

A review of the factors affecting FDI inflow in Saudi Arabia: A focus on the non-oil sector

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Abstract

The aim of this review was to gain insights into the factors affecting FDI inflow in Saudi Arabia, especially, in the non-oil sector. The literature relevant to the aims of this study was searched using the keywords, “Saudi Arabia”, “FDI”, “Factors”, and “Non-Oil”. A total of 5 papers were reviewed to address the aims of this research. A review of the relevant literature came up with the following findings and recommendations: One of the factors affecting the FDI inflow in Saudi Arabia is the attitudes of the managers and enterprises towards FDI. Encouraging a more positive attitude towards FDI can be beneficial for the Saudi government.; The size of the source country, the distance of the source country from Saudi Arabia, and high per capita income of the source country were found to be important determinants of the FDI inflow in Saudi Arabia. Saudi Arabia can strategically target such countries to encourage more FDI inflows.; Government expenditure is another driver of FDI in Saudi Arabia. Higher levels of government expenditure will translate to more FDI inflows in the country.; Some other drivers of FDI are the cost factors, market factors, infrastructure and technological factors, political and legal factors, and social and cultural factors. The Saudi government can pay attention to these factor and make the environment mode conducive for countries to invest in Saudi.; and The presence of multi-national companies (MNC) increases the FDI attractiveness of Saudi Arabia. Therefore, Saudi government can encourage MNCs to establish themselves on the country. The findings from this review are a valuable contribution to the literature associated with FDI inflows in Saudi Arabia and should inform the policy makers and other stakeholders of the Saudi economy.

Keywords: Saudi Arabia, FDI, Factors, Non-Oil

Introduction

According to Investopedia (2018), “Foreign direct investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country. Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets, including establishing ownership or controlling interest in a foreign company. Foreign direct investments are distinguished from portfolio investments in which an investor merely purchases equities of foreign-based companies.” FDI is important for all countries as it promotes local jobs and stimulates the economy.

Saudi Arabia is a Middle Eastern country bordered by Jordan, Kuwait and Iraq in the north and Oman and Yemen in the south. The population of Saudi Arabia is over 32 million and Arabic is the official language (OPEC, 2018). According to OPEC (2018), “Saudi Arabia possesses around 18 per cent of the world’s proven petroleum reserves and ranks as the largest exporter of petroleum. The oil and gas sector accounts for about 50 per cent of gross domestic product, and about 70 per cent of export earnings.” The natural resources of oil and gas are a limited resource and the Saudi government has made conscious efforts to develop other industries and diversify

into other sectors. One of the ways to promote economic growth is to encourage FDI inflow in the country, especially, in the non-oil sector.

The aim of this review is to gain insights into the factors affecting FDI inflow in Saudi Arabia, especially, in the non-oil sector. The findings from this review are expected to inform the policy makers and other stakeholders of the Saudi economy.

Methodology

The Google Scholar database was utilized in this review. The literature relevant to the aims of this study was searched using the keywords, “Saudi Arabia”, “FDI”, “Factors”, and “Non-Oil”. The search yielded a large number of results. The papers from the first 4 pages of the search results were shortlisted for a review and out of these 5 papers were reviewed to address the aims of this research. The findings from the review are summarized in the subsequent section.

Review

Ramady and Saeed (2007) studied the strategic move of encouraging FDI in the Saudi Arabian context. The authors surveyed managers and enterprises in Saudi Arabia to understand the current status of FDI. The results from the study found that Saudi managers generally welcome FDI into the country, but they do retain ambivalent attitudes toward its perceived benefits. This indicates that one of the factors affecting the FDI inflow in Saudi Arabia is the attitudes of the managers and enterprises towards FDI. Encouraging a more positive attitude towards FDI can be beneficial for the Saudi government.

Roberts and Almahmood (2009) conducted a research into the characteristics of the source country from which the FDI comes in the Saudi context. The authors compiled and analyzed data relating to the source countries that had invested into Saudi Arabia. The results of the analysis indicated that the size of the source country, the distance of the source country from Saudi Arabia, and high per capita income of the source country were important determinants of the FDI inflow in Saudi Arabia. Saudi Arabia can strategically target such countries to encourage more FDI inflows.

Al-Khathlan (2013) researched the FDI inflows and economic growth in Saudi Arabia using a co-integration analysis. The author studied data from 1980 to 2010. The results from the study found that FDI has a positive effect on the economic growth of the country and government expenditure encourages economic growth. Therefore, it can be deduced that government expenditure is a driver of FDI in Saudi Arabia. Higher levels of government expenditure will translate to more FDI inflows in the country.

Binsaeed (2009) researched the factors affecting FDI in the petrochemicals industry in the Saudi Arabian context. A review of relevant literature found that in the petroleum sector, the most important drivers of FDI are the cost factors, market factors, infrastructure and technological factors, political and legal factors, and social and cultural factors. Even though these findings are related to the oil sector, some of these may be relevant to the FDI inflow in the non-oil sector of Saudi Arabia.

In an old study by Bardesi, Davies and Ozawa (1996) studied the factors affecting FDI inflow in the Saudi petrochemical industry. The authors highlighted the benefits of FDI inflow including bringing in new technology into the country, bringing capital and access to other markets. The authors found that the presence of multi-national companies (MNC) increased the FDI

attractiveness of Saudi Arabia. Therefore, even though these findings are related to the oil sector, we can deduce that presence of MNCs is beneficial for the FDI inflows in Saudi Arabia. It would be good for the Saudi government to encourage MNCs to establish themselves in Saudi for encouraging FDI.

Conclusions and Recommendations

The aim of this review was to gain insights into the factors affecting FDI inflow in Saudi Arabia, especially, in the non-oil sector. A review of the relevant literature came up with the following findings and recommendations:

1. One of the factors affecting the FDI inflow in Saudi Arabia is the attitudes of the managers and enterprises towards FDI. Encouraging a more positive attitude towards FDI can be beneficial for the Saudi government.
2. The size of the source country, the distance of the source country from Saudi Arabia, and high per capita income of the source country were found to be important determinants of the FDI inflow in Saudi Arabia. Saudi Arabia can strategically target such countries to encourage more FDI inflows.
3. Government expenditure is another driver of FDI in Saudi Arabia. Higher levels of government expenditure will translate to more FDI inflows in the country.
4. Some other drivers of FDI are the cost factors, market factors, infrastructure and technological factors, political and legal factors, and social and cultural factors. The Saudi government can pay attention to these factors and make the environment more conducive for countries to invest in Saudi.
5. The presence of multi-national companies (MNC) increases the FDI attractiveness of Saudi Arabia. Therefore, Saudi government can encourage MNCs to establish themselves on the country.

The findings from this review are a valuable contribution to the literature associated with FDI inflows in Saudi Arabia and should inform the policy makers and other stakeholders of the Saudi economy.

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