

# The Dynamics of Foreign Direct Investment in Economy of Saudi Arabia

Mohammad Naquibur Rahman\*

Department of Business, Umm Al-Qura University, Mecca, Saudi Arabia

## Abstract

The present research paper is to investigate the futuristic dynamics of resurgence of the economy of Saudi Arabia in the wake of the introduction of Foreign Direct Investment (FDI) creating high impact particularly on GCC countries and generally on the world. It is strongly believed among the economists of the world that FDI is the irreversible impact of globalization and liberalization in the 21st Century. It goes without saying that the impact of FDI can be measured through the economics tools. Rather than while dealing with this subject, other factors also affect the behavior of economic dividends in the process of implement the FDI especially infrastructure of the country, geo-political position of the country and its clout over the world's financial institutions apart from domestic governance of the country. The very FDI plays a very significant role in ensuring the behavior of Gross Domestic Product (GDP) of the country, taking the country towards trade surplus destination and removing unemployment by creating jobs. The main conclusion of the study sheds light over the inflow of FDI and determining the GDP and taking Saudi Arabia towards balanced trade players in the world.

**Keywords:** Foreign investment • Economic growth • Export • Liberalized economy • Employment

## Introduction

The introduction of liberalization of economy of Saudi Arabia starts with the accession to the World Trade Organization (WTO) in 2005. The association with the WTO paved the way to get benefitted from the liberalized access to various foreign markets and led various reforms in its economic governance.

## Background

This research is being carried out with an objective to analyze the economic impact of Foreign Direct Investment (FDI) on the economy of Saudi Arabia and its ripple effect on the world. FDI has the potentiality to unleash many direct and indirect effects on the domestic economy that have to be understood very meticulously.

There is no iota of doubt that the boundaries of nations are melting away in this era and whole credit goes to the globalization. We can elaborate in other words, globalization stands for internationalization that is the phenomenon to create interdependence among countries. The world had entered the era of synergy and cooperation among the members of the world. In the present business imperatives, companies are bound to explore market outside of their national boundaries that leads the world towards globalization. In this direction has contributed economics by identify the root cause that leads firms

to internationalize. Different countries have different imperatives to opt the path of globalization. On the one side, the developed countries have so much production capacity that cannot be consumed by their own domestic market and on the other side under developed and developing countries do not have world class technology that cater the domestic market to fulfill the aspiration of their citizens and countries as well [1].

In order to streamline and administer the inflow of FDI, the Kingdom of Saudi Arabia has constituted a body i.e. the Saudi Arabian General Investment Authority (SAGIA) functioning as a foreign investment regulator. This step has boosted the governance in administrating economic activities and periodic and systematic evaluation the scope and treatment of FDI with multi-dimensional characters. Keeping in view of incorporating the imperatives of international foreign institutions, issues ranging from protection of intellectual property rights, foreign investment in telecom sector, levels of tariff and duties benchmark and dispute resolution mechanism and wide range of obligations imposed by WTO on trade were streamlined by Saudi Arabia. With a view to protect the interest of the country, while finalizing "Negative List" that restricts the investment by non-Saudi Nationals in the field of the upstream hydrocarbon sector and the ownership of land in the holy cities of Makkah and Medina. The Kingdom has shown some leniency aiming at alignment with the aspiration of the WTO so that smooth foreign

\*Address for correspondence: Dr. Mohammad Naquibur Rahman, Department of Business, Umm Al-Qura University, Mecca, Saudi Arabia, E-mail: uqu.naquib@gmail.com

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markets are made accessible to Saudi Arabia; it gave a consent allowing foreign direct investment in distribution services and related wholesale and retail trade. This permission for foreign direct investment was limited at the level of 51% and later it touched to 75% [2-4].

Taking the strive to liberalize the economy, a permission has been granted to access to the country's equity market i.e. the Saudi Stock Exchange (Tadawul) that facilitated the foreign financial institutions to play a pivotal role in harnessing the dynamics of the economy. Before 2008, apart from GCC investors, other investors were prohibited to purchase equities in Saudi Stock Exchange. Taking a bold step, the Capital Market Authority (CMA) has introduced equity swap arrangement that paved the way for foreign investors to purchase the economic benefits. All these appropriate steps helped Saudi Arabia stand with the global financial governance hoping to take the economy of Saudi Arabia at par with one of the best economies of the world [5,6].

## Problem discussion

As described in the background, Saudi Arabia has taken many significant actions to align with the international economic obligations to take the country in the modern era and Foreign Investment Act enacted by the Saudi Arabia General Investment Authority (SAGIA) in the year 2000, which has given new dynamics to explore international market and accommodate aspirations of investment by international institutions. Mohamed and Saeed mention that SAGIA has successfully reduced red tape Saudi bureaucracy that gave impetus to be diverse to stand in the world economy [7]. At present, foreign investors have bearing the brunt of some economic barriers as not having full ownership on the assets (land, plant and buildings); there is a need to give full benefits to the foreign investors and serves good incentives to Saudi investors a better foreign economic system is needed to create win-win situation for both foreign investors and domestic investors that leads towards a synergy for mutual benefits. In this study, diversity of civilization characteristics between Saudi Arabia and the West cannot be overlooked; the diversity can be utilized as a model of cooperation if potentiality of Saudi Arabia and the West is harnessed without damaging its originality. All these aspects will have to be understood; a better investment strategy is needed to be adopted that encourages the outflow of FDI from foreign investors to Saudi Arabia with sustainability fulfilling the aspirations of both Saudi Arabia and west.

## Purpose

The study is with the purpose to ascertain the bottlenecks in present foreign direct investment between the Saudi investors and the Western investors and to suggest them to adopt the right strategy to lead a happy and continuing economic relation that harnesses the dynamics of resurgence of the economy of Saudi Arabia.

## Methodology

The Kingdom came into existence after a revolution that led wide political and economic ramification in the world especially in the Arab world. Understanding the world aspiration to become a civilized and modern state, in 1932 King Abdul Aziz took many initiatives and took the Kingdom of Saudi Arabia towards a modern country; it has been

ruled and governed by six leaders taking the reform towards modern and liberal state. These leaders recognized the significance of a continuous process of reform and established a structure of a modern state that could stand with the West. Their efforts did not go in vain and the country is enjoying the prestige of being a member of liberal, modern and progressive world [8].

The Saudi Arabian economy is touching to new heights with the pace of time and estimated US\$ 683 by 2018 (GDP Nominal) and there is no iota of doubt that Saudi Arabia is one of the best destination for foreign investors. The inflow of foreign money is very conducive for creating jobs in the Kingdom and giving an economical edge in the GCC.

It is also pertinent to mention that when the West has suffered economic recession, Saudi Arabia has enjoyed a prestige of economic independence. With the advent of FDI, the economy of Saudi Arabia has managed to pace with the national aspiration to secure a saved future and it has flourished the culture of supermarket, hypermarket, convenience stores, discounts stores, and other retail outlets etc.

## Literature Review

There is no economy could live in ivory and stand on false ego of being economically efficient as the dynamics of the world economy keeps on changing and that could bring turmoil anytime in any country's economy. The United States of America has suffered a huge dent in its economy during economic recession in 2008 and its impacts continued for many years. On the other side Turkey's currency i.e. Lira itself is bearing the brunt of devaluation of its currency against dollar. Today the world economy is interdependent and deeply interwoven. If one particular economy is facing some economic problems, other economy may also feel the heat of upheaval and may face unprecedented challenge in the history of its economy. In this context, it is very advisable to get connected with the world's dynamics in every sphere and economy is not an exception. It is well known that America and China, at present, are making inroads into trade war that even could jolt many other countries. It can be said that no country can stand alienated and rather, there is a need of close integration, cooperation, synergy and aligning with the world economic governance for leading its economy towards prosperity and progress and even saving its own ship from the troubled water, if needed. In brief, reviews and study of any economy plays a significant role to be dynamic and progressive on the face of hardship and even in smooth sailing towards ones destination [10].

The Neoclassical Growth Models recognizes the significance of FDI as a key factor that boosts economic activities and helps in accelerating economic development. Under the neoclassical Growth Model mainly focuses on external factors that influence the economy of any country. It opines that influences outside the economy play a pivotal role in determining success of any economy. It carries the opinion that without meeting continuous improved and motivated salary against the labour of employees and dynamic technology, economic growth will suffer from fatal blow in the long run. Thus, for making any economic dynamic, a better economic system is needed and it could be achieved by enhancing its investment, motivated employees and technological advancement. However, this growth

model has borne the criticism for its limitation to explain how the technological advancement are turned into reality; it has been acclaimed for unfolding the role of investment in human capital, knowledge that leads to innovation as key contributors to economic growth.

Atef Saad Alshehry studied "Foreign Direct Investments And Economic Growth in Saudi Arabia and has suggested that paradigm shift in the policy of foreign direct investment taken by Saudi Arabia has paved the way for joining the ring group of developed economies of the world. The study is very significance as it deals with the scope and treatment of FDI in context of Saudi Arabia's present and futuristic economical dimension. It has dimension of keeping in mind the different researches that have been carried out in order to assess the behavior of the FDI in GCC especially Saudi Arabia and its relevance in the economic governance of the world. During the study, he suggested that in the wake of world economic imperatives, the step taken by Saudi Arabia would strengthen its economy by creating jobs and as well as technology and technological spirits in the Kingdom. He further suggested that the FDI in Saudi Arabia would help it enjoy the compatibility with the world economy and help in getting integrated into the world market.

Using research acumen, Haga Elimam has studied "Determinants of Foreign Direct Investment in Saudi Arabia, emphasized on the necessity of FDI in Saudi Arabia and concluded and it was the demand of the time to allow FDI by Saudi Arabia in its economy to get entry into the world market and help it in availing the opportunity for liberal economy of the world. The study has very successfully studied the negative and positive impact of reforms brought by Saudi Arabia through an analytical approach. The study shows remarkable advantages.

A titled study i.e. "Foreign Direct Investment in Saudi Arabia, a case study of two Swedish firms" carried out by Emmanuel N. Chah has identified the advantage and disadvantage of foreign direct investment in Saudi Arabia for Swedish firms. He advocates for FDI in Saudi Arabia with a forecasting long term benefits in terms of stability of the economy. He suggests that FDI helps in getting connected to other major markets. He further says that it also encourages to bring about reform in the business governance and offers opportunity to invest in other firms worldwide. His further suggestion is related to the perception created in the mind of customers being the product of Swedish firms.

A study has been carried out under the title i.e. "The Impact of Foreign Direct Investment on Saudi Arabia" by Jawahar Abdulrahim with an objective to weigh the benefits of FDI in Saudi Arabia and to draw the line of FDI that benefits Saudi Arabia. He has tried to ascertain the extent that is the most ideal to be allowed for FDI. She has some serious reservation about 100% FDI by Saudi Arabia keeping in view the present economy and futuristic dimension of it. She suggests that Saudi Arabia is very different from the Western countries so the same mechanism is 100% is not compatible. She further suggests that Saudi Arabia should adopt a customized policy for FDI in Saudi Arabia [11,12].

Kothari lays emphasis or research methodology that guides to study a fact and concludes the result scientifically that substantiates the observation and suggestion that could be benchmark for

industries and institutions to take effective steps to achieve the economic goal efficiently and effectively.

Bryman and Bell suggest that the quantitative research stands for the analyzing data and thereof its findings. Under this process, data are converted into numerical form and analysis is done statistically. In other words, under this process, numerical interpretation of data is done. On the other hand, in Qualitative Research, subjective interpretation of data is done. It lays emphasis on opinions and descriptive interpretation. This method is used for more complex study. For better understanding, qualitative research is preferred when perception, attitude, motivation and understanding is examined or investigated.

Research Design is conceived as a systematic plan and frame of study in order to reach an authentic conclusion following the scientific analysis of data. According to Sachdeva, there are two major designs i.e. explanatory and descriptive. On the one hand, the explanatory design tries to find the reason behind a phenomenon that is taking place affecting industry. It is deserved to be noted that it is based on less structured format and comparatively flexible. Furthermore, the descriptive design tries to explain data of any phenomena that is being studied. To a great extent, it is very accurate and authentic in nature. For weighing the advantages and disadvantages of FDI, descriptive design is more appropriate.

Fundamentally, source of data collection are two kinds i.e. through primary and secondary data. Primary data stand for the first hand information that researchers get after experiment under certain projects. Secondary data is that, that are collected from any other companies, agencies or certain governments. In that research of FDI, the secondary data from different research institutions, firms, web sites and research are being used (Figure 1).

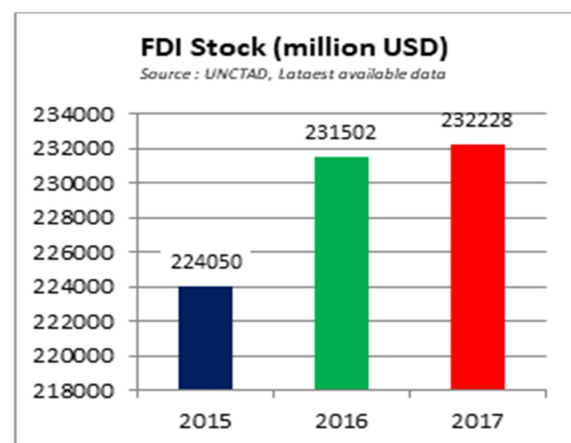


Figure 1. FDI stock in percentage in different years.

## Discussion

In brief, all facts and figures speak that Saudi Arabia is still a dynamic destination for foreign direct investment but still there are something that have serious ramifications on the economy. There has been a great improvement its economic dynamics in the last 30 years, but in the wake of geo-political upheavals' and protectionism in the form of Saudiazation, it may drift the world business communities from its charms. The presence of the West and other international entities are sign of its own longevity and its clout over the economic hemisphere of the world. This fact cannot be ignored that the West and Saudi Arabia is interdependent and mutually accommodation of

interests would create an indelible impact in strengthen the economies of each other. FDI in the KSA can be observed very clearly the Joint venture forms while foreign direct investments are likely to pick up the pace after the imposition of a New Investment Law permitting these kinds of investments. It is observed that the top 3 countries realized that the value of FDI to the KSA were the USA, Japan and the United Kingdom where the USA was by far the leading source of FDI both in terms of Contracted and principal investment.

## Conclusion

It can be suggested that the government of Saudi Arabia should be liberalized financial institutions up to the some extent and must offer different kinds of relaxation in taxes for opening new business to support foreign investments. Furthermore, new economic policy is required to attract new investors keeping in view of to give boost to economic growth and foreign investments in the kingdom.

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