IMPACT OF FOREIGN INVESTMENT ON SAUDI ARABIA'S ECONOMY

Dr. Omar Jemhawi
Eton University, USA

ABSTRACT

Since the world became a small village, the research and studies in any region of the world reached everywhere, and many of the world's economic units turned to internal and external investment. Since we live in the Kingdom of Saudi Arabia and it is one of the world's largest economies and it is ranked 19th globally and first in the Arabic region, recently it has strived to encourage foreign investment and has put in place many facilities, opened up to the outside world, worked on five-year regulatory plans and also an economic vision 2030. Foreign direct investment is about entering economic units into one of the developing countries to revive the economy, reduce unemployment and introduce new technology. But in the case of Saudi Arabia with its current economic strength and projects of billions of U.S. dollars, and also in a period that was the fifth in the donor ranking, the impact of foreign investment on the economy of Saudi Arabia has to be examined and we will address several sectors such as education, industry and agriculture.

Keywords: *economic units, organizational plans, foreign direct investment, economy in Saudi Arabia, sectors in Saudi Arabia*

INTRODUCTION

When developing countries need funds to meet their needs, they tend to take loans, which entails repayment for several years, and also repayment of interest on these loans, but after economic globalization and some economic units emerged. The idea of foreign investment in developing countries has emerged. Foreign investment is known to be the investment of countries or large companies in developing countries, so that both parties benefit and contribute to improving economic conditions. Host countries have improved their conditions so as to attract foreign investment in terms of facilitating administrative steps and their centrality in order to promote international innovation and the consolidation of most tax incentives. However, it has been noted recently that Saudi Arabia has been active in attracting foreign investment despite the fact that it is one of the economically strong countries and is ranked 19th globally and the first Arab and that it does not need economic support.

IDENTIFICATION OF FOREIGN INVESTMENT IN TERMS OF DEFINITION TYPES, FORMS, DIVISIONS AND CONSEQUENCES

Definition of Foreign Direct Investment FDI:

According to the International Monetary Fund (IMF), 10% or more of the capital stocks are owned by an enterprise. This ownership is linked to the ability to influence the management of the enterprise. Thus, it is differentiated from investing in portfolios and investment funds i.e. purchase corporate assets with the aim of achieving a financial return without controlling its performance. It is necessary to avoid the difficulty of accurately differentiating between the two types [1]

The types of foreign investment are:

First - foreign direct investment

It is a foreign investor (a company or a person) performs a long-term investment activity in a particular country (the host country of the investment) and involves the foreign investor's ownership of all or part of the project. It is the establishment of a project or the purchase, in whole or in part, of projects already existing in the host country's economy.

Consequently, the foreign investor has the right to manage the project and control it entirely or to participate in the administration in the case of joint ownership of the project They include vertical & horizontal investment, or accumulate (diverse)[2]

Second - Indirect foreign investment:

The indirect foreign investment takes possession by foreigners of securities (shares and bonds) in the host country issued by a company or government entities.

The companies are owned by the host country and the foreign investor is not entitled to run the company.

This investment takes the form of loans given by individuals or companies and it is short-term investment [3]

The forms of foreign investment for host countries are:

1. Joint Ownership Projects - Joint Investment.
2. Projects wholly owned by foreign companies in the host economy.

3. Multinational companies - companies that own many enterprises in different countries [4]

Foreign investors are always looking for investment opportunities to increase profitability and move away from risk in all its forms.

The motivation factors of foreign investment can be represented in any country by the attractiveness of competition and the form and structure of government, as well as the infrastructure and key factors such as health and education, as well as the need for attention to social aspects [5]

Foreign investment can be divided into two divisions in terms of duration (time standard):

Section I: Short term investments.

These are investments that are made for a year or less.the investment is regulated by the Contracting Parties' rights and obligations. which is worth within one year.

Section II: Long-term investments.

Long-term investment is reflected in loans of more than one year's duration

Which focuses on fixed assets such as establishing branches for foreign projects within the borrowing country [6]

Effects of foreign investment on host countries' economy:

Foreign direct investment is one of the most important means of economic development, resulting in the creation of jobs and the providing of new technology to the country, as well as the transfer of expertise and knowledge from one country to another and the most important of these material effects is revenues.

Identification of bilateral international foreign investment agreements between the investor and the host countries.

Each host country encourages foreign investment whether it is direct or indirect. Laws and regulations and the sectors in which the foreign investor will invest in the host are determined. For example, some countries are limited to the investor's work in industries and some have privatized key enterprises in the host country such as electricity and water that may be in another country of red lines for foreign investors. That is why, Bilateral conventions protecting the parties had to take place.

For example, owning a house in countries such as Turkey, Canada and Bahrain is considered a foreign investment and the nationality of those countries is granted according to it. Comparing it to a country such as Saudi Arabia, it is strictly prohibited to own any property in the cities of Mecca and Medina. The rest of the cities are limited to owning the workplace, workers' accommodation and a private home only. There are no established laws that bind the investor or host country to binding rules but there are agreements such as international trade agreements.

With thousands of agreements around the world in terms of international investments and despite the establishment of rights and provisions between the parties, each agreement is different from the other because of the differentiation of the nature of any investor and any host country. So, they endeavor to stabilize and adapt these agreements in a way that allows them to take the space they need. Each country has its own controls that are variable, for example, such as the entry of the investor with a specific capital or one of the fields of work within the borders of the host Country, or even specifying the period for which the investor stays within the host country.But to protect the investor, the World Bank has established controls on the host country to be a member of the World Trade Centre so as to have reference in the event of conflict.There are prominent rights protected by bilateral trade agreements for foreign investors is also considered as a fundamental rule on which the host makes the agreement and that concluded very important clauses, such as:

Employment and employees and how they are employed

The percentage and number of employees in the agreement varies depending on the type of investment. For example, an industrial investment is agreed that 50% of citizens should be employed. In the oil industry, the employment rate of citizens may not exceed 10%, due to experience, efficiency and capacity.

Cash transfer

It is well known and agreed in accordance with international regulations and laws that the host country must give freedom to the foreign investor to turn all profits into its own state.

However, in some agreements, the foreign investor must keep a portion of the money in accounts within the host country to ensure employees' rights.

Protection from confiscation - such as expropriation

According to international law, expropriation from a foreign investor or confiscation is not permitted unless there are violations or imports of materials harmful to the environment, crime or other illegal acts. A distinction must be drawn between expropriation and regulation. A State is not responsible for the loss resulting from public taxation or global economic problems. In terms of regulation, a State has the right to regulate its infrastructure in all its forms, but in the regulatory case it must be compensated.

Public interest and non-discrimination

The host State does not have the right to pay its attention in the public interest in order to harm the foreign investor and must maintain it until the end of the Convention, not to discriminate in treatment between the citizen and the investor, but also not to discriminate between an investor from a State over another investor from a second State.

Compensation

Compensation includes two types. The first one when it is proven that the state has seized the rights of the investor, then compensation will be made for all damages that befell the investor.

The second compensation is for expropriation that occurred under regulatory procedures in favor of the state.

The host country must respect pledges and agreements towards investors.

Political violence and internal conflicts

According to international law, there is no obligation of host State to compensate foreign investors for any of the losses caused by wars or disturbances within the State unless it occurs in purpose [7]

Impact of investment on some sectors of the economy in Saudi Arabia

In the past, the Saudi economy was very weak, but since the equitable profits with Aramco took place, it seemed to rebound. It became a Rentier economy (it relies on only one commodity). The Kingdom applied economic development plans, and it became the strongest among the Arab and ninth countries in terms of economic stability.

Educational, Agricultural, Industrial Sectors and Foreign Investment

Education Sector:

The educational sector affects the economies of countries, and this is what the Kingdom has moved towards in all stages of its five regulatory plans. It has given education great attention and allocated the largest budgets for it in the country in order to develop human resources, enhance research and innovation, increase productivity, and also educational tourism in order to attract students and researchers. The following is a table specifying spending on education in the Kingdom of Saudi Arabia:

Table 1. *Expenditure on Education during the Years -2016-2023 by Ministry of Finance/SAR Billion-2023*

N	year	Education Budget
1	2016	207.145
2	2017	200.329
3	2018	192.361
4	2019	192.622
5	2020	193.168
6	2021	185.702
7	2022	185.103
8	2023	189.000

Source: https://www.my.gov.sa/

By observing Table No. 1, we see that there is a decrease in spending between the years 2016 to 2023

The reason for this is due to the internal and external economic conditions that the Kingdom went through to reduce the deficit in the Kingdom, and despite this, it is considered the first in spending at the level of the Gulf Cooperation Council countries.

The Kingdom has advanced in a number of sub-indices of global innovation, surpassing 107 countries. It has also excelled in 3 sub-indices of the Global Innovation Index for the year 2021, where it has advanced over 105 countries. In the general research and development index, it has ranked 26 out of 131 countries, and in the higher education index it has achieved 29 ranks. surpassing 102 countries in 2021.

At the university level, the Kingdom outperformed 107 countries in the average ranking of universities according to the classification(QS)

It ranked 24th, and this indicator measures the average grades of the best 3 universities[8] .

The impact of foreign investment on the educational sector is somewhat good. The investor can open foreign schools or make a joint investment, but in this sector the government imposes that Saudis be employed and that academic subjects be introduced. As for higher education, so far, foreign investment has not been introduced into it.

The Agricultural Sector

Agriculture constitutes an important part of the economy of countries because it provides many food resources and job opportunities, but the Kingdom of Saudi Arabia faces great challenges in terms of agriculture because its climate is very hot and its rain is rare in most regions. Agriculture in the Kingdom was carried out using traditional methods, but after the development of the Kingdom

He developed organizational plans and also established foreign investment laws that contributed to the entry of foreign capital in order to advance the agricultural sector. The government dug wells, built agricultural roads, distributed arable land for free, bore 45% of the equipment costs and 50% of the value of fertilizers, and provided long-term interest-free loans. Hence, the Kingdom continued to import due to the challenges we mentioned previously, so regulatory plans moved to increase the area of cultivated land, and its dependence on expatriate workers affected the lack of job opportunities for citizens in this sector.

The impact of foreign direct investment in the field of agriculture did not exceed 5% of the total investments in the Kingdom. This is due to the nature and desert climate. It relies mainly on water desalination and uses the spraying method in agriculture. [9]

Industrial Sector:

After the discovery of oil and gas in the Kingdom, which is considered the most oil producing and exporting country in the world, the industrial sector in the Kingdom became the most vital sector and all sectors are based on it. As a result, all sectors in the Kingdom became active. After the regulatory plans, they tended to encourage the private sector to establish factories in order to achieve the goals of economic development to reduce Dependence on oil and gas. The Saudi Industrial Development Fund was established, and also to develop this sector, the Royal Commission in Jubail and Yanbu was established to take over the management of the industrial cities. There are two main types of industry within the Kingdom: a public sector, which includes petrochemical industries, oil refining, military industries, weapons, and ammunition, and a private sector, which are industries carried out by the private sector, most of which are local consumer goods, of which a small portion is exported to neighboring markets, such as the cement, fertilizer, and food industries.

The Saudi government issued a law to protect and encourage national industries, which includes:

1. Exempting all imports necessary for industrial projects from customs duties.

2. Granting plots of land to build factories

3. Protecting local production by limiting or preventing the volume of foreign imports of goods similar to local ones, raising customs duties on foreign imports, and also providing financial aid to industrial projects.

4. Exempting local products from export duties in order to compete and increase exports [10]

The Saudi Industrial Development Fund achieved exceptional results during the year 2020 AD, approving loans amounting to 17.6 billion riyals, achieving the highest value of approval in its history. It approved 212 loans and 201 projects benefited from them in the industrial, mining and energy sectors. Small factories accounted for 84% out of the total number of loans [11]

In terms of the impact of foreign investment within Saudi industries, the volume of foreign joint investment amounted to about SAR 542 billion, representing 37% of the sector's total investments and 17% of the total number of existing factories up to May 2023.

The number of factories with foreign investment is 930, representing 9% of the total number of factories with investments exceeding SAR 71 billion. The number of factories with joint investment reached 924, constituting 8% of the total factories and investments estimated at more than 470 billion riyals, while the total number of factories in the industrial sector as of May 2023 reached 10.910 plants with investment size reaching more than 1.455 trillion riyals [12]

Foreign Investment Sector:

The Kingdom of Saudi Arabia is considered one of the first countries to be interested in foreign investment, as it ranks first among the Arab countries in terms of direct and indirect investment flows. Despite the presence of regulatory plans in the Kingdom, which contributed to attracting capital to make investments within the Kingdom, it did not achieve what was required. However, After the Kingdom's Vision 2030, it became enthusiastic about attracting more investments, and this is evident from the steps it took, such as developing the Investment Authority into the Ministry of Investment, issuing the Foreign Investment Law, and reducing the corporate profits tax. The Ministry of Investment's message states: "Enhancing the Kingdom's position as a leading investment destination and making it an attractive and stimulating investment platform for investment and expansion in order to achieve sustainable economic growth.”

What caught my attention when reading the regulations, conditions and services on the website of the Saudi Ministry of Investment is the presence of an item in the list of services, which is the investor’s journey, which is a comprehensive and easy explanation. For example, any investor who wants to enter the field of the health sector / Ministry of Health after submitting the requirements, then he has to enter to the website. https://misa.gov.sa

Then choose from the list of services, the investor’s journey, to access the icons, which are as follows:

1. Obtaining a license from the Ministry of Investment, which includes:
   A. Services Guide, which includes all services in which investment is permitted.
   B. The foreign investment law, which is to know all the regulations related to the sector.
   C. The executive regulations of the foreign investment law, which defines all bilateral and legal agreements.
2. Obtaining the commercial register.
3. Submit a license application.
4. Conduct a field inspection.
5. Issuing the license.

Note that the all the offices that the investor needs to visit are in one building in order to facilitate work.[13]

Foreign investment opportunities and advantages in Saudi Arabia

The Saudi economy has some features that make it attractive for investment. The Kingdom has achieved progress in the ease of doing business index and facilitating all procedures and transactions. More than 555 reforms have been completed in investor services, the most prominent of which is reducing the time to start an activity to 30 minutes. Also among the advantages are low inflation rates and high purchasing power. The per capita GDP reached $20,000.

The Saudi GDP has reached 782 billion dollars, and foreign investments are about 230 billion, and these statistics.

The increase in population growth, which shows that the Kingdom’s population has reached approximately (32,175,224) in 2023, and the nature of society in which the percentage of young people under the age of 25 to 50% of the population is one of the advantages of the Saudi economy.

The Kingdom of Saudi Arabia has promising investment opportunities due to the potential it possesses of a strong economy, and these opportunities are not exploited, which encourages any investor to turn to it. It is a destination for those with unique ideas and projects, due to the abundance of natural resources, and its distinguished location for trade located between three continents.

Among the most important projects are the NEOM, Red Sea, Qiddiya, and Roshan Group projects (specializing in building residential units), as well as King Abdullah Economic City, the largest tower in the world in Jeddah, and King Salman Park in Riyadh.

We will discuss three of the currently existing projects:

Neom Project

A vision of what a new future might look like, NEOM will be a destination and home for people who dream big and want to be part of building a new model of sustainable living, work and prosperity. NEOM will cover an area of 26,500 square kilometers and will be powered by 100% renewable energy.

The NEOM project is a confident start to the progress of humanity, and the embodiment of a vision that represents what the new future will look like. Located in northwest Saudi Arabia on the Red Sea, it is being built from the ground up as a vibrant metropolis – a place where entrepreneurship will define the course of this new future. It will be a destination and home for ambitious people who seek to be part of building a new model of exceptional living and creating prosperous companies. NEOM will also demonstrate creativity in the field of environmental conservation. NEOM will include a number of cities, ports, commercial areas, research centers, sports and entertainment facilities, and tourist destinations. It will also be a place to live and work for more than a million people from all over the world. As an innovation center, the NEOM project will attract pioneers, business leaders and companies to research, incubate and market new technologies and projects in innovative ways. NEOM's residents will embody ethics and values that represent the spirit of community, and will adopt a culture that embraces exploration, adventure and diversity, supported by a legal system consistent with international norms, a system that does not stop developing to produce economic growth and a society crowned with success and prosperity.[14]

Red Sea Project:

The Red Sea project is considered one of the most important tourism projects currently in the Kingdom. It is located on the Red Sea coast between two cities. The location was chosen strategically to be close to a number of countries, and the project area extends about 34 thousand km2.

The most important features of this project is that it contains a natural reserve and is considered one of the tourist destinations. Tourists can practice many hobbies, such as diving among coral reefs and walking among all the dormant volcanoes. The project contains many islands, and only 22 islands have been exploited.

The project is located near archaeological and heritage monuments. What distinguishes the place is that the water temperature is compatible with all types of marine practices, as the Red Sea region has warm weather all the time, which increases the arrival of visitors to the region throughout the year. The first stages are likely to be completed in 2025.

This phase witnesses the construction of 50 luxury hotels, golf courses, desert and mountain resorts, and a modern international airport.[15]

Qiddiyah Project

It is one of the most giant projects in the Kingdom, a source followed by observers from within the Kingdom. The project consists of 45 projects and more than 300 activities across the winter creativity, hospitality, entertainment, and sports. 20 companies have been assigned to revolutionary engineering, 12 of the main landmarks of the facade.

Qiddiya Investment Company led the project development project and the project area extends over an area of 334 square kilometers at the entrance to Riyadh. This was designed as a reflection of the pattern of the natural innate environment and consists of the general establishment of Qiddiya consisting of five development areas, which is a resort area to contribute to movement, movement and excitement. For this reason, it becomes the capital of entertainment, sports and arts.

The CEO of Qiddiya Investment Company, Michael Reininger, said, “We wanted to develop an identity that would be unique and distinctive of its kind that we will present. We will create a brand that symbolizes the home of inspiration and new experiences during the period of the horizon of life experiences that stimulates investment with a clear, youthful and optimistic character, as Qiddiya will introduce its visitors to them through “Entertainment, sports and arts to explore new horizons and encourage more new people and citizens to contribute to building the future and greater progress and prosperity in the Kingdom.”[16]

CONCLUSION AND RECOMMENDATIONS

Foreign direct investment provides a material and technical addition to both the investor and the host country

Bilateral agreements in foreign direct investment are variable depending on the strength of the investor and the host country.

The Kingdom of Saudi Arabia has a strong economy and still relies on oil as a primary support for all sectors of the economy in the Kingdom.

It is not necessary for the host country to have a low economy in order to encourage investment, and a strong economy can be supportive and stimulating for economic development.

As for recommendations

Intensifying the efforts of countries to strive to be invested internally and externally according to the advantages available to them

The investor and the host country rely on fixed agreements, rules and clauses for all countries

The Kingdom of Saudi Arabia has a strong economy and high advantages, and in order to attract companies and capital to invest within it, the international marketing process must be increased.

The projects currently established in the Kingdom will be a great motivation for a lot of investment in them.

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