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DETERMINANTS OF FINANCING IN EMERGING MARKETS IN SAUDI ARABIA

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ABSTRACT

The development of technology and freedom on the financial market has given rise to different opportunities in Saudi Arabia. The financing options in Saudi Arabia have been diversified. This work was therefore carried out to analyze the financing determinants in emerging markets in Saudi Arabia. The main objective was to understand emerging markets and to look for its determinants in Saudi Arabia. The methodology of this research is a qualitative analysis, which included a literature survey and data collection, which showed the emerging markets of Saudi Arabia and how each determinant affected them. Results have shown that there are a number of determinants that add to the emerging market in Saudi Arabia. Tadawul is an emerging capital market in Saudi Arabia that is changing and modernizing the economy. Moreover, in the case of Saudi Arabia, it has been noted that volatility is the major contributor to the identification and assessment of emerging markets. With Saudi Arabia's participation in the main equity market, it is developing in the emerging market.

CCS Concepts

- Information systems → Database management system engines
- Computing methodologies → Massively parallel and high-performance simulations.

INTRODUCTION

With the onset of globalization and the development of markets around the world as a result of technological advancement, the world has come up with better techniques and solutions to various problems. This has led to the development of different markets around the globe [1]. Many countries are developing and, in the name of becoming developed countries, are

contributing a great deal to the world through the introduction of emerging markets [2].

Much has been found on the account of developing markets in recent years. These business sectors have benefited from a kind of interdisciplinary premium that bridges both corporate and venture accounts with global financial aspects [3]. Developing countries do not have proper structures, such as those of developed economies [4]. However, their struggle to become effective in the market has led them to set up their own markets, which are highly risky yet profitable in many respects, as they have much social, political and economic turbulence that could disrupt investment in these countries [4].

The emerging market economy is one in which the country is becoming a developed nation and is determined by many socio-economic factors [5]. An emerging market economy is a nation-wide economy that is moving forward, as demonstrated by some liquidity in local debt and equity markets and the existence of some form of market exchange and regulatory body [5]. Romaniuk et al. [6] stated that emerging markets are sometimes used as a powerful means of assessing the market's perception of the risk of investing in that country and looking at the economic and financial status of that country, although the information generated is not always accurate.

There are different factors that affect the growth of emerging markets and often affect them in terms of crises or instability, such as society, finance, the economy and even politics [7]. Macroeconomic factors that affect a country's liquidity and sustainability, and its debt repayment capacity, as well as its political risk, are significant determinants of the emerging market [8]. In addition, much of the time inconstancy of the developing market is clarified by the advancement of regional factors such as risk and global liquidity [8]. On the other hand, changes in credit scores seem to slow the spread of developments and evoke minimal extra impact on the valuation of alternative business sector development [9]. Furthermore, higher market volatility is the most important factor for determining the performance of the emerging market [9].

Financing characteristics are likely to have a higher significance in determining corporate sustainability performance in emerging markets in developing countries than in developed countries [9]. Moreover, the influence of variables that give rise to the sentiment of the financial market is particularly important for the explanation of sudden changes in spreads in the short run, as the financial market environment can change abruptly [9]. It could therefore be concluded that deterioration in the global financial market could negatively affect even countries with sound macroeconomic indicators and prudent fiscal policies [9]. The analysis of emerging markets is complex, yet it presents different models for discussion of different market options based on the performance of different countries [10]. In countries with weak fiscal positions, foreign holdings are strongly associated with higher yield levels, particularly in emerging market countries [11].

Saudi Arabia is well known for its oil market and its associated economy [12]. With the development of the technology and freedom in the financial market, different opportunities have arisen in Saudi Arabia. Furthermore, Saudi Arabia is also progressing in the field of development of emerging markets and is placed under Morgan Stanley Capital International (MSCI) [13]. The financing options in Saudi Arabia have been diversified and there is a need to get a clear understanding of them through research. Hence, this work was done to analyze the determinants of financing in emerging markets in Saudi Arabia

METHODOLOGY

This work was done based on quantitative research method. For this work, the Morgan Stanley Capital International (MSCI) Emerging Markets Index was used and analyzed. Data from MSCI Emerging Markets for Saudi Arabia were used for analysis.

Result And Discussion

Saudi Arabia was also included in the MSCI. The market has been used to attract foreign investors. It was given in the equity market (Tadawul). This is one of the developing equity markets that have developed the country's economy in addition to the oil market. This will help to include the capital market, which will also assist in the inflow of money. Foreign money will also come to the equity market as a foreign investor. It will assist with the liquidity and easy lending of the bank's money. It will help to diversify businesses in Saudi Arabia by improving performance in the emerging market. Figure 1 shows the types of investors involved in the market. Based on Figure 1, it has been noted that Tadawul has a majority of Saudis (institutions) who have invested in the equity market (67.1%), Saudis (25.8%), foreign investors (5 %) and GCC investors (2.1%). The market is set to increase in the future on the basis of prospects. This inclusion has made Saudi Arabia one of the emerging markets in the world. Saudi Arabia had to diversify its businesses because it was becoming heavily dependent on the oil market and had no other investment options available to local and foreign investors. In a research done by Mansi and Khizinder [14], they mentioned different factors (determinants) that influenced the performance of the emerging markets in Saudi Arabia. They were namely company image, ROA, political stability, market index, expertise, price of the stocks, profitability and volatility.

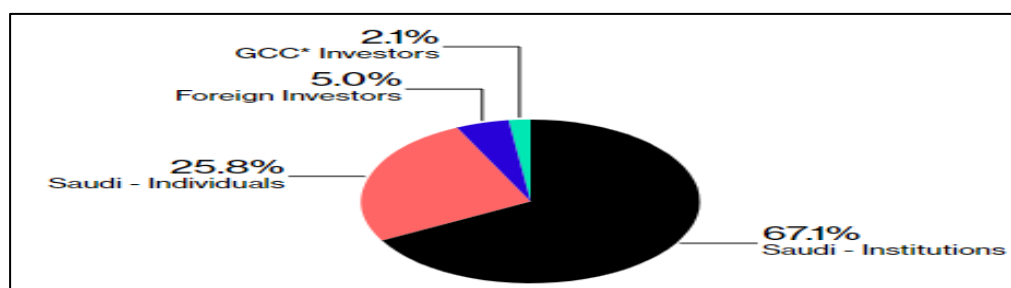


Figure 1. The types of investors

Although the market continues to develop and is not yet open and transparent, it will continue to flourish in the years to come. It is trying to adapt to the changes and will continue to grow gradually on the international market as well as on its equity market. Thus, the economy of Saudi Arabia is being modernized. Figure 2 shows the Performance of the Emerging Markets in Tadawul and MSCI. Based on Figure 2, the results explain the performance of the equity market in Tadawul as of June 2018, with the MCSI declining in performance showing that the Saudi Stock Index is both stronger in base and efficient in its performance. Foreigners were net buyers of Saudi stocks in almost every week this year, with net inflows of about 11.4 billion riyals (\$3 billion) as of June 7 on aggregate for 2018. With 32 stocks, Saudi Arabia will now become the third largest MSCI country from the EMEA region, behind only South Africa and Russia [15]. MSCI’s move is the latest in a string of announcements that promise to facilitate inflows of foreign money into the Saudi economy [16].

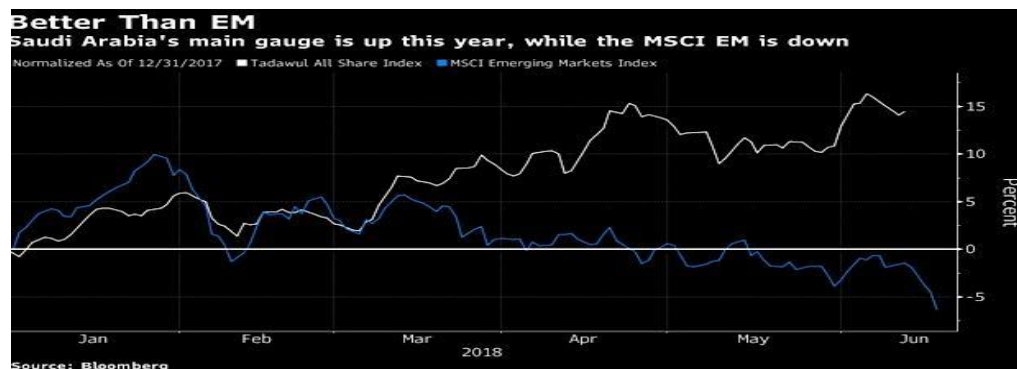


Figure 2.Performance of the Emerging Markets in Tadawul and MSCI

Another determinant of the emerging market is mostly associated with the volatility of the market. Figure 3 shows the Volatility of the emerging markets. Based on Figure 3, the Tadawul performance and its volatility which increased over the period showed that the Saudi equity market is highly risky yet profitable in the coming years and is set to yield high amount of returns.

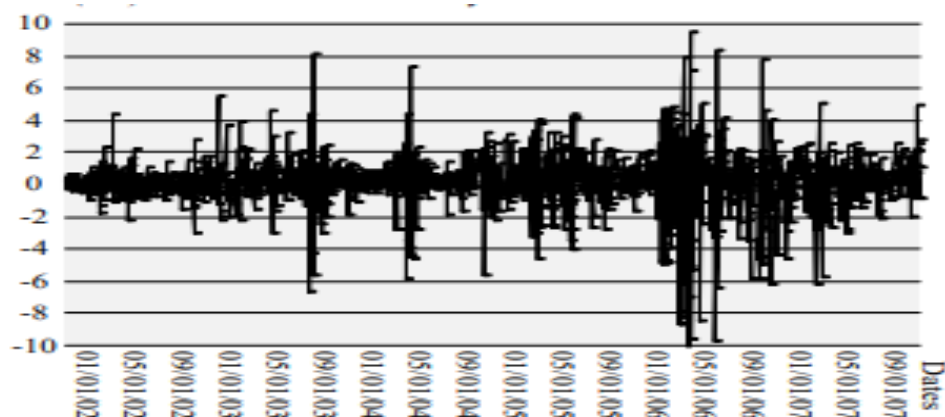


Figure 3.Volatility of the emerging markets

Figure 4 shows Tadawul All Share Index (TASI) returns. Based on Figure 4, the index began to increase slowly by 5000 SAR due to the number of investors and the lack of confidence in the emerging market, which could lead to scarcity. The index remained stable until the year 2003, with an increase of 20,000 SAR at a high index point by the year 2005. This means that investors have invested more money in this period after they know about this market. Thus, after that, the index became unstable, which meant that the number of investors had become smaller.

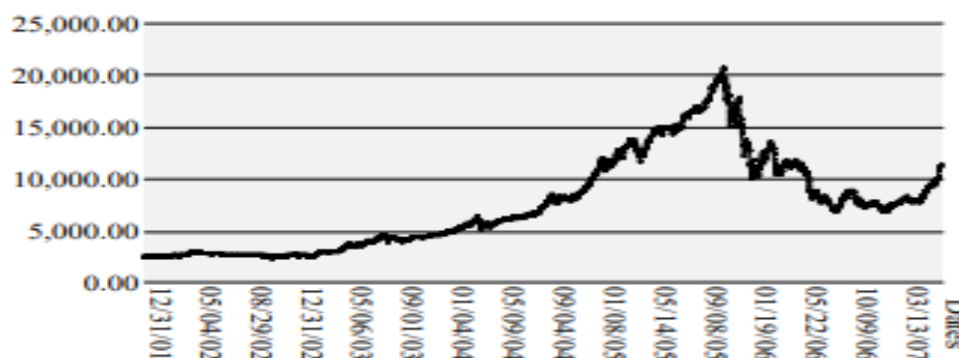


Figure 4. Tadawul All Share Index (TASI) returns

CONCLUSION

Emerging markets have come a long way to define the economic development and finance of countries around the world. They have developed certain equity and capital-generating markets that add to the development and progression of the economy, making it more modernized and diversified so that the country has a wide range of investment options available from a wide range of options. They are directly linked to economics, finance, politics and society. There are various determinants that affect emerging markets as follows: corporate image, ROA, political stability, market index, expertise, stock prices, profitability and volatility, GDP, volatility, which contribute to the functioning of emerging markets. For Saudi Arabia, it was observed that the volatility is the major contributor in determining and assessing the emerging markets. With Saudi Arabia's inclusion in the main equity market, it is developing in the emerging market, and its equity market has outperformed MSCI, showing the potential for improvement and development of the Saudi equity market. It has been noted that, unlike other indices, the Saudi capital market has yet to develop as it is still not open and transparent in foreign markets. The returns from this market are projected to be higher and become one of the most efficient means of earning money through investment. This will be achieved as soon as people learn about emerging markets and contribute to the development of the economy and the financial world.

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