (0.026)	0.008 (0.018)	0.009 (0.018)	-0.004 (0.018)	0.02 (0.023)	-0.005 (0.018)	0.022 (0.029)
Foreign policy rate	-0.145 (0.175)	-0.093 (0.142)	-0.162 (0.161)	-0.172 (0.160)	-0.102 (0.154)	-0.143 (0.145)	-0.112 (0.148)	-0.178 (0.171)
Volatility index	-0.04 (0.039)	-0.03 (0.034)	-0.026 (0.038)	-0.029 (0.036)	-0.011 (0.036)	-0.03 (0.033)	-0.019 (0.034)	-0.031 (0.040)
Global fuel prices	-0.01 (0.007)	-0.004 (0.006)	-0.007 (0.007)	-0.007 (0.007)	-0.005 (0.008)	-0.003 (0.008)	-0.003 (0.007)	-0.011 (0.007)
Openness	0.054*** (0.013)	0.054*** (0.013)	0.055*** (0.013)	0.056*** (0.013)	0.056*** (0.012)	0.054*** (0.012)	0.055*** (0.013)	0.055*** (0.013)
Natural resource index	-0.754 (0.827)	-1.103 (0.717)	-0.926 (0.799)	-0.921 (0.813)	0.051 (1.145)	-1.083 (0.778)	-0.914 (0.749)	-0.368 (0.938)
FDI attractiveness index	0.061** (0.031)							
Financial development index		0.018 (0.015)						0.014 (0.021)
Labor market index			0.033 -0.029					0.037 (0.033)
Product market index				0.015 (0.021)				0.039 (0.047)
State footprint index					0.082** (0.035)			0.052* (0.029)
Institutional quality index						0.026 (0.036)		-0.082 (0.068)

Annex Table 3.2. Drivers of FDI–Global Model Results (continued)

Dependent Variable: FDI Inflows	1	2	3	4	5	6	7	8
Trade Index							0.006	–0.012
							(0.019)	(0.032)
Constant	–3.013	–0.917	–1.821	–0.48	–6.196*	–1.056	–0.322	–3.814
	(2.615)	(1.784)	–2.626	(2.072)	(3.196)	(2.338)	(1.824)	(3.068)
Observations	1162	1396	1282	1288	1448	1528	1395	1162
Number of Countries	71	83	78	82	82	86	84	71
R ² (Overall)	0.307	0.294	0.291	0.284	0.275	0.264	0.28	0.314
Random-Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Authors' calculations.

Note: FDI = foreign direct investment. Standard errors in parentheses.

* $p < .1$, ** $p < .05$, *** $p < .01$.**Annex Table 3.3. Drivers of FDI–CCA Model Results**

Dependent Variable: FDI Inflows	1	2	3	4	5	6	7	8
Domestic GDP growth	0.383***	0.437***	0.423***	0.448***	0.401***	0.421***	0.428***	0.1390
	(0.027)	(0.073)	(0.053)	(0.079)	(0.115)	(0.130)	(0.048)	(0.244)
Foreign GDP growth	–0.396*	–0.2150	–0.1950	–0.2240	–0.587***	–0.374**	–0.2020	–0.1170
	(0.225)	(0.261)	(0.299)	(0.255)	(0.184)	(0.175)	(0.297)	(0.382)
Domestic policy rate	0.322***	0.1230	0.1120	0.1230	0.2860	0.1370	0.1290	0.1330
	(0.121)	(0.118)	(0.091)	(0.118)	(0.231)	(0.091)	(0.127)	(0.100)
Foreign policy rate	–1.947***	–1.346***	–1.233***	–1.333**	–1.4070	–1.1070	–1.346***	–1.466***
	(0.596)	(0.512)	(0.270)	(0.548)	(1.060)	(0.727)	(0.491)	(0.431)
Volatility index	–0.2080	–0.1540	–0.1440	–0.1600	–0.251*	–0.220**	–0.1500	–0.0920
	(0.148)	(0.117)	(0.103)	(0.116)	(0.137)	(0.108)	(0.106)	(0.091)
Global fuel prices	–0.0630	–0.0690	–0.0700	–0.0670	–0.0300	–0.0410	–0.0700	–0.0490
	(0.039)	(0.046)	(0.049)	(0.047)	(0.037)	(0.045)	(0.047)	(0.034)
Openness	0.198**	0.103*	0.1100	0.100*	0.1070	0.106*	0.103*	0.280**
	–0.1000	–0.0550	–0.0740	–0.0530	–0.0870	–0.0560	–0.0570	–0.1430
Natural resource index	2.199***	3.413***	3.854*	3.650***	5.290*	5.042**	3.072**	3.6880
	(0.718)	(0.965)	(1.974)	(1.006)	(3.012)	(2.321)	(1.455)	(3.398)

(continued)

Annex Table 3.3. Drivers of FDI–CCA Model Results (continued)

Dependent Variable: FDI Inflows	1	2	3	4	5	6	7	8
FDI attractiveness index	–0.0330 (0.079)							
Financial development index		–0.021 (0.052)						–0.364*** (0.077)
Labor market index			–0.135 (0.390)					–0.771** (0.358)
Product market index	–	–	–	0.048 (0.090)				0.2100 (0.381)
State footprint index	–	–	–		0.075 (0.052)			0.251*** (0.086)
Institutional Quality index						0.302*** (0.087)		–0.5790 (0.724)
Trade index							–0.042 (0.160)	0.131 (0.155)
Constant	–0.891 (2.638)	4.057 (5.268)	10.663 (24.513)	–0.071 (4.214)	–3.385 (7.238)	–13.065** (5.560)	4.8290 (10.352)	65.126*** (20.845)
Observations	82	101	100	101	105	151	101	82
Number of Countries	5	6	6	6.0000	5.0000	7	6	5
R ² (Overall)	0.430	0.344	0.347	0.347	0.326	0.303	0.345	0.656
Random-Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Authors' calculations.

Note: CCA = Caucasus and Central Asia; FDI = foreign direct investment. Standard errors in parentheses.

* $p < .1$, ** $p < .05$, *** $p < .01$.

Annex Table 3.4. Drivers of FDI–GCC Model Results

Dependent Variable: FDI Inflows	1	2	3	4	5	6	7	8
Domestic GDP growth	0.0600 (0.093)	−0.0270 (0.052)	0.0260 (0.076)	0.0050 (0.120)	−0.0400 (0.052)	0.1240 (0.113)	0.0130 (0.109)	0.0270 (0.131)
Foreign GDP growth	0.1850 (0.249)	0.2000 (0.225)	0.2090 (0.183)	0.2580 (0.225)	0.2390 (0.202)	−0.0500 (0.191)	0.1850 (0.183)	0.1970 (0.220)
Domestic policy rate	0.1690 (0.229)	0.1180 (0.234)	0.1560 (0.173)	−0.0850 (0.174)	0.1890 (0.193)	0.243** (0.106)	0.0520 (0.200)	0.4500 (0.416)
Foreign policy rate	−0.4860 (0.600)	−0.0530 (0.414)	−0.2880 (0.311)	0.0450 (0.412)	−0.1460 (0.291)	−0.2250 (0.168)	−0.0390 (0.277)	−0.7900 (0.745)
Volatility index	0.0490 (0.084)	0.0550 (0.088)	0.0530 (0.066)	0.0810 (0.075)	0.0440 (0.068)	0.0070 (0.042)	0.0630 (0.052)	0.0410 (0.056)
Global fuel prices	0.0090 (0.012)	0.0120 (0.011)	0.0040 (0.010)	0.0040 (0.011)	0.0100 (0.011)	0.0030 (0.014)	0.0050 (0.012)	0.0120 (0.011)
Openness	0.042*** (0.008)	0.024** (0.010)	0.0190 (0.018)	0.029** (0.014)	0.0130 (0.009)	0.024* (0.014)	0.0270 (0.022)	0.0280 (0.028)
FDI attractiveness index	−0.377** (0.191)							
Financial development index		0.025 (0.068)						−0.092 (0.061)
Labor market index			0.026 (0.069)					0.0660 (0.053)
Product market index	- (0.081)	-	-	−0.023 (0.067)				−0.0380 (0.081)
State footprint index	- (0.036)	-	-		−0.067* (0.037)			−0.070* (0.036)
Institutional quality index						0.003 (0.137)		−0.6290 (0.467)
Trade index							−0.024 (0.107)	0.07 (0.188)

(continued)

Annex Table 3.4. Drivers of FDI–GCC Model Results (continued)

Dependent Variable: FDI Inflows	1	2	3	4	5	6	7	8
Constant	21.731*	–4.749	–3.016	–1.714	4.322	–0.894	–0.613	33.9240
	(11.736)	(8.495)	(3.031)	(2.686)	(3.171)	(5.463)	(5.594)	(22.205)
Observations	67	88	90	86	92	114	93	67
Number of Countries	5	6	6	6	5	6	6	5
R^2 (Overall)	0.368	0.254	0.261	0.312	0.383	0.263	0.249	0.437
Random-Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Authors' calculations.

Note: FDI = foreign direct investment; GCC = Gulf Cooperation Council. Standard errors in parentheses.

* $p < .1$, ** $p < .05$, *** $p < .01$.

Annex Table 3.5. Drivers of FDI-State Footprint Model Results

Dependent Variable: FDI Inflows	(A)			(B)			(C)		
	1	2	3	4	5	6	7	8	9
Domestic GDP growth	0.209** (0.082)	0.224*** (0.079)	0.197** (0.079)	0.211** (0.085)	0.196** (0.078)	0.199*** (0.076)	0.211** (0.085)	0.222*** (0.083)	0.202*** (0.076)
Foreign GDP growth	-0.270** (0.133)	-0.230** (0.111)	-0.244* (0.133)	-0.291** (0.138)	-0.224** (0.113)	-0.262** (0.131)	-0.292** (0.139)	-0.237** (0.115)	-0.265** (0.132)
Domestic policy rate	0.025 (0.029)	0.001 (0.019)	0.027 (0.030)	0.023 (0.029)	-0.004 (0.018)	0.02 (0.029)	0.023 (0.029)	-0.004 (0.018)	0.021 (0.029)
Foreign policy rate	-0.16 (0.171)	-0.115 (0.149)	-0.182 (0.168)	-0.146 (0.175)	-0.094 (0.149)	-0.179 (0.172)	-0.142 (0.173)	-0.104 (0.154)	-0.181 (0.171)
Volatility index	-0.041 (0.038)	-0.015 (0.036)	-0.032 (0.040)	-0.04 (0.039)	-0.008 (0.035)	-0.031 (0.040)	-0.04 (0.039)	-0.013 (0.036)	-0.033 (0.040)
Global fuel prices	-0.01 (0.007)	-0.006 (0.008)	-0.011 (0.007)	-0.009 (0.007)	-0.003 (0.008)	-0.01 (0.007)	-0.009 (0.007)	-0.005 (0.008)	-0.011 (0.007)
Openness	0.054*** (0.013)	0.058*** (0.011)	0.056*** (0.013)	0.054*** (0.013)	0.054*** (0.012)	0.054*** (0.013)	0.054*** (0.013)	0.056*** (0.012)	0.056*** (0.013)

(continued)

Annex Table 3.5. Drivers of FDI–State Footprint Model Results (continued)

Dependent Variable: FDI Inflows	(A)			(B)			(C)		
	1	2	3	4	5	6	7	8	9
Natural resource index	–1.026 (0.812)	–0.045 (1.004)	–0.534 (0.876)	–0.746 (0.833)	–0.235 (1.062)	–0.524 (0.898)	–0.706 (0.836)	0.035 (1.170)	–0.39 (0.964)
FDI attractiveness index	0.055 (0.038)			0.066** (0.029)			0.066** (0.029)		
Financial development index			0.018 (0.020)			0.014 (0.021)			0.015 (0.021)
Labor market index			0.035 (0.033)			0.036 (0.033)			0.036 (0.033)
Product market index			0.03 (0.045)			0.041 (0.047)			0.041 (0.047)
State footprint index		0.096*** (0.037)	0.062* (0.032)		0.063** (0.027)	0.042* (0.023)		0.065** (0.029)	0.04 (0.026)
Institutional quality index			–0.051 (0.067)			–0.082 (0.068)			–0.096 (0.068)
Trade index			–0.014 (0.032)			–0.012 (0.032)			–0.013 (0.032)

Dependent Variable: FDI Inflows	(A)			(B)			(C)		
	1	2	3	4	5	6	7	8	9
Constant	-2.594 (3.106)	-7.108** (3.537)	-5.582 (4.048)	-3.29 (2.435)	-4.749* (2.556)	-3.814 (3.068)	-3.093 (2.352)	-5.018* (2.857)	-2.47 (2.842)
Observations	1192	1492	1192	1162	1494	1162	1167	1448	1162
Number of Countries	73	84	73	71	84	71	71	82	71
R ² (Overall)	0.306	0.282	0.314	0.307	0.268	0.314	0.308	0.273	0.314
Random-Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Authors' calculations.

Note: State footprint is defined in three alternative ways: (A) size of government and state ownership, (B) size of government and government investment, and (C) state ownership and government investment. FDI = foreign direct investment. Standard errors in parentheses.

* $p < .10$, ** $p < .05$, *** $p < .01$.

Annex Table 3.6. Drivers of FDI–Resource-Rich Countries Model Results

Dependent Variable: FDI Inflows	1	2	3	4	5	6	7	8
Domestic GDP growth	0.421*** (0.136)	0.350** (0.137)	0.513*** (0.147)	0.514*** (0.144)	0.379*** (0.103)	0.398*** (0.122)	0.444*** (0.138)	0.339*** (0.078)
Foreign GDP growth	–0.269* (0.149)	–0.175 (0.128)	–0.237** (0.109)	–0.232** (0.108)	–0.088 (0.120)	–0.108 (0.093)	–0.174 (0.109)	–0.155 (0.128)
Domestic policy rate	0.197 (0.133)	–0.053 (0.073)	0.119 (0.104)	0.119 (0.106)	–0.074* (0.038)	0.123 (0.099)	–0.058 (0.064)	0.12 (0.091)
Foreign policy rate	–0.654** (0.280)	–0.335 (0.208)	–0.557*** (0.209)	–0.628*** (0.220)	–0.58 (0.396)	–0.498 (0.382)	–0.400* (0.224)	–0.855** (0.379)
Volatility index	–0.087 (0.072)	–0.054 (0.065)	–0.032 (0.068)	–0.024 (0.075)	–0.009 (0.076)	–0.005 (0.067)	0 (0.070)	–0.082 (0.069)
Global fuel prices	–0.017 (0.023)	–0.007 (0.020)	–0.007 (0.023)	–0.006 (0.021)	0.001 (0.018)	–0.013 (0.024)	0.002 (0.019)	–0.016 (0.018)
Openness	0.038 (0.026)	0.046 (0.031)	0.043* (0.025)	0.047* (0.027)	0.095** (0.038)	0.078* (0.041)	0.057* (0.030)	0.067* (0.035)
Natural resource index								
FDI attractiveness index	0.068 (0.065)							
Financial development index		0.007 (0.022)						0.00 (0.035)
Labor market index			–0.043 (0.074)					0.054 (0.068)
Product market index				–0.048 (0.072)				0.092 (0.068)
State footprint index					0.218** (0.087)			0.136** (0.061)

Annex Table 3.6. Drivers of FDI–Resource-Rich Countries Model Results (continued)

Dependent Variable: FDI Inflows	1	2	3	4	5	6	7	8
Institutional quality index						–0.175		–0.200
						(0.179)		(0.188)
Trade Index							–0.084	–0.078
							(0.076)	(0.073)
Constant	–2.161	–0.744	2.07	0.889	–19.401**	4.42	2.026	–1.868
	(4.415)	(1.964)	(6.138)	(3.676)	(7.561)	(7.686)	(5.257)	(7.130)
Observations	253	315	322	315	387	417	347	253
Number of Countries	17	21	21	22	23	24	22	17
R ² (Overall)	0.181	0.126	0.148	0.159	0.203	0.114	0.137	0.255
Random-Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Authors' calculations.

Note: FDI = foreign direct investment. Standard errors in parentheses.

* $p < .1$, ** $p < .05$, *** $p < .01$.

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