Exploring the Drivers of Trade Openness in GCC Economies: New Insights from Theory-Driven Approach

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Abstract

This research examines the macro factors affecting trade openness (TOP) in GCC economies from 1995 to 2020 using advanced panel regression methods, including Fully Modified Ordinary Least Squares (FMOLS), Pedroni cointegration, and Granger causality. The study investigates the relationships between TOP and six key variables: trade reserves (TR), total investment (TIN), trade balance (TB), per capita income (PCI), gross national savings (GNS), and net FDI flow. Findings reveal that TOP is unidirectionally influenced by TIN, TB, PCI, and GNS, while TOP Granger causes only FDI. Regression analysis shows that PCI and FDI are the most significant determinants, with coefficients of 5.35 and 2.74, respectively, whereas TR has a smaller effect size. The study underscores the importance of trade policy in promoting openness, suggesting that policies encouraging FDI, export promotion, and reduced trade barriers can enhance trade openness and improve the trade balance. Infrastructure investments are also crucial for boosting trade capacity and competitiveness, offering valuable guidance for policymakers in the GCC and beyond.

Keywords: Trade openness, Trade drivers, International trade, Granger causality, GCC

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