

Are Foreign Securities a Safe Haven for a Rentier Economy: A Survey Perspective

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Perspective

This study investigates the perspectives of policy makers and non-policy makers of a rentier economy of Saudi Arabia, the largest oil producer, towards investing the reserves, initially, in the financial sector and, particularly fixed-income securities: government bonds and T-bills. Furthermore, the study explores experts' views in regard to the optimal alternative to investment in the financial sector.

The outcomes of the research show that, despite the uncertainty and instability featured the present financial investment scene, manifested by the current economic disaster, balance sheet recession, market crunches and banking collapse in different parts of the world, the majority of the contributors (Saudi policy makers and non-policy makers) nevertheless trusted in the financial sector as a shelter for the reserves of Saudi Arabia. They believed that sovereign bonds and T-bills are the most secure financial instruments in which to invest the accumulated revenues during the current decade from oil prices.

However, findings are not in line with the rigid theoretical and empirical evidence, both groups of participants suggested a non-

financial optimal alternative sector for investment. The findings show that the participants favoured the development of the non-oil sector, particularly high value-added-technology such as solar technologies, together with development of human resources and manufacturing industry. The participants pointed out the importance of diversifying the investment portfolio away from high risk/high return securities. Nevertheless, participants recommended opening the horizon for more diversification of the Saudi economy, to wean it off reliance on oil through financial and non-financial alternatives.

Facts and Framework Model

In order to answer the research questions, a qualitative methodology has been employed to collect the data from expert interviews and structured survey approaches. There were two samples of participants in this research (Figure 1). The first group were experts, represented by 5 policy makers from different government and non-governmental institutions (Tables 1-4). The second sample, for the questionnaire, comprised 50 non-policy makers, representing specialists: academics and financial personnel in Saudi Arabia.

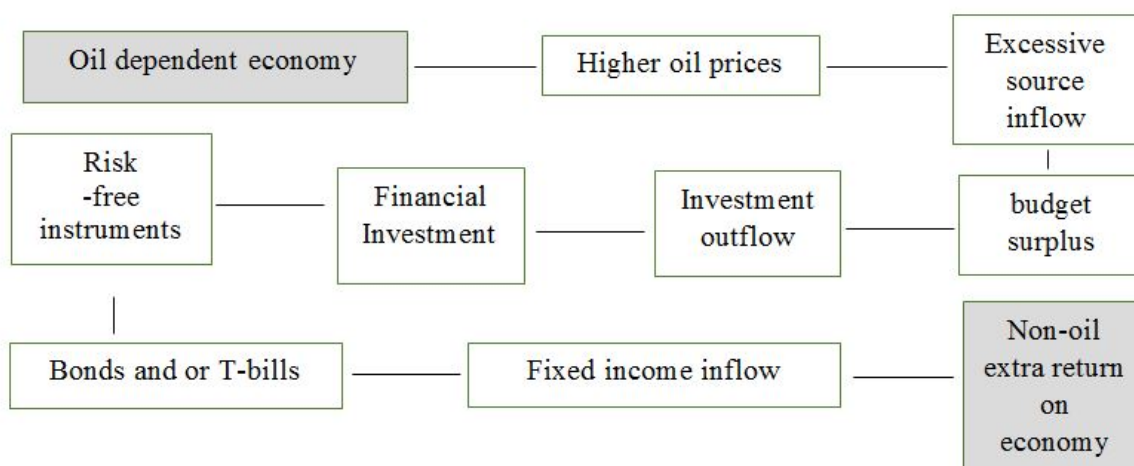


Figure 1: A foreign financial channel investment framework from higher oil prices of rentier economies.

Factor	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
investing reserves in the financial sector can be a secure choice	0	9	14	20	7
foreign financial securities can be a secure choice	3	8	18	19	2

bonds and T-bills can be a secure choice	3	5	11	24	7
U.S. bonds and T-bills can be a secure choice	5	10	14	18	3
Non-U.S. bonds and T-bills can be a secure choice	3	11	20	14	2

Table 1: Specialists' responses towards investing reserves in foreign financial free-risk instruments.

Factor	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
Diversified foreign securities can be a secure choice	1	4	5	19	21
The domestic financial sector can be a secure choice	2	7	13	23	5
The domestic bonds budget is a more secure choice	1	10	18	17	4
Islamic bonds (Sukuk) are more secured choice	0	7	14	22	7
Expanding local financial markets is more secured	1	4	13	27	5

Table 2: Specialists' responses about the secure choice for investing reserves in foreign financial securities.

Factor	YES	NO	Neutral
Investing reserves in the financial sector is a secure choice	3	1	1
Foreign financial securities can be a secure choice for investing reserves	2	0	3
Risk-free/low risk instruments such as bonds and T-bills can be a secure choice	3	0	2
Do you believe that budget surplus reserve invested in the financial sector is a diversification policy for the income of the national economy?	4	0	1
Do you think that creating a Sovereign Wealth Fund to invest Saudi reserves in financial assets can be a diversification strategy for the economy?	4	0	1

Table 3: Expert's responses of investing financial reserves in foreign financial securities.

	Factor	Agree responses	Number	%
1	Financial sector is characterized by	Uncertainty and instability	37	74
		Certainty and stability	7	14
		None of the above	6	12
2	Financial securities are featured by	Incalculable risk instruments	6	12
		Calculable risk instruments	14	28
		Risky instrument but can be calculable	29	58
		None of the above	1	2
3	Low/risk-free securities such as bonds and T- bills are	Calculable instruments but under uncertainty risk	8	16
		Calculable instruments but market instability risk factors	14	28
		Calculable instruments but uncertainty and instability risk	14	28
		None of the above	14	28
4	Uncertainty in the financial sector relates to	Economic factors	2	4
		Political factors	8	16

		Regulation factors	3	6
		All the above	37	74
5	Budget reserve can be secured to invest in:	Diversified securities basket of high and low risks	29	58
		Financial securities with low risk and low return	14	28
		Financial securities with high risk and high return	0	0
		None of The above	7	14
6	Budget reserves is supposed to be for:	Diversifying economy income	21	42
		Expansion oil and other related sectors	1	2
		Saving as reserves	3	6
		All the above	25	50
7	Budget reserve can be secured to invest in:	Direct investment in the real economy	38	76
		Investment in the financial industry services such as acquisitions and investment funds, etc.	6	12
		Other	6	12
8	Budget reserve can be secured to invest in:	Domestic real economy	9	18
		Regional real economy	2	4
		Foreign real economy	6	12
		All the above	33	66
9	Budget reserve can be secured to invest in:	Infrastructure development	12	24
		Human resource development	9	18
		Agriculture	0	0
		Manufacturing (Industry)	16	32
		Trade and Business	2	4
		Technology and knowledge-based investment	11	22
10	That reserve investment decision has to consider:	The national security	2	4
		The economic security	2	4
		The national wealth protection purposes	3	6
		All the above	43	86

Table 4: Participants' responses towards investing reserves as foreign financial free-risk instruments.