

## PalArch's Journal of Archaeology of Egypt / Egyptology

### IMPACT OF FOREIGN DIRECT INVESTMENT (FDI) ON SAUDI ARABIA'S ECONOMY

*Marwa Abdulrhman Aljehani<sup>1</sup>, Rozina Shaheen<sup>2</sup>*

<sup>1,2</sup> Effat College of Business, Effat University Qasr Khuzam St., Kilo. 2, Old Mecca Road.

P.O.BOX 34689 Jeddah 21478 Saudi Arabia

Email: [1maaljehani@effat.edu.sa](mailto:maaljehani@effat.edu.sa), [2roshaheen@effatuniversity.edu.sa](mailto:roshaheen@effatuniversity.edu.sa)

**Marwa Abdulrhman Aljehani, Rozina Shaheen. Impact of Foreign Direct Investment (Fdi) On Saudi Arabia's Economy -- Palarch's Journal of Archaeology of Egypt/Egyptology 18(13), 1182-1189. ISSN 1567-214x**

**Keywords: Foreign Direct Investment, Fdi, Finance, Economy, Capital, Saudi Arabia**

#### **ABSTRACT**

Foreign direct investment (FDI) is an investment by a party in one country into a business or a corporation in another country with a view to establishing a sustainable interest. Lasting interest differentiates FDI from foreign portfolio investments, where investors passively hold foreign country securities. In addition, FDI has an impact on the economy of a country. Thus, this work was done to examine the relationship between FDI and economic growth in Saudi Arabia. This work was carried out using quantitative research method. The sample populations for this work were owners and executives, from the finance sector and firms in Saudi Arabia. The sample size used in this work was 122. Data collection was done using survey method. The results were analyzed in terms of basic percentage statistics. The findings of this work have shown that the current financial and economic crises in Saudi Arabia indicate the importance of foreign direct investment. In addition, the results have shown that the result have shown that FDI had an effect on Saudi Arabia's gross domestic product (GDP).

#### **CCS Concepts**

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

#### **INTRODUCTION**

Foreign direct investment (FDI) is a key element of international capital [1]. It represents, as any investment in any country, and is also an active tool for the development of international economics. In addition, FDI has been used by developing countries as a tool to solve their economic problems [1]. Furthermore, the attraction of FDI is one of the most important strategies for

developing countries to increase capital formation in order to generate higher GDP growth rates [2].

Foreign direct investment flows have a number of pathways that do not necessarily lead to the formation of new fixed assets [3]. The dynamics of FDI flows and the trend of fixed capital investment follow different but related paths. The implications of FDI can be spread through technical assistance and skills development [4]. This enables local firms to join value chains that maximize their access to the international economy. The sum of the FDI flows is a small indicator of the future profit of the recipient nation [4]. There is agreement on the potential advantages of FDI, but the use of FDI is not a programmed procedure. The exchange and assimilation of FDI benefits shall be based on the attributes of the venture and the particular highlights of the beneficiary nation [5].

FDI is a vital part of an open and compelling global monetary framework and a major boost to improvement. However, the advantages of FDI do not accumulate across nations and neighborhood communities in a consistent and uniform manner [6]. National approaches and universal investment procedures are important for drawing more nations into FDI and for receiving full FDI rewards for advancement. The difficulties are therefore essentially addressed to host nations, who need to establish a simple and viable investment empowerment strategy, and to bring together human and institutional capabilities to bring them to fruition [7]. Likewise, FDI has been seen as a significant improvement in monetary development in the creation of nations. Its capacity to manage major obstacles; in particular, lack of money related assets and capacity, has made it a focal point of consideration for policy makers in low-wage countries in particular [8]. Despite the criticality of FDI flows, there has been a steady decline in its movements towards developing nations and around the globe over the years. This decline means that the challenge of attracting FDI has widened as developing countries continue to create an enabling environment for attracting foreign investors [9].

Several previous studies have been carried out in relation to FDI. Mihalache-O'Keef [10] examined the influence of FDI on internal conflict and found that FDI has an impact on household harmony through its financial impact on the host nation and the political organization of investors. Stanistic [11] analyzed the FDI inflow and economic growth of Southeastern European economies, and found that there is no significant association between these two variables, which was due to methodological imperfections. Alzaidy et al. [12] scrutinized the impact of FDI on the economic growth of Malaysia and found that the excellently structured financial systems have encouraged the expansion of FDI and brought economic growth to Malaysia. Satrovic and Muslija [13] assessed the link between FDI and tourism on economic growth in Turkey and found that, in the case of Turkey, there is a positive relationship between FDI and tourism and its impression on economic growth.

FDI is an active tool for the development of international economics and is also prevalent in Saudi Arabia [14]. Furthermore, FDI was assumed to be one of the few forms of investment that includes Greenfield investment and joint

ventures. Foreign direct investment has benefited more in the Kingdom of Saudi Arabia. There are more job opportunities provided by foreign direct investment in Saudi Arabia, leading to an increase in gross domestic product. In addition, Saudi Arabia has acquired foreign management skills and experience and the latest technology through foreign direct investment [14].

For the last few years, the government of Saudi Arabia has been trying to devise policies to diversify its economy as it seeks to move away from heavy oil dependence [14]. This has been successful in some sectors, with the government investing heavily in infrastructure that promotes tourism, increases employment rates and transfers of technology to the local economy, while attracting different investors to the country. This study tried to fill the gaps in the various studies that attempted to establish a relationship between FDI and GDP [14,15]. However, this study will try to determine whether Saudi Arabia benefits from FDI at the local level. Thus, this study was done to analyze the relationship between FDI and economic growth in Saudi Arabia.

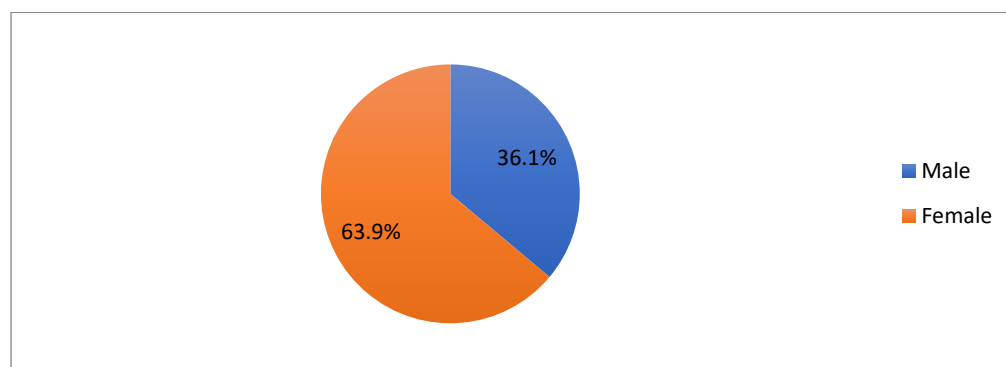
## METHODOLOGY

This work was done based on quantitative research method. The sample populations of this work were owners and executives, from the finance sector and firms in Saudi Arabia. The sample size of this work was 122 respondents. Data collection was done using survey method. The collected data were analyzed in terms of basic percentage statistics based for each Likert scale and are presented in chart from.

## RESULT AND DISCUSSION

### *Demographic Characteristics*

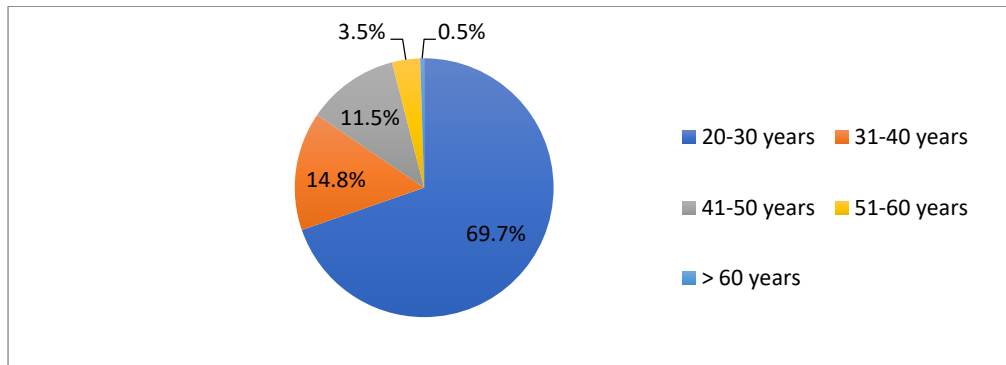
For this work, based on Figure 1, 36.1 % of the respondents are male and 63.9% of the respondents are female.



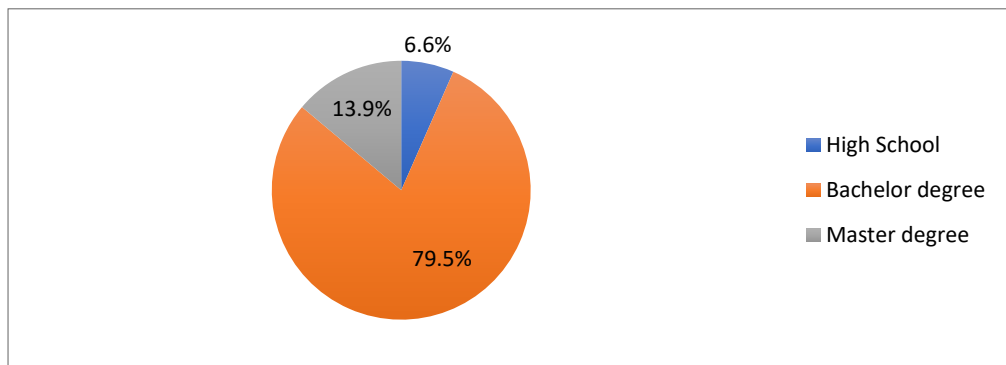
**Figure 1.** Gender

Based on Figure 2, 69.7 % of the respondents were aged between 20 to 30 years old, 14.8 % were aged between 31 to 40 years old, 11.5 % of the respondents were aged between 41 to 50 years old, 3.5 % of the respondents were aged between 51 to 60 years old and 0.5 % were aged above 60 years old.

Based on Figure 3, 6.6 % of the respondents have completed high school education, 79.5 % of the respondents have completed bachelor degree and 13.9 % of the respondents have completed master degree.



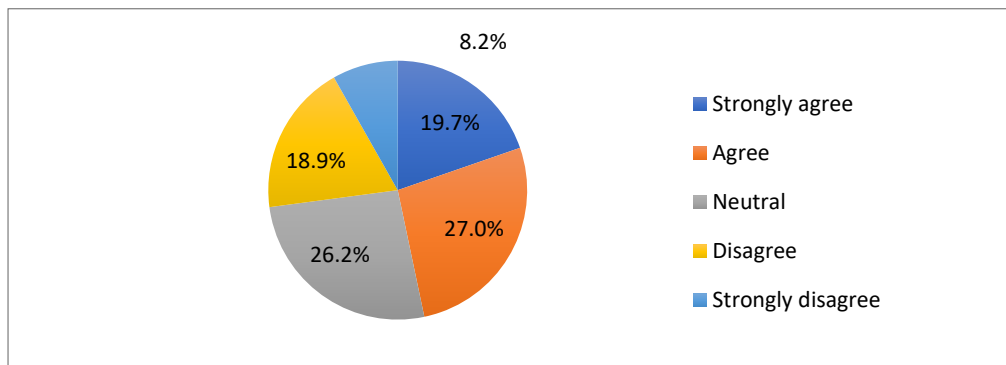
**Figure 2.** Age



**Figure 3.** Education Level

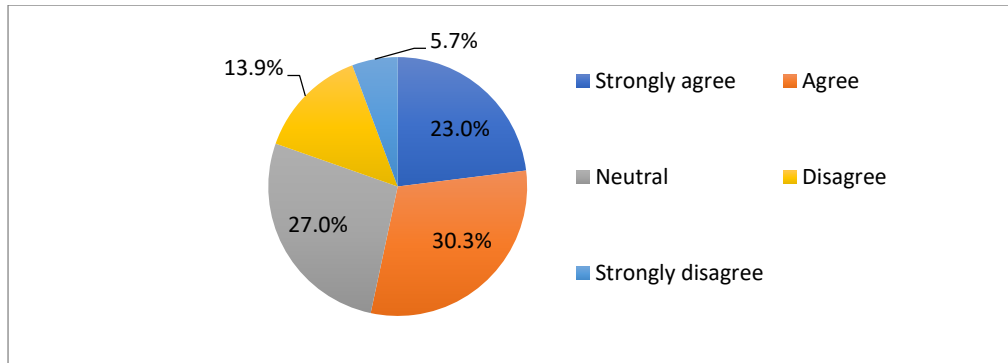
**Questionnaire Analysis**

The respondents were asked whether the current financial and economic crises indicate the importance of FDI. Based on Figure 4, 19.7 % of the respondents strongly agree, 27.0 % agree, 26.2 % were neutral, 18.9 % of the respondents disagree and 8.2 % of the respondents strongly disagree.



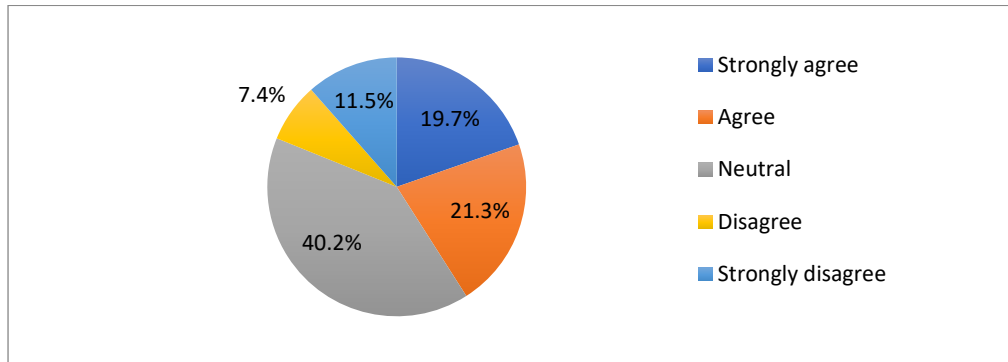
**Figure 4.** Current Financial and Economic Crises Indicate the Importance Of FDI

The respondents were asked if FDI had an effect on Saudi Arabia's gross domestic product. Based on Figure 5, 23.0 % of the respondents strongly agree, 30.3 % agree, 27.0 % were neutral, 19.3 % of the respondents disagree and 5.7 % of the respondents strongly disagree.



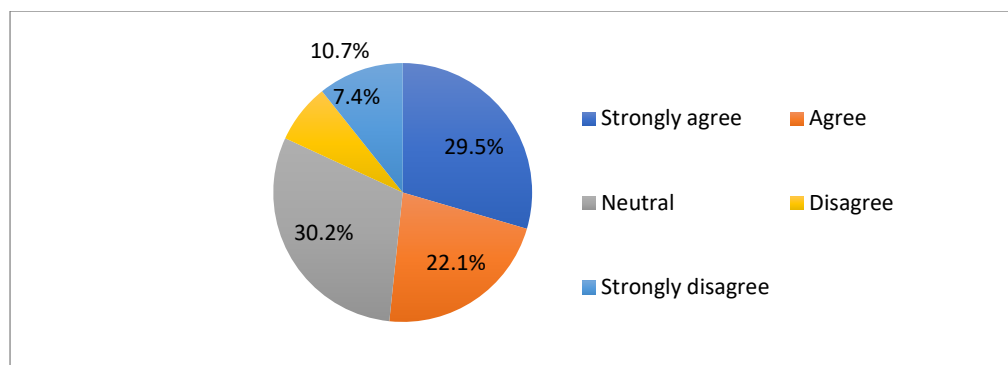
**Figure 5.** FDI Had an Effect on Saudi Arabia's Gross Domestic Product

The respondents were asked whether there is effect of FDI on selected macro-economic variables of GDP, inflation and exchange rate. Based on Figure 6, 19.7 % of the respondents strongly agree, 21.3 % agree, 40.2 % were neutral, 7.4 % of the respondents disagree and 11.5 % of the respondents strongly disagree.



**Figure 6.** There Is Effect of FDI On Selected Macro-Economic Variables Of GDP, Inflation and Exchange Rate

The respondents were asked whether FDI is one of the most important strategies for developing countries to develop capital. Based on Figure 7, 29.5 % of the respondents strongly agree, 22.1 % agree, 30.2 % were neutral, 7.4 % of the respondents disagree and 10.7 % of the respondents strongly disagree.



**Figure 7.** FDI Is One of The Most Important Strategies for Developing Countries to Develop Capital.

### OVERALL DISCUSSION

On general discussion of the study, it can be observed that most of the respondents assumed that their organization and growth was linked to the FDI. In addition, most respondents believe that current financial and economic crises indicate the importance of foreign direct investment. Furthermore, the results have shown that FDI had an effect on Saudi Arabia's gross domestic product (GDP). In addition, 41 % of the respondents have agreed that there is effect of FDI on selected macro-economic variables of GDP, inflation and exchange rate. Likewise, the majority of respondents agreed that FDI is one of the most important capital development strategies for developing countries. Thus, the outcome of this work has suggested the importance of FDI in Saudi Arabia. The findings of this work are in line with the work of Mohamed et al. [16], where it was confirmed that FDI is a significant strategy for developing countries to generate capital income for its economy. In addition, the work of Ali et al. [17] has confirmed that FDI is significantly important for the economic growth and it has an impact on the GDP, which is in line with the findings of this work.

### CONCLUSION

This study has examined the relationship between FDI and economic growth in Saudi Arabia. The findings of this work have shown that there is association between FDI and the economic growth in Saudi Arabia. Furthermore, FDI is crucial for developing and emerging markets, as the companies in Saudi Arabia need the funding and expertise of multinationals to expand their international sales. This will directly contribute to the economic growth of Saudi Arabia. For future works, the authors suggest that a wider range of sample population should be included and that a more in-depth statistical analysis should be carried out.

### REFERENCES

- Bhuvaneshwari, D., & Ramya, K. (2017). Long-Run and Short-Run Relationship between Indian Stock Prices and Foreign Direct Investments (FDI) Equity Inflows. *International Journal of Management and Development Studies*, 6(4), 44-49.

- Andrei, L. C., & Andrei, D. (2019). Foreign Direct Investments (II) Detecting major FDI flows within Eurasia. *Academy of Social Science Journal*, 4(10), 1448-1476.
- Kumar, V., & Chander, R. (2016). Foreign Direct Investment and Air Pollution: Granger Causality Analysis. *IOSR Journal of Business and Management*, 12.
- Arun, K., & Yıldırım, D. Ç. (2017). Effects of foreign direct investment on intellectual property, patents and R&D. *Queen Mary Journal of Intellectual Property*, 7(2), 226-241.
- Koumou, R. F. M., & Manyi, W. (2016). Effects of Chinese Foreign Direct Investment in Africa. *Journal of Finance and Accounting*, 4(3), 131-139.
- Nielsen, B. B., Asmussen, C. G., & Weatherall, C. D. (2017). The location choice of foreign direct investments: Empirical evidence and methodological challenges. *Journal of World Business*, 52(1), 62-82.
- Sarkodie, S. A., & Strezov, V. (2019). Effect of foreign direct investments, economic development and energy consumption on greenhouse gas emissions in developing countries. *Science of the Total Environment*, 646, 862-871.
- Guo, Y. (2018, June). Study on the Trading Partner Cultural Effects between Global Imports and Foreign Direct Investments in China. In *2018 2nd International Conference on Management, Education and Social Science (ICMESS 2018)*. Atlantis Press.
- Bathelt, H., & Buchholz, M. (2019). Outward foreign direct investments as a catalyst of urban-regional income development? Evidence from the United States. *Economic Geography*, 1-25.
- Mihalache-O'Keef, A. S. (2018). Whose greed, whose grievance, and whose opportunity? Effects of foreign direct investments (FDI) on internal conflict. *World Development*, 106, 187-206.
- Stanisic, N. (2015). Do foreign direct investments increase the economic growth of Southeastern European transition economies? *South-Eastern Europe Journal of Economics*, 6(1).
- Alzaidy, G., Ahmad, M. N. B. N., & Lacheheb, Z. (2017). The Impact of Foreign-direct Investment on Economic Growth in Malaysia: The Role of Financial Development. *International Journal of Economics and Financial Issues*, 7(3), 382-388.
- Satrovic, E., & Muslija, A. (2017, October). Foreign direct investments and tourism: Empirical evidence from Turkey. In *ICPESS (International Congress on Politic, Economic and Social Studies)* (No. 3).
- Belloumi, M., & Alshehry, A. (2018). The impacts of domestic and foreign direct investments on economic growth in Saudi Arabia. *Economies*, 6(1), 18.
- Albassam, B. A. (2015). Does Saudi Arabia's economy benefit from foreign investments? *Benchmarking: An International Journal*, 22(7), 1214-1228.
- Mohamed, M. R., Singh, K. S. J., & Liew, C. Y. (2017). Impact of foreign direct investment & domestic investment on economic growth of Malaysia. *Malaysian Journal of Economic Studies*, 50(1), 21-35.

Ali, U., Anwar, S., & Hayat, M. A. (2018). Impact of Foreign Direct Investment on The Industrial Development: Evidence from Asian Countries. *Abasyn University Journal of Social Sciences*, 11(1).