Is Saudi Arabia's Business Environment Conducive to Attracting Foreign Direct Investment in Non-Oil Sectors? Challenges and Implications

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Declaration

I, Fuaad Abdullah D Alshehri, declare that the DBA thesis entitled ‘Is Saudi Arabia’s Business Environment Conducive to Attract Foreign Direct Investment in Non-Oil Sectors? Challenges and Implications’ is no more than 65,000 words in length, including quotes and exclusive of tables, figures, appendices, bibliography, references and footnotes. This thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work.

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Abstract

Foreign direct investment (herein referred to as FDI) has been viewed through time as one of the core drivers of economic growth. Regardless of their ideological variances, many countries throughout the world today aim to increase the level of competition in order to attract FDI. This study focuses on the Kingdom of Saudi Arabia, an oil rich nation that has until now, predominantly relied on its revenue stream derived from its natural resources. However, now the Kingdom must adapt and respond appropriately to the challenges of global competition, which have consequently forced the government to invest in non-oil sectors. As a result, the Saudi government has encouraged foreign companies to invest in the nation, through its Economic Vision 2030 initiative. However, against a backdrop of declining foreign direct investment (FDI) in recent years and associated factors related to the political, business and economic environment, Saudi Arabia may find it extremely difficult to successfully implement its Economic Vision 2030 without appropriate solutions and adequate planning processes to combat these obstacles to economic growth and revenue diversification. It is therefore necessary to identify the major causes of this declining trend of FDI and implement appropriate methods to improve FDI inflows in order to meet Vision 2030's specified objectives.

In this regard, the study had two main concerns. Firstly, to investigate whether Saudi Arabia's business environment is conducive to attract FDI, particularly in non-oil sectors. Secondly, to examine the factors that determine the motivation of foreign companies to invest in Saudi Arabia.

A mixed method approach of surveying top executives of foreign firms and interviewing top managers of the Saudi Arabian General Investment Authority (SAGIA) was adopted as the research strategy.

The quantitative survey data were analysed using descriptive statistics and frequency estimations (Shapiro-Wilk test). For thematic analysis of qualitative data on interviews, the method of Braun and Clark (2006) was used.

The key findings are summarised as follows. The main problems of FDI in Saudi Arabia are associated with a decline in the efficiency of financial markets and credit growth,

increasing interest rates, restrictive labour laws, slow pace of facilitation steps of FDI, stagnant investment climate, imbalances of crucial natural resources and insufficient guarantees and policies.

The Vision 2030 contains a comprehensive plan for a large-scale skills enhancement programme to solve this problem; however, this will undoubtedly take time. Until then, the effect of skills shortage linked to the 'Saudisation' of FDI will continue. More than 10,000 foreign firms have closed because of this problem. The negative message sent by these companies may adversely affect the image of Saudi Arabia and thus negatively affect any future FDI inflows. The range of natural resources is very narrow, and hence, costs are high. Notably, lack of quality and consistency are important FDI deterrents.

The geographic location of Saudi Arabia gives it a strong strategic advantage. However, negative factors mentioned earlier may counter this advantage compared with other strategically located countries equipped with better services.

Market liberalisation in Saudi Arabia is imperfect. Currently, the country is focusing on attracting FDI from selected countries in selected sectors. But with existing limited capabilities, market liberalisation may have limited impact in increasing FDI in Saudi Arabia.

Ruled by a monarchy, Saudi Arabia does not have any significant political instability. It can be considered as a stable nation. Rather, Saudi Arabia has a negative image due to gender discrimination. Lack of consistency in business regulations in dealing with the government, bureaucracy, cronyism (Wasta), poor enforcement by the legal and judicial systems and the potential effects of religion and culture have also been identified as FDI-negative factors. Progressive easing of laws and policies not conducive to FDI have been implemented since 2000 but have not been effective. SAGIA has limitations regarding simplification of approval procedures thus making it difficult for FDI seeking firms.

Only limited success has been achieved by the Crown Prince and SAGIA in attracting FDI into Vision 2030 projects, primarily because of lack of support from other departments. Global investment forums are not specific to Saudi Arabia; many countries conduct similar conventions to attract FDI. Although policies are being evaluated, actual change has not occurred, even after two years of Vision 2030. Administrative weakness is a barrier to the FDI targeted in the Vision. In addition, Islamic laws are a deterrent to outsiders; at least for

foreign investors, personal and religious independence need to be guaranteed to improve FDI outcomes.

The findings from the study make a major contribution not only to existing knowledge but also adds to new knowledge highlighting the main problems, barriers, and obstacles of FDI inflows in Saudi Arabia. The study's findings will also benefit both the SAGIA and foreign firms looking to invest in Saudi Arabia. The study concludes with several recommendations and future research directions.

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List of Abbreviations

FDI	Foreign direct investment
FPI	Foreign portfolio investment
GDP	Gross domestic product
IPA	Investment Promotion Agency
IPR	Intellectual property rights
KSA	Kingdom of Saudi Arabia
MENA	Middle East and North Africa
MNE	Multinational enterprises
OLI	Ownership, localisation and internalisation
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
SAGIA	Saudi Arabian General Investment Authority
SAMA	Saudi Arabian Monetary Agency
SWOT	Strengths, weaknesses, opportunities and threats

Chapter 1: Introduction

1.1 Background

Saudi Arabia currently faces significant economic challenges. Until approximately 2014, Saudi Arabia had been a budget deficit country, on the back of high oil prices. But in 2014, oil prices started to fall, and this drove the country to a revenue-deficit budget for the first time in recent history. Since then, Saudi has had a budget deficit; this was equivalent to 8.9% of GDP in 2017. Figure 1.1, reproduced from Trading Economics (2018), shows the trend since 2008. The deficit is usually addressed by selling stocks of public enterprises; the other possibility is foreign direct investment (FDI), but, as revealed in the discussion below, the scope for this is currently limited.

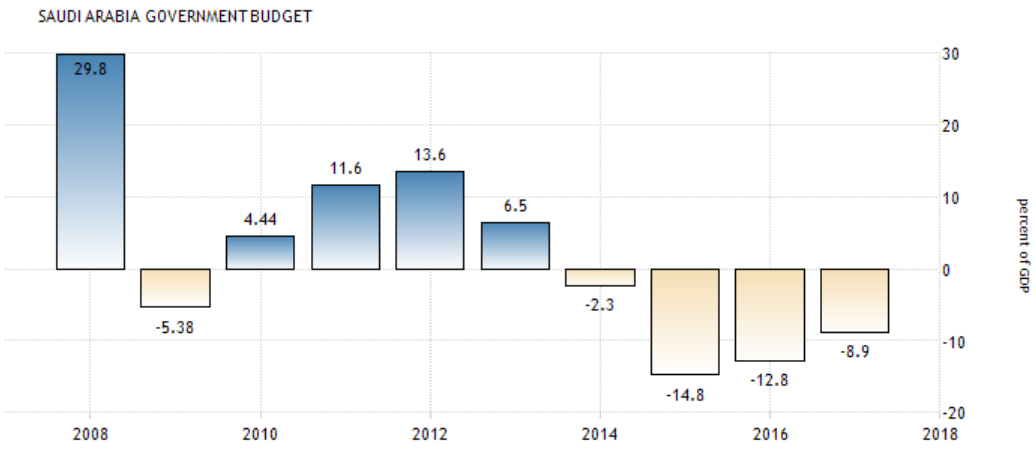

Figure 1.1: Recent budget deficits in Saudi Arabia (Trading Economics 2018)

Before discussing the topic further, the meaning of the terms used in the following sections must be clear; definitions, with brief discussions, are given below.

1.1.1 Definitions/explanations of terms

1.1.1.1 Foreign direct investment (FDI)

Investopedia defines FDI as "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 investment

(FDI) is distinguished from portfolio investments in which an investor merely purchases equities of foreign-based companies."

Another definition, given in Economy (2018), is that "Foreign direct investment (FDI) is when a company owns another company in a different country. FDI is different from when companies simply put their money into assets in another country—what economists call portfolio investment. With FDI, foreign companies are directly involved with day-to-day operations in other countries. This means they are not just bringing money with them, but also knowledge, skills, and technology."

There are contrasting points between the above two definitions, which may affect the approach of a country to attract FDI. In the first definition, the investment may be in the form of a wholly-owned business, acquisition of a local business, or just securing controlling interests in a domestic country (through one of several mechanisms). In this case, the destination country needs only to provide offers of business areas for foreign participation or sale of controlling stakes in certain highly profitable domestic firms, along with incentives or concessions to attract investment.

In the second definition, the investor is involved in the daily operations of the business. The claim is that, along with the investment, technology and skills are brought in. However, it is well-known that the transfer of technology and skills do not always occur, especially if it is a market-seeking type. For technology and skills transfer to occur, the host country needs to have sufficient absorptive capacity for the skills and technologies coming in. This raises the question of how well the country has prepared its human resources to absorb new skills. Do the infrastructure, communication, and supply facilities enable the absorption of the incoming technologies? In the case of many countries, more than the presence of positive factors, the presence of negative factors has a negative impact on attracting FDI. It will be shown below that in the case of Saudi Arabia, lack of skills among the Saudi population and the Saudisation policy are in conflict, and investors are hesitating because of this. They need skills to implement their technologies; Saudi's do not have those skills but also does not permit the recruitment of expatriates who do. Large factories cannot be located in urban areas, and the remote locations where they are permitted do not have adequate transport and communication facilities.

The Saudi government is opening up sectors for 100% FDI, but with the proviso that they must commit to contributing to national economic growth. The major obstacles have been the

political and social tensions and the Saudization which favours a domestic labour force. However, the government has invested heavily by investing in national infrastructure and has adopted seven Guiding Principles for Investment Policymaking in 2019, including non-discrimination, investment protection, investment sustainability, enhanced transparency, protection of public policy concerns, ease of entry for employees, and the transfer of knowledge and technology.

Naturally, investors will select other countries, where such conditions do not exist. Other issues, such as ownership of fixed assets, repatriation of profits, protection of intellectual property rights (IPRs), and efficient and unbiased regulatory and judicial systems and even level of corruption, are also important.

1.1.1.2 Vision 2030

Vision 2030 is a comprehensive long-term plan, proposed and initiated by the Crown Prince Mohammed Bin Salman Bin Abdulaziz Al Saud of the Kingdom of Saudi Arabia in 2016. The Crown Prince expressed his vision as, "MY FIRST OBJECTIVE IS FOR OUR COUNTRY TO BE A PIONEERING AND SUCCESSFUL GLOBAL MODEL OF EXCELLENCE, ON ALL FRONTS, AND I WILL WORK WITH YOU TO ACHIEVE THAT" in the title page of the Vision2030 document. The document reveals several ambitious aims and goals, along with some details regarding implementation. More details were provided in a more recent report (Kingdom of Saudi Arabia ,2016). The vision for development has three pillars: a vibrant society, a thriving economy and an ambitious nation. The vibrant society will be with strong roots fulfilling lives and with strong foundations. The thriving economy will provide rewarding opportunities, will invest for long term, will be open for business and will leverage the unique position of Saudi Arabia. It will be an effectively governed and responsibly enabled ambitious nation. There are 96 strategic objectives and 13 programmes to achieve the Vision goals. The 13 programmes are: the quality of life programme, financial sector development programme, housing programme, national industrial development and logistics programme, strategic partnership programme, fiscal balanced programme, hajj and umrah programme, national transformation programme, human capital development programme, public investment fund programme, national character enrichment programme and privatisation programme. The numerical targets are as follows-

1) To rank three Saudi cities in top-ranked 100 cities in the world.
2) Household spending to be increased on cultural and entertainment activities inside the kingdom from the current level of 2.9% to 6% and household savings to be increased from 6% to 10% of total household income.
3) Ratio of individuals exercising at least once a week to be increased from 13% of population to 40%.
4) Elevate the global ranking indexes of KSA, as given below-

Global Index	Target by 2030
a. Social Capital Index	From 26 to top 10
b. Global Competitive Index	From 25 to top 10
c. Logistics Performance Index	From 49 to 25
d. Government Effective Index	From 80 to 20
e. E-government Survey Index	From 36 to top 5

5) Average life expectancy to be increased from 74 years to 80 years,
6) Unemployment rate to be reduced to 7% from the existing rate of 11.6%.
7) By 2030, SMEs is estimated to account for 35% of GDP from existing contribution of 20% and private sector's contribution from 40% to 65% of GDP.
8) Women participation in workforce to be increased to 30% from 22%.
9) To become one of the top 15 largest economies in world from current position of 19th largest economy in the world.
10) Share of non-oil exports in non-oil GDP is to be increased from 16% to 50% and non-oil government revenues to be increased from SAR 163 Billion to SAR 1 Trillion.
11) Localization of oil and gas sectors to be increased from 40% to 75%.
12) To increase foreign direct investment from 3.8% to the international level of 5.7% of GDP and to increase the public investment fund's assets from SAR 600 Billion to over 7 trillion.

Non-profit sector's contribution to GDP is to be increased from less than 1% to 5% and to rally one million volunteers per year compared to 11,000 now.

In what way the country will achieve these numerical targets is not clear yet. There have been criticisms on the practicality of the Vision, as Saudi Arabia is not yet ready to make such drastic

socioeconomic transformations. The availability of the massive funds required for the Vision projects and priorities has also been questioned (Khashan 2017; Kinninmont 2017; Vietor & Sheldahl-Thomason 2018).

1.1.2 Issues associated with FDI in Saudi Arabia

A recent report in Forbes (Dudley 2018) noted that the FDI performance of Saudi Arabia was poor compared with some of its neighbours. United Nations Conference on Trade and Development (UNCTAD) (2018) reported FDI of only $1.4 billion in 2017, compared with $7.5 billion the year before and the maximum of $12.12 billion recorded in 2012. Even smaller countries such as Jordan and Oman had FDI of $1.7 billion and $1.9 billion (2017). Saudi Arabia was attracting about one-fourth of the total FDI in the region until 2016 and dropped to 5.6% in 2017. In contrast, the share of FDI to UAE more than doubled from 19% in 2012 to 41% in 2017. In spite of the boycott by other Gulf countries, Qatar attracted $986 million in 2017 compared with $774 million in 2016. The causes of this weak FDI performance in Saudi Arabia have been attributed by UNCTAD (2018) to negative intra-company loans by foreign multinationals and substantial divestments. The 2018 FDI performance was the worst in recent years for both Saudi Arabia and the rest of West Asia. Globally, there was also a 23% decline in FDI inflows to $1.43 trillion.

This trend is a threat to the Vision 2030 plans, as major increases in FDI are essential for the implementation of projects under the Vision. Convincing international investors to invest in Saudi is difficult because of the authoritarian tendencies of the Saudi government undermining the confidence of actual and potential investors. Instances of arrest and detention of many high-profile businessmen in November last year and the more recent arrest of activists who had campaigned to allow women to drive have caused a loss in faith in the rule of law and security of investments in the country. However, according to Wald (2018), nothing alarming about the global trend; the drop could be due to new regulations and tax laws in some developed countries to promote domestic investment.

1.1.3 Impact of the death of the journalist Jamal Khashoggi

While Saudi Arabia is trying to improve its business credentials to attract a higher level of FDI, a recent incident may have deterred these efforts. The reference is to the recent disappearance of the journalist Jamal Khashoggi (a Washington Post columnist) inside the Saudi consulate in Istanbul. Fernando (2018) commented on the changing stance of the Saudi government in this

respect. Because of international pressure, the government admitted to the death of Khashoggi but maintained that he had died due to a tussle with officials sent to visit him. An earlier article in the Independent UK (Osborne 2018) gave a similar account. The US first threatened sanctions but later supported Saudi Arabia. The question is now whether this incident, which has created a bad image for Saudi Arabia, will adversely affect FDI into the country.

The Crown Prince managed the 'Davos in the Desert', a conference designed to lure foreign investment to pay for the Saudi Vision 2030 economic plan with an emotional remark on Jamal's death (Wright 2018). A commentary on CNBC by DiChristopher (2018) states explicitly that the Jamal incident will adversely affect FDI because of the damage to Saudi's reputation. The report points out that dozens of business executives, media companies, and prominent individuals dropped out of a high-profile investment summit in Riyadh in October 2018. At least two companies are rethinking lucrative deals with the Kingdom's sovereign wealth fund.

A report in DW (23 October 2018; see https://www.dw.com/en/saudi-investment-conference-kicks-off-in-riyadh/a-45993804) named JP Morgan CEO Jamie Dimon, HSBC chief John Flint, BlackRock CEO Larry Fink and the head of German engineering giant Siemens, Joe Kaeser, US Treasury Secretary Steven Mnuchin and IMF Managing Director Christine Lagarde as those who stayed away from Saudi investment conference in Riyadh, which started on 23 October 2018. The conference website was also defaced. Reputation damage to Saudi Arabia was stated as the reason for all these. However, there are claims of many other business organisations supporting investment; claims of new investment of $50 billion have been made (Rappeport 2018; Torchia, Gamal & Rashad 2018). Apparently, despite the large-scale boycott by many investors, others have disregarded the murder of the journalist and considered the potential for huge profits. The trend may continue as the context further cools.

The overriding positive factor for investment in Saudi Arabia is the high-profit potential offered; reputation damage because of adverse events is unlikely to completely overcome this. It may be that, eventually, those who boycotted the event and investment express a willingness to invest. The economic motive is predominant for investors, even in the face of adverse reports about a country, as has been the case for China (Ungarino, 2019). This is not new. Cuba has been embargoed since 1958, led by the US and supported by its allies as United States threatened to stop financial aid to other countries if they trade non-food items with Cuba (https://www.cfr.org/timeline/us-cuba-relations) . Many restrictions have been lifted, but some

remain. In the case of the present incident, the US -supported Saudi Arabia, which may lead to a rapid revival of prospects for Saudi Arabia (Ungarino, 2019).

It is worth noting that this is not the first time Saudi Arabia has suffered a hit to its reputation. For a long time, the US accused Saudi Arabia of being involved in the 9/11 terrorist attack. In a recent development, a US court allowed the 9/11 victims to bring lawsuits claiming that Saudi Arabia helped the terrorists to plan the attack (Baynes 2018), though there was insufficient proof to implicate the Saudi government directly. However, no policy of sanctions against Saudi Arabia was implemented partly because the US would be severely affected if Saudi Arabia implemented an oil embargo against the US. However, the mutually beneficial relationship between the two countries has not reduced the negative feelings of the public in the two countries regarding each other. Therefore, the death of the journalist Khashoggi may have hindered the reputation of Saudi Arabia ,but the 9/11 incident cannot be seen as the direct reason for the drastic reduction in FDI inflows (see Figure 2.1) since 2010. If the $50 billion investment promised at the 23 October 2018 Riyadh investors' conference is realised, it would be the highest ever FDI in the history of Saudi Arabia, offering grounds to consider Vision 2030 as working well as a platform for attracting high levels of FDI inflows.

FDI inflows have been shown to be affected by a number of factors. Demand-side positive determinants of FDI were listed by Hailu (2010) as natural resources, labour quality, trade openness, market access, infrastructure condition, government expenditure, and private domestic investment. Macroeconomic factors such as economic growth and competitiveness, relative output (GDP), market size, exchange rate, trade openness, and the inflation rate have all been studied in a variety of contexts, with varying results (Hailu, 2010). Political stability, regulatory framework, absence of democracy, foreign ownership laws, quality of governance, capital and profit repatriation rules and restrictions on equity holdings, intellectual property rights (IPR), and corruption have also been found to have varying effects on FDI. Infrastructure conditions and global factors have also been studied.

A World Bank report (Hornberger, Battat & Kusek 2011) points to the importance of investment climate (strong institutions and business-friendly regulations) and business opportunities (market size and growth potential of markets) as two critical determinants of inward FDI.

Distinguishing between direct investment (FDI) and portfolio investment (FPI), the Levin Institute (2017) listed the following factors as affecting FDI:

1. rules and regulations on the entry and operations of foreign investors
2. standards of treatment of foreign affiliates compared with domestic firms in the host country
3. functioning and efficiency of local markets
4. policies on trade and privatisation
5. measures of business facilitation including investment promotion, incentives and amenities provided, and cost reduction in doing business
6. earnings/profit repatriation restrictions in the form of dividends, royalties, interest, or other payments.

In the case of FPI, the factors are high national GNP growth rate, the stability of exchange rate, foreign exchange reserves in the central bank, overall macroeconomic stability, general health of the foreign banking system, liquidity of the bond and stock markets and interest rates. The following factors of the economic policy environment are also important in the case of FPI: ease with which dividends and capital can be repatriated, capital gains taxes, stock and bond market regulations, quality of domestic systems of accounting and disclosure, efficiency and reliability of dispute settlement systems, and the extent to which investor rights are protected.

Miškinis and Juozėnaitė (2015) examined FDI determinants for Greece, Ireland, and the Netherlands for the period 1974–2012. They found only the exchange rate had a significant influence on FDI in the case of Greece; there was some impact upon the exchange rate, trade openness and inflation on FDI in the case of Ireland; and GDP per capita, labour costs ,and inflation affected FDI slightly in the case of the Netherlands. The introduction of the Euro had an impact only in the case of Greece. Unfavourable investment climate was identified as the cause of the low level of FDI in Greece.

The above findings show that several factors affect FDI inflows, though these may differ by country. Similarly, the nature and extent of influence of the same factor may vary when two countries are compared.

The two pertinent questions arising with respect to FDI into Saudi Arabia are:

1. Why is FDI performing so poorly in the case of Saudi Arabia?
2. If the FDI trend cannot be improved, how else could the Vision 2030 projects be financed?

The first question could be answered if we had knowledge of the specific factors currently deterring foreign investors from investing in Saudi Arabia. A related issue may be the factors deemed favourable by foreign investors. Thus, both favourable and negative factors are important. Identification of these factors may enable attracting higher levels of FDI by showcasing favourable factors and enacting policies to convert negative factors into positive factors. A time-series analysis of FDI trends and how these correlates with the various factors reported in the literature is one way this knowledge could be gleaned; another is to ask the current foreign investors in the country about their perceptions on these issues. Suggestions on methods to improve FDI levels could also be asked.

The second question is partially answered by the answers obtained for the first question. Armed with the knowledge of factors and methods to improve FDI levels, the implementation may increase the level of FDI; however, the desired outcomes are not guaranteed.

It is not possible to assess whether FDI will be increased adequately to finance Vision 2030. Additional strategies may be required, which may involve using unconventional means to attract foreign investors to invest in Vision 2030 projects. The economic development activities should become part of Vision 2030; otherwise, there may be a clash of interest between the five-year plans, annual plans, and Vision projects.

Based on the above discussion, there are two current challenges: identifying factors responsible for the low level of FDI into Saudi Arabia and identifying methods to increase FDI inflows sufficiently to finance Vision 2030. These two challenges are addressed in this study, drawing on the following aim and research questions/objectives.

1.2 Aim of the Research

The aim of this study is to investigate two aspects related to FDI in Saudi Arabia: whether the Saudi business environment is conducive to attracting FDI in non-oil sectors and the factors that determine the motivation of foreign companies to invest in Saudi Arabia.

To achieve this aim, the research questions below were framed.

1.3 Research Questions

Research Question 1: To what extent is the business/investment environment attractive for FDI in KSA?

1.a To what extent do FDI companies feel satisfied that the investment climate is conducive and favourable, and therefore, are attracted to Saudi Arabia's business environment?

1.b What are the strengths and weaknesses, as well as threats and opportunities, that exist in Saudi Arabia's business environment in terms of attracting FDI?

Research Question 2: What are the human resources and infrastructure factors that determine the effectiveness of FDI in KSA?

2.a To what extent do foreign companies feel satisfied/dissatisfied with the quality of local labour?

2.b What barriers exist in relation to the human resources required for FDI operations?

2.c To what extent do foreign investors feel satisfied with the quality of the infrastructure?

1.4 Overview of Research Methods Used in this Research

To answer the above research questions and achieve the research aim, suitable methods of data collection and analyses were employed. Broadly, a mixed-method strategy consisting of surveys (descriptive) and semi-structured interviews was used. The mixed-method comprised a quantitative method of a questionnaire survey of officers (employees) of foreign firms and local/foreign (mixed) partnership firms located in different cities of Saudi Arabia across many sectors listed in the national stock exchange and a qualitative method of semi-structured interviews with officers (employees) of the Saudi Arabian General Investment Authority (SAGIA). Details of the methods and their justification are provided in the methodology chapter. Results obtained from these methods are triangulated with published work on the variables of data collection and analysis. Explanations and interpretations from triangulation lead to conclusions and recommendations.

1.5 Significance of this Research

Although many factors in the business and investment environment are at par or better than those in other countries favoured as FDI destinations, KSA is unable to attract as much FDI. As the figures points, between 2008 to 2018, Saudi Arabia FDI had been consistently declining from 36.5 USD to 8 million dollars (UNCTAD, 2018). The findings of this research offer some explanations for this perplexing problem.

Saudi Arabia has become a budget deficit economy since the oil price crashed in 2014. Given this, the country cannot finance Vision 2030 projects without outside financial help through FDI. The Saudi government has only been partly successful in attracting foreign investment for some of its high-profile projects. Therefore, it is necessary to find ways to achieve the aim of obtaining sufficient FDI for the implementation of Vision 2030. The findings of this research provide some clues on how to do this.

Additionally, although much work has been done on FDI and related factors in western and many other countries, very little work has been done pertaining to Saudi Arabia. This research adds new knowledge to the little known about this topic.

1.6 Organisation of this Thesis

The remainder of this thesis is arranged in the following manner. Chapter 2 – Literature Review) explores work published on the topic of FDI and factors affecting this in different countries, including Saudi Arabia; particularly, Vision 2030 and issues related to it. Chapter 3 describes the Research Methodology and details the procedure adopted to collect and analyse the data. Chapters 4 and 5 discuss the analysis and interpretations of the survey and interviews. Chapter 6 discusses the findings of the research, and the final chapter 7 concludes with the study's key findings, limitations, and future research direction.

Chapter 2: Literature Review

2.1 Introduction

Data from the Saudi Arabian Monetary Agency SAMA (see Figure 2.1) shows that FDI to Saudi Arabia has consistently declined after a steady increase over 2005–2009. Although the global financial crisis of 2008–2009 may explain the decline until 2010, further decreases are likely due to other causes. These causes need to be investigated and rectified to ensure continued high growth of FDI to Saudi Arabia.

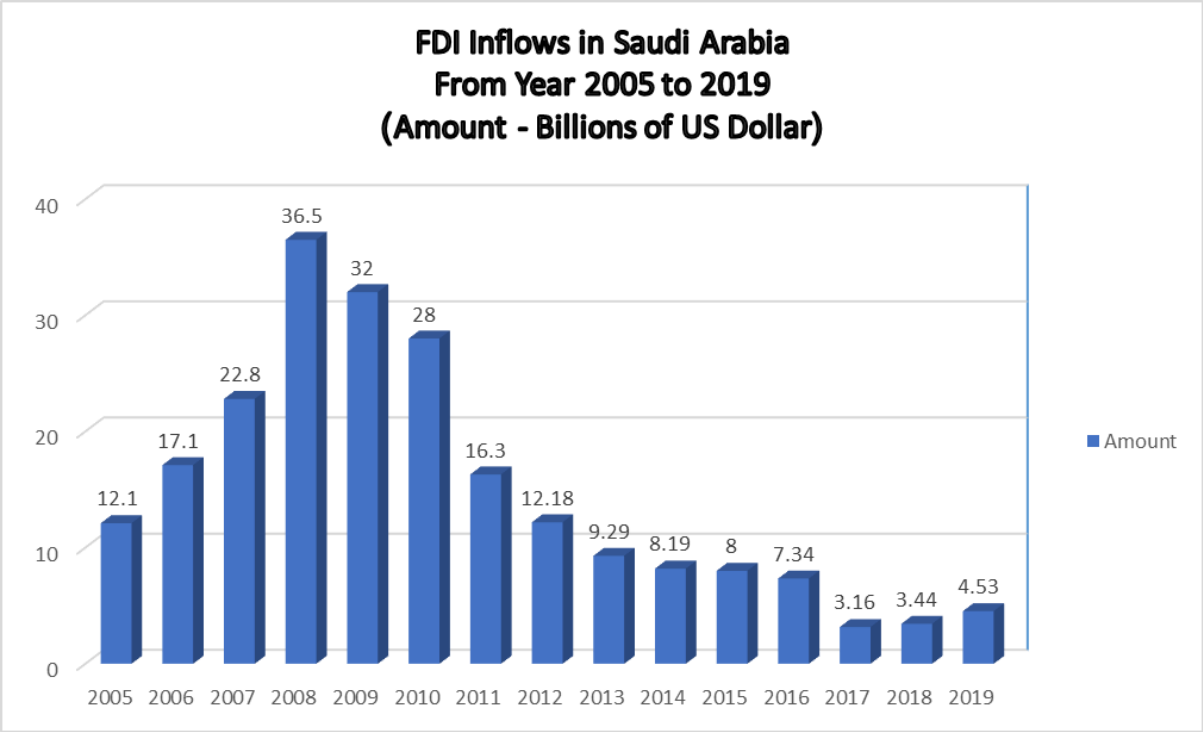

Figure 2.1: FDI inflows to Saudi Arabia, 2005–2019 *(source: Saudi Arabia Monetary Agency)*

According to the World Investment Report 2019 (see Figure 2.2) on FDI inflows into different countries, Saudi Arabia is not among the top 20 recipients of FDI. However, in terms of actual quantities, FDI increased from 2017 to 2018 only in the cases of China, Hong Kong, Singapore, Netherlands, Australia, Spain, India, Canada, France, Italy, Indonesia, Israel, and Viet Nam.

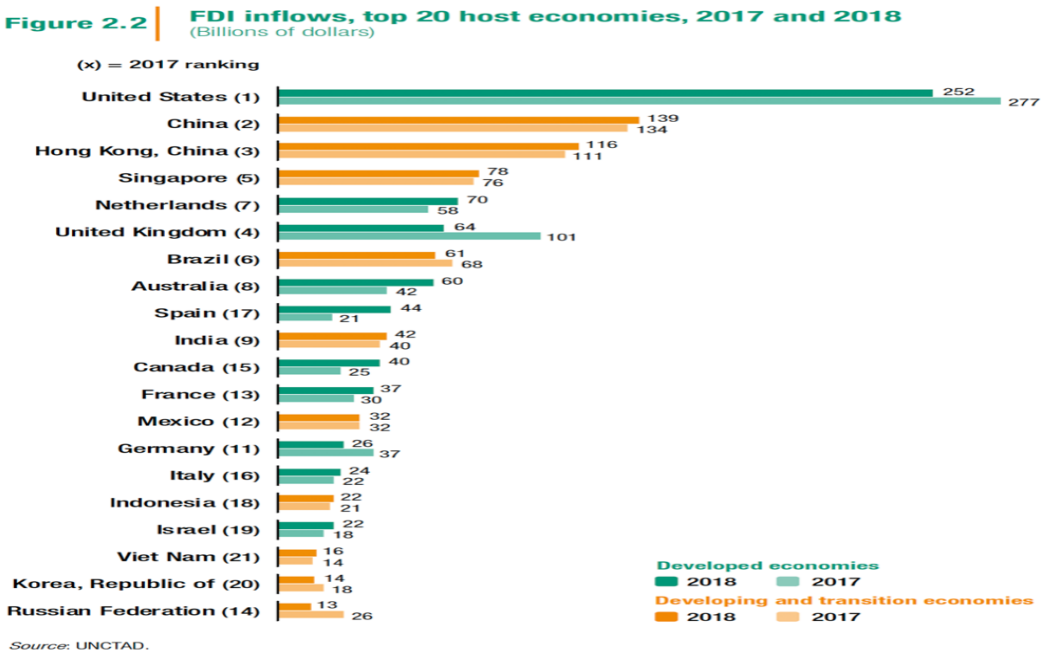

Figure 2.2: Top 20 countries for FDI, 2017 compared with 2018 (World Investment Report 2019 UNCTAD)

This research investigates whether the Saudi business environment is conducive to attracting FDI, particularly in non-oil sectors, and to examine the factors that determine the motivation of foreign companies to invest in Saudi Arabia.

Hence, first, this review examines the reasons for significant FDI increases in developed countries compared with developing countries, and why certain developing countries are preferred over others. Allied issues related to the data above include why Saudi Arabia is not among the 20 top FDI recipients despite all efforts and deliberate policies to delink economic growth from complete dependence on oil, and why the dependence on oil for economic growth has not reduced significantly. For this purpose, first, positive and negative factors affecting FDI inflows are reviewed; from there, how these factors apply to the Saudi context is examined. This will lead to the examination of government policies and strategies and the internal environment of the country in relation to FDI inflows. It follows that positive factors need to be promoted, and negative factors minimised. However, before these aspects are discussed, theories related to economic growth and FDI are reviewed.

2.2 Contemporary Economic Growth and FDI

In his review of economic theories and concepts, Sharipov (2015) tabulated five types of theories and their periods as a prelude to the development of FDI theories: mercantilism of the 15th century, physiocracy in the second half of the 18th century, classical theories from 1776,

innovative growth theory of Schumpeter (1911), Keynesian theories of the 1930s, post (neo)-Keynesian theories of the 1950s, neoclassical theories and exogenous theory of Robert Solow in the 1950s and 1960s and the endogenous growth theories of 1980s and 1990s. FDI theories started with Adam Smith's (1776) theory that the wealth of nations is not comprised of gold, but trade, which was further refined by Ricardo's theory of comparative advantage. To create wealth, nations should have a comparative advantage in competition with other countries. This, perhaps, was the basis of the concept of competitiveness introduced by Michael Porter in the 1980s. The theory of Adam Smith provides a basis for FDI. Foreign investors enter a country for business and make a profit; thus, trade or business is the fundamental reason for FDI. Most foreign investors arrive in Saudi Arabia to exploit business opportunities and make profits; thus, Adam Smith's theory is applicable in the case of Saudi FDI.

Competitive advantage is an important reason for FDI. Firms compete for profits by way of cost reduction, increased market share, or expansion. For cost reduction, cheap labour in the required skills must be available. Saudi Arabia is weak in this respect; hence, foreign investors may choose not to invest for this reason. Increased market share is possible if the domestic market of the host country is large. China (1.44 billion), India (1.38 billion), USA (0.33 billion), Indonesia (0.28 billion) are the four most populous countries in the world. Compared to them, the population of Saudi Arabia is only 35 million, ranking 41st globally (Worldometer, 2020). Thus compared with China or India, the population of Saudi Arabia is small, and hence market size is small. Therefore, foreign investors will not invest in increasing domestic market share. However, Saudi Arabia is geographically positioned in a strategic location and can provide access to many countries in the Gulf, Asia, Europe, and North Africa. Thus, FDI for export units is possible and requires only minimum skills such as packing, labelling, and shipment.

There is no scope for expansion by acquiring domestic firms because of regulatory restrictions on this. Head and Ries (2008) discussed FDI taking place through mergers and acquisitions. Such acquisitions indicate efforts of the market for corporate control, leading to what John Stuart Mill (Mill, 1965) (p 41) proposed as the concept of continuous capital accumulation: when capital increases faster than the increase in workforce, demand for labour will also increase. If mergers and acquisitions by foreign firms occur in a country, it is indicative of this characteristic. However, in Saudi Arabia, not many mergers and acquisitions by foreign firms have taken place. Such trends were more common in OECD countries during 1997–2001. Findings demonstrate that countries with a healthier financial system attract higher FDI.

Financial markets are capital markets. As more and more FDI comes into a country due to favourable capital markets, continuous capital accumulation should result, as proposed by John Stuart Mills. Compared with the financial markets of developed countries, those of developing countries are weak. This applies to Saudi Arabia, although Saudi Arabia has one of the best financial markets among developing countries. Here, the comparative performance of Saudi Arabia versus China or India is relevant. Saudi Arabia has only one stock exchange, the Tadawul. China and India have many stock exchanges, indicating more diverse and flexible capital markets for investors. Population growth is reflected in an increase in the workforce, requiring increased food production. With diminishing returns from agriculture, there is a stage of lower incentives for investment. According to Schumpeter (1911), changes in the economic sphere cause a disturbance in the steady-state of the economy. Successful innovative solutions by a few businesspersons create a monopoly, which Schumpeter regarded as a positive. Development occurs in economic activity when new products are introduced, new markets are found for current products, new methods of production are introduced, new sources of supplies of raw materials are found, and new organisation of industry is created. As such, economic activities require investment, and the capital market must be promoted to attract investment. Foreign investors will be interested if the market is active; to what extent this is happening or possible in the case of Saudi Arabia is a point to be evaluated.

Recession is defined as a significant decline in economic activities that is spread across the economy and lasts more than a few months. It is normally visible in the GDP, employment, real income, industrial production, and wholesale-retail sales. When businesses cease to expand, the GDP diminishes for two consecutive quarters, pushing up unemployment and house prices decline. “At the microeconomic level, firms experience declining margins during a recession. When revenue, whether from sales or investment, declines, firms look to cut their least-efficient activities. A firm might stop producing low-margin products or reduce employee compensation. It might also renegotiate with creditors to obtain temporary interest relief. Unfortunately, declining margins often force businesses to fire less productive employees” (Murray N. Rothbard, 2000, p- 4-5).

John Maynard Keynes suggested that the business and investment community fickle and prone to bouts of extreme over- and under-confidence and calls the forces that led to recession as "animal spirits. His explanation assumes a strong correlation between stock market performance and business productivity, and it also assumes swings in confidence cannot be

predicted. According to his theory (Keynesian theory (1930), 'effective demand, especially if aggressively created (by governments), drives growth.' National income, savings, investments, and consumption are the key elements of the economic activities of nations. During the recession, the government's focus should be on expansionary fiscal policy to increase aggregate demand and economic growth through increased spending and decreasing taxation as well as expansionary monetary policy to increase growth through cutting interest rates. (Peter Skott 1989).

Demand can be created even for products seemingly less useful for daily life by clever promotion strategies. If distinct demand can be created for existing low-demand products/services or new products/services, investment in the form of new ventures will be possible, many of which could be foreign. It does not seem that any specific effort has been made to create or enhance the demand for products/services in Saudi Arabia. The traditional culture and ways of life may not encourage such innovations in product/service markets. Traditional culture specially in Saudi Arabia maintains status quo and is resistant to change. Low power distance and high individualism favour innovation and the opposite, that is high power distance and low individualism (as in the case of KSA) (Hofstede, 2019) deter innovation, according to Strychalska-Rudzewicz (2016). This is where the transition of the country to a modern knowledge economy as the goal of Vision 2030 assumes significance.

Domar and Harrod (1939 to 1946) proposed modifications to Keynesian theories to shift these from a short-term perspective of economic recession or depression. Robert Solow and others were against state intervention in the economy and argued that the private sectors should take care of this. Neoclassical theorists criticised the neo-Keynesian growth theory. The theory of marginal productivity was introduced into the factors of production; Solow was awarded the Nobel Prize in 1987 for his theory connecting capital and labour in terms of productivity, with the economic efficiency of production as an independent factor of economic growth and social progress and technological progress as the source of welfare economics. Most foreign investment should come from private investors, and foreign private investors will be interested in the investment and business environments are favourable. There are many policy and institutional factors related to how the far private investment is promoted in a country. In the case of Saudi Arabia, factors related to investment are favourable, but factors related to operations using private foreign investment are not favourable; for example, Saudisation.

Economic fluctuations are explained by two main groups of theories which includes exogenous and endogenous either as responses of the economy that are external (exogenous shocks) or as upturns and downturns of economic systems internally generated (by endogenous factors). Using endogenous theories, investment is mainly a key variable to explain the dynamic status of the economy. As such, the endogenous growth is a long-run economic growth at a rate determined by forces internal particularly those that govern the opportunities and incentives to create technological knowledge.

According to Aghion, and Howitt, (1998), the first version of endogenous growth theory was AK theory, which did not make an explicit distinction between capital accumulation and technological progress. This was modified by Frankel (1962 p-107) "when firms accumulate more capital, some of that increased capital will be the intellectual capital that creates technological progress, and this technological progress will offset the tendency for the marginal product of capital to diminish". In a second wave of AK theory, endogenous theory is known as 'innovation-based' growth theory, which recognizes that intellectual capital, the source of technological progress, is distinct from physical and human capital. Physical and human capital are accumulated but intellectual capital grows through innovation. Shaw (1992), recognises this as he explains that the quality of human capital, protection of intellectual property rights, state support for the development of science and technology, and the role of government in creating a favourable investment climate and attracting new technologies are perceived as important. Saudi Arabia must examine the impact of its policies on these aspects and improve any shortfalls to increase FDI.

Heng (2015) clarified that economic development is "a process by which a traditional society employing primitive techniques (and therefore, capable of sustaining only a modest level of per capita income) is transformed into a modern, high-technology, high-income economy. The process consists of replacing labour-intensive subsistence production with techniques that use capital, skilled labour, and scientific knowledge to produce different products for consumption in an affluent society." The author discusses the theory of competitive advantage of Porter, the cluster-based approach and agglomeration of economies, and the global value chain and global supply chain network for development, retention, and enhancement of competitive advantage. According to Porter, nations are driven by resources, investment, and innovation, as they progress through competitive advantage. Saudi Arabia was ranked 39th of 140 countries in the 2018 competitiveness index of the World Economic Forum (2018); countries such as India,

which attract more FDI, were ranked much lower (58th). If the competitiveness index reflects a competitive advantage, Saudi Arabia is decently placed. However, certain factors contributed to its rank not being higher; these factors need evaluation and correction for improvement of competitiveness.

Location theory was proposed by North (1955) as an improvement over the regional growth theory proposed by earlier work. Part of the competitive advantage is the geographical location. Access to target international markets is a key factor for exporting activities. Investors will be encouraged to set up export processing units in such countries, even if other business activities are unattractive. Saudi Arabia is very favourably placed in this regard; thus, attracting FDI for export processing units may be more comfortable, though the investments may not be significant.

Whiteley (2000) suggested social capital or (Interpersonal trust of citizens) as the driver of economic growth using current evidence and his own results. Social capital was as necessary as human capital. A dynamic eclectic paradigm (modified from an earlier concept) to explain international business by multinational enterprises (MNEs) was proposed by Dunning (2000). Krugman's theory of geographical economics as an extension of earlier regional development theory was reviewed by Martin and Sunley (1996). Many ideas from other theories, such as Marshall's agglomeration economics, were used by Krugman. However, technological externalities and the influence of neoclassical theories are major limitations of his theory.

Some of the above theories explain FDI. Dudáš (n.d.) reviewed these theories elaborately. The theories are concerned with the investor, kind of FDI, why it is being invested, where the FDI is going when the investment should be made, and what the mode of entry should be. At the macro-level, "imperfect capital" or theory of exchange market (Cushman, 1985) is where companies engage in FDI due to interest rate fluctuations. Appreciation or depreciation of exchange rate can affect profitability and costs of firm operation. Through FDI, many uncertainties caused by exchange rate fluctuations can be reduced by moving operations to a host country. In this theory, the differences between source and host country currencies determine FDI. Dynamic macroeconomic theories seek to explain FDI as a long-term strategy of transnational corporations or MNEs. The timing of the FDI is decided by changes in the macroeconomic environment. Another set of macroeconomic-level theories considers FDI from the point of view of the creation of international production clusters. Innovation is the

primary determinant here. In the gravity approach (macroeconomic) geographic, economic culture closeness is a factor behind FDI flows between two countries.

The institutional framework and political stability are the bases of another macroeconomic-level FDI theory. There are also developmental theories, such as the product life-cycle (PLC) theory proposed by Vernon (1966). "According to his theory, firms go through four production cycles: innovation, growth, maturity and decline. The underlying principles of this theory were technological innovation and market expansion; hence, while technology ensured the conceptualisation and development of a new product, the market size influenced the extent and type of international trade. In the initial stage, new products are invented, produced and sold in the internal markets. If the product is successful, production increases, new markets are penetrated and export develops" Patricia Makoni (2015) . This is the transition from growth to maturity. This theory has implications within Saudi context. Saudi Arabia was attracting high levels of FDI in oil sectors from 2005 with 12.1% to peaking in 2008 with staggering growth of 36.5%. Since then it has been gradually declining to current levels of just 4.53% in 2019 (see figure 2.1). This indicates that Saudi oil market has transition from growth to maturity. With this realisation the Saudi government's vision to diversify into non-oil sectors remains a pipeline dream through its Vision 2030 plan. While the 2030 plan is in its early implementation phase of innovation within all sectors of the economy, it is too early to make any real sense of the growth phase let alone maturity. Its long way from that.

Japanese researchers such as Ozawa proposed theories in the 1970s in which FDI, the competitiveness of the country, and economic development is interrelated, as per Porter's (1990) concepts. In the three phases of FDI growth, first, foreign companies invest in taking advantage of low labour costs or the resources of the country. In the second stage, new FDI is drawn by growing international markets and standards of living. Some outward FDI offsets growing labour costs. Innovation is the basis of competitiveness of the country in the third phase. Market and technological factors determine inward and outward FDI (Patricia Makoni (2015).

John Dunning (2000) expanded the three stages into five stages. In the third stage, the nature of FDI changes as wages rise. Outward FDI occurs as domestic firms become stronger and develop competitive advantages. The fourth stage is similar to the third phase of Ozawa. In the fifth stage, strategies of MNEs for investment dominate FDI inflows. Equilibrium is achieved between inward and outward FDI. FDI theories at the micro-level include concepts of firm-

specific advantages (Hymer) and oligopolistic markets (following the market leader and mutual threats between firms). The theory of internationalisation based on market imperfections proposes that firms desire to strengthen their monopolistic advantage through strategic investing. Firms create their own internal market through internationalisation to overcome market imperfections (Buckley & Casson, based on Coase). Internationalisation makes a firm multinational.

In eclectic theory, John Dunning (2000) integrates many paradigms, borrowing both from macroeconomic and microeconomic theories. Specific knowledge capital, such as talents, patents, exclusive technologies, and brand reputation, can be replicated or transferred without loss of value and at low cost within the firm. Localisation by production close to target consumers in different countries by adaptation can also occur, with saving on costs of transportation, inputs, crossing trade barriers that are possible by this strategy. Contracts with local firms have risks of the contractor breaking the terms, using the transferred technology and brand to compete with the mother firm, and even damage to the reputation of the mother firm. In line with these considerations, Dunning (2000) proposed the OLI (Ownership, Localisation and Internalisation) components of the eclectic theory. If O and I advantages are high, outward FDI by location of units outside the country is pursued. If the I advantage favours the home country, domestic investment is preferred, and products are exported to foreign markets. From the OLI concept, four types of FDI can be derived: resource-seeking FDI, market-seeking FDI, efficiency-seeking FDI (global sourcing), and strategic assets/capabilities FDI.

In resource seeking, products are produced and re-exported to the home country. In market seeking, new markets for the products are sought; high-population countries such as China and India are targets of this type of FDI. In efficiency-seeking FDI, restructuring of the most economical combinations of production and profit maximisation factors are sought by locating different facilities in different countries. This leads to international specialisation and global sourcing. In strategic assets/capabilities seeking, some of the other firms or their assets are acquired via merger, acquisition, or both. Acquisition of local capabilities, market knowledge, pre-empting competitors from entering the market, and pre-empting acquisition by other firms are sought. Other authors (Denisia 2010; Nayak & Choudhury 2014; Nayyar 2014) have also reviewed these strategies. Strategic capabilities for exporting using location advantage may be a factor favourable for FDI in the case of Saudi Arabia, as discussed above.

2.2.1 Application of theories in FDI research

The theories above have been used in research on positive and negative factors related to FDI. Research methodologies used in these works are, to some extent, based on the theory used. Generally, co-integration, ordinary least square (OLS) regression, Granger causality tests, and the vector correction method are used in work discussed below.

Duong (2017) analysed many theories of FDI, including market-power theory, oligopolistic-reaction theory, product-life-cycle theory, currency area theory, Kojima's theory, vertical FDI theory, horizontal FDI theory, risk diversification theory, eclectic theory, and internalisation theory. Based on the analysis, the author concluded the eclectic theory to be the most comprehensive theory to explain the determinants of FDI of multinational firms. A more systematic discussion of FDI theories was provided in Shodhganga (2009), and the following description of FDI theories is primarily based on this source.

Theories explaining FDI fall into two broad categories. The first aims to justify FDI within the framework of international trade theories, while the second analyses FDI at the firm and industrial organisation (IO) levels.

International trade theory is a pure or orthodox version of trade between nations. The Heckscher-Ohlin-Samuelson (H-0-S) construct forms the core of this theory. It attributes trade to differences in factor endowments between nations. Neoclassical approaches have tried to explain international capital movements, FDI flows and multinational firms based on this theory, but the rigid assumption of complete factor immobility between nations, central to the H-0-S model, eliminates the possibility of movement of capital between countries, and therefore, fails to accommodate the phenomenon of FDI. The other constructs of H-O-S—international factor mobility with identical production functions across nations, perfect competition and constant returns to scale—also fail to accommodate FDI.

If under the neoclassical approach, the assumption of factor immobility is relaxed, the theory of capital arbitrage can explain FDI. The movement of capital from the more capital-abundant nations to the less capital-abundant countries is now possible if rates of return are higher in the latter countries, as a trend towards equalising returns to capital in different countries progresses. However, even after considerable modifications, the pure theory of trade has proved unable to answer the basic question of why firms invest in the establishment of production facilities in foreign locations.

The location theory of Losch (1954) argues that locational choices indicate attempts towards economic equilibrium across space. Least-cost location is the aim of firms seeking to minimise their global costs. The location theory is likely to result in choices similar to those of independent national firms in determining locations based on the source and cost of raw materials and the location of markets. The theory fails to consider the oligopolistic features of multinational enterprises and their impact on investments.

The product cycle hypothesis of Vernon (1966) substantively links international trade with FDI. The hypothesis combines the three-stage theory of innovation, growth and maturity, with emphasis on R&D as an independent input in the production process proposed by Kojima (1978), with differences in technological capabilities as the main source of national comparative advantages. According to the hypothesis, firms from technologically superior nations will initiate the production of new hi-technology products for their domestic markets. The massive capital investments required for sustaining R&D and achieving technological superiority can be met only by economically well-developed nations. There is a highly income-elastic demand for new products.

The high domestic incomes in the richer countries stimulate new wants, for which more technological innovations are developed. Technological innovations can also occur due to labour scarcity. Both together enable the use of labour-saving technology for production. To reduce communication costs, production centers are often located closer to markets. In the third stage of growth, the new products, first unstandardized, are continuously upgraded to meet the new demands of consumers. Demand for the new products increases in both local and foreign markets to a stage of location advantage for cost minimisation. Thus, market-seeking FDI occurs first in countries of similar socioeconomic standards. The maturity stage is reached when demand saturates across the markets, and competition leads to the lowest price competition. This forces firms to locate production in countries where labour and raw materials are cheaper. These countries are, most often, less developed than in home countries. Investments flow from developed to developing countries in the form of FDI. The main assumptions of the life-cycle hypothesis are consumer demand determined by income levels, technology, cost due to distance to markets, predictable marketing methods, and market and technology imperfections. These assumptions depart significantly from the rigid assumptions of the triad theory.

The cyclic sequence described above was modified in a later version by Vernon (1974), where the oligopolistic nature of firms was emphasised. The first stage of innovation-based oligopoly is similar to stage one above. However, as innovations can save both labour and land, the second stage of a mature oligopoly is very different from the earlier one. The product and locational strategies are interdependent now. Entry barriers for new products in markets are suggested. Market structures exhibit differences due to economies of scale in production, marketing, and research. Competitive strategies create firm rivalries for markets, aimed at the highest bargaining power to capture and sustain the major share of the market. This is achieved when all firms reach all markets. In the final stage of senescent oligopoly, the economic scale is no longer an entry barrier to markets. Now, new entry barriers to product differentiation also fail. At this stage, firms settle towards reconciliation of competitive pressures.

Location is now decided by inter-regional cost differences. An explanation is offered by the product cycle hypothesis for the FDI question of why certain firms prefer investing abroad, rather than exporting. If the costs associated with exporting and meeting demands of foreign markets are more than those of locating and producing overseas, FDI will result. Specific factors of the host country, such as cheap labour, raw materials, and regulatory environment, also determine the preferred location. Technological superiority, ability to innovate, and oligopolistic behaviour are identified as the distinguishing features of multinational enterprises. However, the theory fails to explain non-export substituting FDI and the tendency to produce non-standardised products in less-developed countries.

The second category of theories is related to firm and IO. Although the theory has the same limitations as the pure trade theory discussed above, some theories dealing with firms, assumptions of oligopolistic advantages, and market imperfections can explain FDI. Here, the question to be answered is how foreign companies are able to compete efficiently with local counterparts in host countries, despite the intrinsic advantages enjoyed by the latter. The acquisition of knowledge of local markets to the level of domestic firms is a costly exercise for foreign firms. Under such circumstances, if the foreign firms invest in subsidiaries in these countries, some oligopolistic advantages outweigh the cost considerations, including ownership of intangible assets such as patented technology, marketing expertise, managerial skills, and easy access to finance. The theories of the firm stress the proprietary control of these intangible assets with zero or minimum marginal costs, transferability of these assets to subsidiaries in other countries at low additional costs, spread of assets across many countries

giving the advantage of economies of scale of multi-plants, specialized knowledge, and skills and product differentiation are firm-specific attributes. Although possession of particular advantages is a necessary pre-condition for FDI, market imperfection theories fail to explain why firms decide to produce overseas and not export from home countries or license production to local agents in foreign countries.

Hersch (1976) proposed a model in which the firm-specific advantages listed above are revenue-earning factors, and country-specific factors are cost factors. In this formulation, FDI occurs when the benefits from the possession of ownership advantages outweigh the costs of foreign operations, and if the costs of foreign operations are lower than those of domestic production and exports. However, the model does not explain why licensing is not a better option.

The decision of foreign firms to exploit their advantages through FDI, rather than through alternative market-based arrangements, has been addressed by internalisation theories of Buckley and Casson (1976), Lundgren (1977), and Swedenborg (1979). Internalisation theories identify the circumstances in which internalising operations is preferable to licensing, implying the firm needs to invest a foreign country to derive full advantage of its internalised capabilities. The overall objective of profit maximisation and the oligopolistic advantages arising from the possession of knowledge can be achieved only by internalising production across national borders through FDI. This appears to be the logical conclusion of multinational firms. However, the relative costs of licensing versus owning a subsidiary may determine either option in given conditions.

The eclectic framework or the OLI construct proposed by Dunning (1977, 1981, 1988) provides the necessary/sufficient conditions for FDI. The main issues and explanations of FDI are incorporated into the framework. The theory suggests that, at any time, advantages of ownership, location, and internalisation need to be present for FDI to happen. Thus, three conditions need to be fulfilled:

a. Firms must possess intangible assets, which will bestow ownership advantages on them so that they can effectively compete with local firms by overcoming the costs of doing business abroad.

b. There should be some location advantages offered by foreign markets, which lead to higher profitability from foreign production than from at-home production and export.

c. The firms should possess some internalisation advantages, which they can use for transacting their intangible assets through organisational networks within the organisation and not through the market.

The OLI framework has been criticised because it justifies only FDI through wholly-owned subsidiaries, but not other forms of FDI, such as joint ventures. However, this is the only available theoretical framework that can explain FDI comprehensively. Therefore, this is the most widely used theory in FDI research, as exemplified by Wilson and Baack (2012) and a multi-country (196) study by Pathan (2017). This framework will be used to explain the findings obtained in this research.

To conclude this section on FDI theories, a summary table of the theories and their relevance to the Saudi context is tabulated and presented below (see Table 2.1).

Table 2.1: FDI theories and their relevance to Saudi Arabia

FDI theory	Main features	Relevance to Saudi Arabia
International trade theory	International capital movement. Rigid assumptions of complete immobility of factor mobility between nations and perfect competition are limitations in explaining FDI.	KSA has active international trade, especially oil export and import of products and services not available in the country, from many countries. Dynamic flux of capital between KSA and other countries may contribute part of FDI.
Neoclassical theory of capital arbitrage	Factor immobility assumption is relaxed. Capital flight from capital-abundant to capital-deficient countries possible, if it results in higher returns. Still, perfect competition is a factor that fails to explain FDI.	KSA was a revenue-surplus country with high incomes from oil exports. However, since 2014, a fall in oil prices has caused revenue deficits. Thus, although a rich country, effectively, KSA needs capital to flow (FDI) from other countries to finance its growth via deficit budgets.
Location theory	Location advantage for global cost reduction leads to firms establishing units away from home countries, implying FDI. The oligopolistic features of multinational enterprises and their impact on investments are not considered.	KSA or any other country may only marginally benefit if this type of FDI occurs, which can happen only if investing firms are devoid of oligopolistic characteristics. But normal FDI occurs from oligopolistic firms.
Product cycle hypothesis combining the three-stage theory	Technologically superior firms may invest in countries that offer markets for their hi-tech products, mainly other developed countries. Slowly it shifts to more diverse countries to reduce costs and increase competitive position. Innovations to save labour and land. Entry barriers to markets, for many reasons. Product differentiation and price competition subsides to equilibrium in the final stage.	KSA is not an attractive country for markets or cheap labour. Natural resources are not adequate due to the dry climate. Thus, these two reasons for FDI are not applicable to KSA.
Firm theories	Cost of acquisition of knowledge on local markets is a critical factor for entry into countries. But oligopolistic advantages may overtake high cost problems in foreign countries. Hence own subsidiaries are preferred over local partner or leasing arrangements	It is more beneficial for KSA to go for collaborative ventures with local partners and FDI in this mode. But this is very difficult based on this theory.
Model of firm-specific advantages	FDI occurs when the benefits from possession of ownership advantages outweigh costs of foreign operations and if costs of foreign operations are lower	In the case of KSA, it is not likely that cost of foreign operations is lower than domestic production costs due to restrictions on foreign operations. Thus, licensing may be a

FDI theory	Main features	Relevance to Saudi Arabia
	than those of domestic production and exports. The model does not explain why licensing is not a better option.	better model. But licensing alone may not achieve high levels of FDI.
Internalisation theories	Firm-specific advantages used for FDI. The firm needs to invest in the foreign country to derive full advantage of its internalised capabilities for profit maximisation and oligopolistic advantages. Thus, FDI better than licensing.	It needs to be evaluated how KSA is positioned to allow foreign firms to use firm-specific advantages for profit maximisation by investing here. Regulatory limitations such as Saudisation, gender separation and imposing participation in the country's economic development are some of the problems to overcome.
OLI eclectic framework	Most widely accepted and used. Firms use intangible assets for ownership advantages to overcome increased cost of foreign operations. Location advantage in the foreign country for profit maximisation compared with home production and export. Internalisation of transferring intangible assets within the firm to use in the foreign country.	Only location factor is related to the conditions of KSA. The above-said limitations may lower such advantages, although its geographical location is useful for export units. It may be useful to target firms that can use their intangible assets (even if within the firms) for ownership advantages investment by creating conditions for lowering costs. In this research, the scope for the above three conditions for higher FDI levels can be checked by evaluating how far these three eclectic factors are applicable in the current FDI scenario of the country.

From the above-tabulated comparisons, collaborative public-public and public-private FDI, licensing, and export units of foreign firms may be the currently available options. Collaborations can achieve high levels of FDI; the other two methods may only increase FDI to a limited extent. Considering the limitations currently existing in Saudi Arabia, methods to increase FDI seem to arise from ensuring that the OLI factors are optimised. Therefore, the eclectic OLI model is used in this study to evaluate the current status and how it could be optimised. This forms the basis of the conceptual framework and SWOT analysis given in the methodology chapter.

2.3 FDI for Economic Development and Related Factors

For convenience, first a general review of literature on factors related to FDI and economic growth in studies on a mixture of developed and developing countries and on developing countries alone are done. This is followed by review of works on Gulf-African region, some specific countries in the region. Then specific works on FDI inflows in China are reviewed. A comparison of China and India is also done. Then the examination of the factors of FDI applied

to Saudi Arabia are reviewed in the next section focusing mainly on whether economic growth is affected by FDI and what factors need to be considered for FDI to grow and benefit economic growth.

2.3.1 General multi-country studies

Using a Mixed Fixed and Random (MFR) estimator to account for extensive heterogeneity of panel data among countries, Nair-Reichert and Weinhold (2001) studied the causality tests for cross-country panels of FDI and economic growth in 24 developing countries. Highly heterogeneous results on the causal relationship between investment, both foreign and domestic, and economic growth in developing countries were noted. On the whole, a causal relationship between FDI and growth was established, and FDI was higher with higher openness of economies. The favourable long-term effect of FDI on GDP growth was also noted by Hansen and Rand (2006) in a study of 31 developing countries over a period of 31 years.

The importance of human capital to absorb technologies for better growth offered by FDI compared with domestic investment was stressed by Borensztein, Gregorio, and Lee (1998) using a comparison of 69 countries. Protectionist policies of governments may compel entry of FDI to domestic markets as an export replacement. Incentives offered by governments to promote FDI may be restricted to certain strategic sectors. FDI takes advantage of the profit opportunities afforded by such distorted incentives. FDI may crowd out domestic investment in most favourable circumstances or complement domestic investments in an environment of more balanced economic policies. The effect of FDI was on higher efficiencies due to better technology and management rather than higher capital accumulation. Thus, positive policies of the government, high-quality human capital, and the level of domestic technology and management determine whether FDI is required. The human capital theory of FDI was further endorsed by the findings of Noorbakhsh, Paloni, and Youssef (2001).

According to results obtained by Bengoa and Sanchez-Robles (2003) for South American countries, economic freedom, human capital adequacy, economic stability, and market liberation play a significant role in FDI and are related to economic growth.

Although in the context of the contribution of FDI by multinational enterprises (MNEs), the points discussed by Lall and Narula (2004) are valid in the broader context of FDI investment patterns and their affecting factors. National policies have been changing from import substitution to market-determined strategies, with inefficiencies of import substitution spread

by globalisation and the success of some liberalised developing countries, the causes of this policy shift. Technologically efficient MNEs are efficient replacement of other scarce and volatile sources of FDI. MNEs seek developing countries for cost reduction, more efficient production, or new markets. Although higher technology levels of MNEs need higher-quality human capital, the need for local skills has also increased. Over the long term, no conflict between MNEs and domestic capabilities are noticeable. These changes have prompted developing countries to remove restrictions on FDI increasingly.

International development agencies and financial institutions seek the private investment route for FDI directed towards long-term economic development of countries; however, liberalisation only allows free access to existing capabilities by MNEs. Other negative factors include bottlenecks for the increase in FDI. Strong local capabilities are significant factors for MNE FDI, but this requirement has been ignored in FDI policies of most developing countries. Internalisation of MNEs such as technology and better management practices depend on the absorptive capacity of the host nation. As Dunning, (1992); Hymer, (1976) highlight that 'host country regulations are the most abundant institutional barriers, preventing MNEs, with their superior technological resources and capabilities, from entering and competing in local markets'. Pek-Hooi Soh & Jiang Yu (2008 p649) take this further by asserting "In transition economies, missing institutional features, such as well-defined intellectual property rights and their enforcement, have significantly hampered both domestic private investment and foreign direct investment (FDI) in technology- and science-intensive industries" The stage of development of the host country is indicated by complementary assets in part to begin with. Not only quantity, but the quality of FDI is important for long-term effects. The scope and competence of local subsidiaries interact with internal factors of internationalisation strategy of MNEs; however, it is possible for local subsidiaries to develop increased competencies because of their association with MNEs. Sequential investments, where there are sub-optimal returns, are also practised by MNEs.

Factors such as market size, local content regulations, and the size and technological capability of local firms determine the type and extent of linkages of MNEs with local firms. The motive for FDI for countries is important; the four types of motives include seeking natural resources, seeking assets, seeking new markets, and restructuring existing foreign production. Asset exploitation is more relevant to the scenario of entry of MNEs in developing countries. FDI to less-developed countries are of the form of resource-seeking FDI, while FDI to countries in

advanced stages of catching up tends to be more market seeking. Efficiency-seeking FDI tends to go to developed countries. Countries with the highest absorptive capacities have attracted maximum FDI, and countries that have invested in increasing absorptive capacities have benefitted from increasing FDI.

A strong relationship between FDI, trade, and transfer of advanced technology, stimulating developing investment and contributing to economic growth, was reported by Makki and Somwaru (2004) in a study of 66 developing countries. Evidence for the role of market size, competitive climate, and human capital on the effect of FDI on economic growth was discussed by Balasubramanyam, Salisu and Sapsford (1999). In a comparison study, Nunnenkamp (2002) observed that market-seeking (horizontal) FDI had a greater effect than efficiency-seeking (vertical) FDI on the economic growth of developed countries where US MNEs operated. However, no significant effect for either type of FDI on economic growth was noted in the case of developing countries. In the study of Johnson (2005), technology, rather than physical spill over of FDI, was more strongly associated with economic growth of developing countries. On the other hand, FDI did not influence the economic growth of developed countries. In another study of 11 East Asian and Latin American countries, Zhang (2001) found that the extent to which FDI promoted economic growth was determined by characteristics specific to each country. Liberalised trade and better education to improve human capital were effective in increasing export oriented FDI and maintaining macroeconomic stability. Strong evidence on the significant and positive effect of FDI in the manufacturing sector on economic growth in 12 Asian countries was presented by Wang (2009) using data for 1987–1997. On the other hand, FDI in non-manufacturing sectors did not play a significant role in increasing economic growth. If total FDI was not decomposed into different sectors, the effect of manufacturing FDI on the economic growth of the country was underestimated by 48% or more. Domestic investment also showed a significant relationship, but considerably less than manufacturing, with the effect of FDI on economic growth.

Most FDI tends to target developed countries, which decreased the flows of FDI towards the developing countries. This means that majority of developing countries have poor access to FDI. Using panel data on 60 low-income and lower middle-income countries, Mottaleb (2007) found that FDI to developing countries is highly influenced by a business-friendly environment and modern infrastructure facilities such as internet communication. Larger GDP and a high

GDP growth rate are also important. The relationship between FDI and economic growth was also established.

An empirical study using data on 47 developed and developing countries for the period 1981–1999 by Alfaro (2003) showed that total FDI and FDI in the services sector had an ambiguous effect on growth. FDI in the primary sector had a negative effect on growth. On the other hand, FDI in manufacturing had a positive effect.

According to the results of the study on 85 countries by Azman-Saini, Baharumshah and Law (2010), the effect of FDI on economic growth depended on the level of economic freedom of the country: the greater the economic freedom, the higher the effect of FDI on economic growth. Azman-Saini, Law and Ahmad (2010) proposed a threshold level of financial market development to accelerate the positive influence of FDI on economic growth.

Widespread liberalisation laws and regulations have been implemented in many developing countries. These changes have resulted in increased FDI, at least to some of these countries. Based on an analysis of the data on 116 developing countries for the period 1992–2001, Kobrin (2005) noted that about 95% of these countries liberalised their economies. The reason for such policy changes could be due to the belief of policymakers that a higher flow of FDI can serve the best interests of their countries. This may be a rational choice. On the other hand, external pressure to implement neoliberal economic policies, either from the leading financial powers such as the US or international organisations such as the World Bank or IMF, may have forced these changes. It is known that IMF loans used to be conditional on implementing liberalisation. Analysis of these data suggests the rational decision based on the opportunity costs of closure as more valid; the support for external pressure theory was limited. Country size, level of human resource capabilities, and trade openness acted as the primary determinants of the high tendency for liberalisation.

The relationship of government respect towards human rights in the context of FDI has been investigated based on two opposing theories. The liberal neoclassic view is that the governments of developing countries will benefit if they accept liberal economic theories, and this will be reflected in the case of FDI also. On the other hand, dependent theory believes that governments of developing nations will perceive the ties between core and periphery elites as an incentive to repress, and this will lead to worsening of human rights conditions with an increase of FDI. Clearly, there is some relationship between human rights and FDI. If large-

scale violations of human rights occur, foreign investors may be demotivated from investing. The two theories were tested by Richards, Gelleny and Sacko (2001) for FDI for the period 1981–1995 using 43 samples of developing countries. The authors obtained evidence for the neoclassical view. Further, physical integrity rights, civil rights, and political rights were respected with increasing FDI, and both FDI and portfolio investments were related to increasing respect for human rights.

A more developed financial system to facilitate technology diffusion from FDI is required for it to contribute to economic growth. Of the 67 developing countries from Africa, Latin America, and Asia studied by Hermes and Lensink (2003), 37 were found to have adequately developed financial systems for the positive contribution of FDI to economic growth.

Five structural characteristics of the global economy, according to Ozawa (1992), are inter-economy divergence of demand and supply conditions; firms as creators and traders of intangible assets (skills, technology and marketing channels); global and regional hierarchy of economics in which countries are at different levels and stages of economic development; natural and stage-compatible sequences of structural upgrading and development and strong trend from inward-looking(import-substitution) to outward-looking (export-oriented) trade and investment policy; and deregulation and privatisation of economic activities and augmentation of the market system for private sector to contribute positively. Conventional theories use these structural characteristics to explain the international business.

Countries have developed economically by emulation and learning; the less developed in the hierarchy learn and emulate the more developed nation. The author traced stage-based FDI growth exemplified by Japan's post-war economic growth and developed a dynamic paradigm for MNE-assisted economic development of nations. The three stages are factor-driven, investment-driven, and innovation-driven, with corresponding stages of FDI inflows as factor seeking, market seeking, and market/technology seeking. The rise of physical capital (including FDI) is rapid in the first two stages and becomes steady in the last stage. The three principles of this dynamic paradigm are the phenomena of trade augmentation through FDI, increasing factor incongruity and localised but increasingly transnationalism learning, and technological accumulation. These principles facilitated the process of rapid economic growth from the labour-driven stage of economic development to the emergence of transnational corporations (TNCs) from the developing countries themselves, contributing to the economic growth of the country through increased FDI.

In the analysis of Crespo and Fontoura (2007), only absorptive capacities of domestic firms and the country were able to explain the effect of FDI on economic growth; the effects of other factors showed different results.

Using the co-integration method on a county-by-country basis, Herzer and Klasen (2008) showed that FDI did not improve economic growth (GDP) of developing countries. Data of 28 developing countries were used for this purpose. Both long-term and short-term effects were absent. Long-term effects were not seen even for a single country. No clear relationship was obtained for FDI with per capita income, degree of openness, financial market development or level of education. As many other single-country studies have shown positive effects of FDI on economic growth, this negative finding is intriguing. Perhaps, co-integration was not the correct method to test the relationship.

In one report on the effect of FDI policies on human development (Reiter & Steensma 2010), it was noted that FDI was more strongly and positively related to improvement in human development if FDI policy restricts foreign investors from entering certain economic sectors and discriminates between local and foreign investors. A low level of corruption strengthened the relationship between FDI and human development improvement.

From their research, Vijayakumar, Sridharan and Rao (2010) observed labour cost, market size, currency value, infrastructure and gross capital formation as the factors influencing FDI inflows into Brazil, Russia, India, China and South Africa (BRICS) countries. Economic stability (inflation rate), growth prospects (industrial production) and trade openness ratio (total trade to GDP) were not related to FDI growth in these countries.

The relationship of trade openness, capital formation and GDP growth rate with FDI over the period 1986–2008 was assessed using time series analysis and other tests by Adhikary (2010). The degree of trade openness had a negative but declining relationship with GDP over time, while FDI volume and level of capital formation positively affected the GDP growth rate.

Increased energy consumption and FDI may complement each other for the economic growth of countries; thus, FDI may cause environmental degradation, and a mutual association among economic growth, environmental pollution, and FDI may exist. This assumption was tested by Omri, Nguyen and Rault (2014) using the data of 54 countries and three geographical regions over the period 1990–2011. Bi-directional causality between FDI inflows and economic growth was observed for countries and regions and between FDI and CO2 for all countries and regions

except for Europe and the North Asian region. There was unidirectional causality from CO2 emissions to economic growth for all countries and regions except the Middle East, North Africa and sub-Sahara. There was a possibility of bi-directional causality between these variables for these regions.

The effect of manufacturing and service FDI on own-sector growth, the effect of spillover to other sectors, and the overall economy of host countries was studied by Doytch and Uctum (2011). Significant sectoral and inter-industry spillover effects were identified using various types of classifications of data and types of FDI flows. The effect of manufacturing FDI on own growth was noted in Latin America–Caribbean, in Europe–Central Asia, middle- to low-income countries and economies with large industry share. A high rate of increase in service FDI increased the growth of service industries, but at the cost of manufacturing industries. FDI in financial services increased in Southeast Asia and the Pacific, high-income countries and service-based economies. Financial FDI increased the growth of both the manufacturing and service sectors. On the other hand, FDI in nonfinancial services drained resources and decreased the growth of the manufacturing industry in this group of countries. It is possible that a shift of FDI from manufacturing to services may lead to deindustrialisation in certain regions and types of economies, especially if nonfinancial FDI causes this shift. The need for countries to observe the extent of investment in each sector and promote financial services FDI is highlighted by these results.

The spillover effects from multinationals to local firms were economically significant for buyers, but not for sellers. Spillovers were greater in the case of host countries, whose financial systems were under-developed and open to international trade. Greater spillovers were generated by investors from distant countries, but with a very low technological advantage over local firms. These results were obtained from a quantitative meta-analysis of 3,626 spillover estimates and a literature review by Havranek and Irsova (2011).

Both short-run and long-run positive effects of FDI on the economic growth of both developed and developing countries were noted and decreasing corruption enhanced this positive effect of the relationship. This finding was reported by Freckleton, Wright and Craigwell (2012) on the basis of the analysis of data on 42 developing and 28 developed countries.

The need for developing domestic innovation in addition to seeking foreign technology, arises from the inappropriateness of Northern technologies in developing countries of the South.

Local innovation skills facilitate the adaptation of technologies transferred from FDI (Fu, Pietrobelli, & Soete 2011).

The dependence of FDI's impact on macroeconomic and institutional factors was demonstrated in the study of a sample of emerging countries from Asia and Latin America for the period 1976–2005 by Alguacil, Cuadros and Orts (2011). The sample consisted of 13 developing countries from Asia and 13 from Latin America. Only low- and middle-income countries with a population of more than one million in 2005 were selected. The study showed the importance of internal and external macroeconomic stability. The quality of institutions is also important in the relationship between FDI and economic growth. These variables affected economic growth directly also, in addition to their effects through FDI. Independent effects of FDI on economic performance in the lower-income countries were also noted when the local conditions were controlled. The authors found that the results depend on the methodology used for estimation between panel data analysis and cross-sectional regressions.

In a comparative study of low and lower middle-income developing countries, Mottaleb and Kalirajan (2010) showed that developing countries are successful in attracting FDI if their GDPs and GDP growth rates are higher, the proportions of international trade are higher and they have an environment that is more business-friendly. The sample consisted of 31 low-income and 37 lower middle-income countries. Of the total 31 low-income countries, seven were from Asia, 23 from Africa and one from Latin America (Haiti). The 37 lower middle-income countries consisted of 18 from Asia, 12 from Africa and seven from Latin America. FDI for 2005, 2006 and 2007 were used for the analysis.

Contradicting the general evidence of a positive effect of FDI on economic growth, using a stochastic frontier model on panel data of 45 countries for the period 1997–2004, Wijeweera, Villano and Dollery (2010) noted that the positive effect of FDI on economic growth occurred only with the availability of highly skilled labour and trade openness. A negative relationship was noted with the level of corruption.

Using corruption control, political stability and better freedom of expression by the media as indicators of good governance and institutional quality, better application of rule of law, Bissoon (2011) explored whether FDI inflow was affected by institutional quality. Data for 1996–2005 for 45 developing countries in Asia (14), Latin America (16) and Africa (15) were

used. It was concluded that quality of institutions had a significant impact on FDI inflows, and the mutual effect of different institutions had a synergistic effect on FDI inflows.

The effect of the agreement on Trade Related Intellectual Property Rights (TRIPS), effective from 1 January 1995, on FDI was studied by Adams (2010) using data on 75 developing countries over the 19 years 1985–2003. The outcomes showed that strengthening IPR has a positive effect on FDI. Patent protection on FDI after the TRIPS agreement had an impact much greater than that in the pre-TRIPS period. Other factors such as degree of openness, growth rate of the economy and investment also affected FDI. Thus, strengthening IPR is only one of the many factors required to reach the high potential of FDI in developing countries. The Ginarte–Park index of patent rights was used to measure the extent of patent protection in different countries.

Thangamani, Xu & Zhong (2010) investigated the determinants and growth effect of FDI in the case of India, Sri Lanka, Pakistan, and Bangladesh. The result of this study suggested that the pushing (home country), pulling (host country), and cyclical (business cycles in both countries) factors affected the determining FDI. Further, FDI in these countries was significant and positively associated with growth rates, but the supportive of the growth rate was average. The Data used for this study were from 1995–2008.

Simultaneous and separate estimation of effects of factors can affect the findings reported, as shown by Nwaogu and Ryan (2015) using data on 53 African and 34 Latin American countries. The data were analysed as five-yearly periods starting from 1970 to account for business cycle effects. The effect of spatial interdependence, due to economic growth of one country depending on its neighbour, was noted as an additional factor.

Using panel data for 2000–2009, Jadhav (2012) studied the effect of economic, institutional and political factors on FDI inflows into BRICS countries. Economic factors were found to be more important than the other two factors in determining the extent of FDI inflow. As market size had the most significant positive effect, it showed that these countries were able to attract largely market-seeking FDI. Natural resource availability (negative), trade openness (positive), rule of law and voice and accountability were also significant.

All sources of foreign capital (namely, FDI, official development assistance and migrant remittances) had a significant impact on economic growth of developing countries in a study by Driffield and Jones (2013) using a systems approach to analyse data from 1984–2008.

In a study on ASEAN countries, Srinivasan, Kalaivani and Ibrahim (2010) obtained a long-run relationship between FDI and GDP for Indonesia, Malaysia, Philippines, Singapore and Vietnam via the Johansen co-integration method. A long-run causality running from GDP to FDI for Indonesia, Philippines and Singapore was obtained by the vector error correction method. For Malaysia and Vietnam, a long-run bidirectional causal link between GDP and FDI was obtained. A standard Granger causality test showed no causality between FDI and GDP for Brunei Darussalam and Laos. For Myanmar and Thailand, there was only a one-way short-run Granger causal link from FDI to GDP and GDP to FDI respectively. A long-run causal relationship between domestic investment and FDI was noted in the case of ASEAN-5 countries (Indonesia, Malaysia, Singapore, Philippines and Thailand) by Tan and Tang (2016). The need for greater collaboration of domestic and foreign investors was indicated. Both domestic investment and FDI affected economic growth and markets of these countries.

Based on an analysis of investments of multinational firms in different regions of six Central and East European countries, Dogaru et al. (2015) concluded that capital city regions received more greenfield FDI with a larger variety of investments, especially in terms of high-end sectors and functions. The countries included were Poland, Czech Republic, Slovakia, Hungary, Romania and Bulgaria.

Using panel data from 2002–2012 for Eurozone countries (Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain), Pegkas (2015) showed a long-run relationship between FDI stock and economic growth. Elasticity of GDP with respect to FDI was 0.054–0.147%. Stock of FDI determined the economic growth of these countries.

Guimón et al. (2015) noted that small (Latin American) countries such as Chile are emerging as FDI destinations for R&D investments. Infrastructure and human capital are important in this issue, and the need for a national innovation policy and systems to promote local innovations was stressed.

According to Nunnenkamp (2002), traditional determinants of FDI to developing countries remained unaltered post-globalisation with local skills added. Tariff jumping FDI strategies of MNEs had become less important before globalisation started. Data from 28 developing countries (including Saudi Arabia) for the period 1987–1999 were used. The author pointed out the many gaps between analytical results and actual experience of FDI flows; for example,

importance of market size seems to have ignored the effect of export markets. China is comparatively less open than, say, Saudi Arabia, but FDI inflow is almost the highest in this country.

In the case of 61 transition and developing countries over the period 1989–2013, Elkomy, Ingham and Read (2016) noted that growth of FDI and human capital were influenced by political regime type. In authoritarian countries, political development and FDI together suppressed the effect of FDI on growth. In the case of hybrid democracies, the political regime enhanced the effect of FDI on economic growth. In more democratic countries, domestic investment was the main driver of growth. In another paper, Elkomy (2015) investigated the effects of income levels as per World Bank classifications and political development as per EIU Democracy Index on the growth of FDI in 61 emerging and developing countries over the period 1989–2013. The effects of FDI varied significantly between income classifications. The strongest growth effects were found in the case of low-income countries and weaker negative effects were found in the case of upper-middle-income countries. The growth interaction effects between FDI and human capital were strongly positive regardless of regime type. Political development in conjunction with FDI suppressed the FDI growth effects in the case of authoritarian countries and enhanced them in the case of hybrid democracies. Human capital was the main driver of growth, rather than FDI, in the case of more democratic countries. This was because of the strong positive interaction effects between FDI and human capital, which outweighed any negative effects for human capital on its own. A critical threshold of human capital was shown to be required to generate beneficial spillover growth effects due to FDI inflows.

There was no effect for FDI on the economic growth of any of 10 transition countries (Bulgaria, Serbia and Montenegro, Romania, Croatia, FRY Macedonia, Bosnia and Herzegovina and Albania) for the period 1997–2005 (Stanisic 2008). There was no evidence for the need for a critical threshold of human capital to generate significant spillover effects of FDI. This absence of a relationship between FDI and growth observed in the case of EU transition countries was attributed to methodological problems. As the countries were in a transition process, structural reforms were implemented, which decreased production and employment in the case of inefficient domestic companies in these countries. This factor, when neutralised, outweighed the effect of FDI inflows on these countries.

Donaubauer, Neumayer and Nunnenkamp (2016) found that bilateral FDI increases when financial markets have better development in both the source and host country. In the case of developing countries, financial market development in source and host countries substituted each other. The sample consisted of 43 traditional and non-traditional source countries reporting bilateral FDI stocks in detail for 137 host countries during the period 2001–2012. As per the UNCTAD statistical procedures, bilateral FDI stocks were assumed to be zero when a source country did not report data for a specific host country at a specific period of time.

2.3.2 African and Gulf-Afro regions in general

In his work on FDI in Africa, Adams (2009) observed FDI as an essential but not adequate condition for economic growth in Africa. FDI contributed to the economic development of a host country by augmenting domestic capital and efficiency enhancement through the transfer of new technology, skills of marketing and managerial skills, best practices and innovation. FDI had both benefits and costs. Its impact was influenced by country-specific conditions of the policy environment, ability to diversify, absorption capacity, FDI targeting policies and linkage opportunities for the domestic sector with FDI. Although Uganda implemented liberalisation, privatisation and incentive policies, FDI did not improve. A study by Obwona (2001) identified the reasons as lack of consistent macroeconomic policy and political stability. Infrastructural and institutional weaknesses were also important. A study on Sub-Saharan Africa by Adams (2009) revealed that domestic investment had a significant positive effect on economic growth with both OLS and fixed effects estimations. FDI had a significant positive effect on growth only in OLS estimations. FDI had an initial negative effect on domestic investment, but subsequently with time, this changed to a positive effect. A net crowding effect of FDI on local investment was observed. Based on the results, a targeted method to FDI with increased absorption capacity of domestic firms and cooperation between government and MNEs for mutual benefits were recommended to promote FDI as an agent of growth without adversely affecting domestic investment. From their studies on 19 Sub-Saharan African countries, Amendolagine et al. (2013) observed that good institutions and a reliable legal system are associated with backward linkages of foreign firms with local firms. There was evidence of a strong impact of foreign aid and FDI on the economic growth of 36 sub-Saharan African countries. The period of study in Ndambendia and Njoupouognigni (2010) was 1980–2007. In the North African countries of Egypt, Morocco and Tunisia, during 1985–2011, there was a two-way relationship between FDI and economic growth. Instead of a Granger test, Omri

and Sassi-Tmar (2015) used a simultaneous equation model and the generalised method of moments (GMM). From the analysis of panel data of 35 African countries over 1980–2012, Cleeve, Debrah and Yiheyis (2015) obtained a significant relationship for 11 proxies of human capital with FDI. Control factors such as natural resources and trade openness also were related to FDI. The effect of human capital did not increase over time.

2.3.3 Specific African countries

No causal relationship was found between FDI and economic growth, before or during the structural adjustment period (SAP), in Ghana in Frimpong and Oteng-Abayie (2006). Although SAP from 1983 and enhanced HIPC (heavily indebted poor countries) initiatives were implemented, only the number of foreign multinationals increased, but without a positive effect on economic growth, demonstrating MNEs exploiting the nation for their own advantage. However, SAP has had some degree of success in other areas such as lowering inflation, elimination of licensing requirement, financial stability, removal of tariff barriers and reducing opportunities for the foreign exchange black market, opening of previously closed sectors and abolishing exchange controls.

In the case of Nigeria, only market size and macroeconomic policies were related to FDI, but not human capital or openness to trade. The overall effect of FDI was not significant. But FDI in the communication and oil sectors had a highly significant effect on growth; this was negative in the case of manufacturing, indicating that the business environment was poor. While reporting these findings, Ayanwale (2007) observed that the expected FDI growth was not achieved in any African country due to the negative perception of the region regarding unfriendly a macroeconomic policy environment, poor infrastructure, foreign exchange shortages and corruption. Successive governments in Nigeria had been regulating (and promoting FDI) using the Nigeria Enterprise Promotion Decree (NEPD) (indigenisation policy) for political and economic domination. Successive decrees had progressively reduced foreign equity participation to 60% and 40%, while in most successful countries, FDI participation was progressively increasing. SAP was initiated in 1986, and partially offset some of the bottlenecks to FDI.

The relationship between FDI and employment in manufacturing and service sectors and economic growth of Nigeria were researched by Inekwe (2013) using data from 1990–2009 and the Johansen co-integration and vector error correction methods. There was a positive

relationship for FDI in the services sector and a negative relationship for FDI in the manufacturing sector with economic growth. On the other hand, a positive relationship between FDI in the manufacturing sector and a negative relationship between FDI in the services sector and the employment rate were obtained. Granger causal relationships among these variables were noted. There was unidirectional causality from growth to FDI in the service sector, and bidirectional causal between growth and FDI in the manufacturing sector. Also, unidirectional causality existed from FDI in the service and manufacturing sectors to the employment rate.

Time series analysis of data over 1975–2009 by Hassen and Anis (2012) showed that FDI increased long-term economic growth of Tunisia. Stationary tests, co-integration tests, error correction models and a structural equation were used for estimation of effects of different variables over the period of study. In another study on FDI in Tunisia, Belloumi (2014) observed a long-run relationship of FDI with trade openness and economic growth; however, Granger causality from FDI to economic growth or for a reverse relationship and for economic growth to trade were non-significant in the short run. Also, no spillover externalities were noted. Thus, there was no evidence of an automatic relationship between FDI and economic growth.

In the case of Cabo Verde, Duarte, Kedong and Xuemei (2017) found a long-run relationship was found when both FDI and GDP were dependent variables, such that FDI had a positive effect on economic growth, with bidirectional causality between FDI and GDP. Economic growth and domestic credit to the private sector were important to attract FDI into the country. These findings were obtained using a co-integration bound test and Granger causality methods on the data for the period 1987–2014.

2.3.4 The special case of China

From an analysis of a large panel data of 28 Chinese provinces for the period 1978–2000, Yao (2006) concluded that exports and FDI promoted the high rate of Chinese economic growth. Export promotion, adoption of global technology and business practices were traced as the reasons for China's impressive economic performance. Using China as an example of a newly industrialising country, Yao and Wei (2007) proposed that FDI moves production efficiency to a new steady state. The advanced technologies available with FDI can also shift the production frontier.

Madariaga and Poncet (2007) found that Chinese cities take advantage of FDI locally as well as that received by their neighbours. Regression equations of spatially lagged FDI and income were used for this finding.

In a Chinese study, Zhang et al. (2010) observed that diversity of FDI from different countries can result in diversity of technologies and management practices in any particular industry. This positive relationship was stronger with diversity of domestic firms and the technology gap between domestic firms and FDI was wider but within an intermediate level reflecting high absorption capacity.

2.3.5 China–India comparison

In a comparative study of China and India, Agrawal and Khan (2011) found a 0.07% increase in GDP in the case of China and a 0.02% increase in GDP in the case of India for each unit 1% increase in FDI. The authors identified the reasons behind the differential effect of FDI on the growth of the two countries; larger market size, easy accessibility to export market, well-developed infrastructure, cost-effectiveness, favourable macroeconomic climate, and government incentives were the advantages of China over India, while a transparent system of work, talented management system, the rule of law, cultural affinity and regulatory environment was better in the case of India. They argued that India could build on its strengths and emulate the positive factors from China.

2.3.6 Other countries

Temiz and Gökmen (2014) found that FDI stock through MNEs did not increase economic growth in Turkey, either short or long term, using data for the period 1992–Q3 2007 and standard methods of co-integration and Granger causality.

In the case of Bangladesh, Faruk (2015) found that FDI played an important role in developing the garments and weaving, telecommunication, banking and pharmaceuticals industries: a positive relationship of FDI on GDP was obtained. GDP increased by 64.0709 units for every unit of FDI increase, and FDI explained about 83% of the variation in GDP. The strengths of Bangladesh as a premium FDI destination were listed as a strategic location with regional and global access, hardworking low-cost workforce, a fairly large local market and steady economic growth, low energy cost due to green compressed natural gas, high export competitiveness with tariff-free access to some developed countries and the EU, good

incentives and competitive export processing zones. However, support of macroeconomic policies, governance and development of infrastructure, access to finance with international integration, and political stability need to be further developed to attract more FDI. There are inadequate knowledge infrastructure and a skilled workforce for the required absorptivity of domestic firms. The authors provided suggestions for the policy and strategy changes required for attracting more FDI.

Overall, the multi-country studies and studies on single or specific groups of countries have identified both positive and negative factors affecting FDI. In many cases, a relationship between FDI and economic growth could not be established. Factors for short-run and long-run relationships also were different in many studies. The factors affecting the findings may be listed as:

1. Country or groups of countries. If countries with low FDI levels and low levels of positive factors dominate, more negative factors are likely to be identified.

2. Period of data. If period of data has a mix of rising and falling FDI, the average effect may be modest and insensitive to the effects of independent variables. If a very long period of data is used, policy changes in many countries during the period are ignored. For example, in the 1990s, many countries underwent large-scale liberalisation; the FDI pattern before and after the liberalisation is likely to be different, but this difference would be masked by the average effect of factors.

3. Estimation methods. The methods used by most researchers include co-integration, vector error correction, variance decomposition ratio, regressions, OLS and Granger causality. Although there may be justification for using these, the possibility of other methods such as factor analysis has not been tested. How the data were grouped in some work is particularly relevant in relation to the findings.

4. Constructing a model using part of the data and testing it on the remaining part of the data is one promising method to verify whether the derived relationships indeed hold true.

How the factors identified in the case of other countries are applicable to the Saudi Arabian FDI context is examined below.

2.4 FDI in Saudi Arabia

To identify the reasons for low levels of FDI in Saudi Arabia, Ramady and Saee (2007) surveyed Saudi managers and enterprises and found that although the participants welcomed FDI, they still held ambivalent attitudes towards its benefits. Failures at implementation levels were noted as the major cause of the inability to attract high levels of FDI despite all policy, regulatory and institutional factors being favourable. The study was only a small survey, with 20 participants from a small-scale sector and 10 items in the questionnaire.

A gravity model was used by Roberts and Almahmood (2009) to investigate the effect of source-country characteristics on FDI into Saudi Arabia. A panel of 33 source countries for FDI data over 1980–2005 was constructed. The possibility of involvement of a large number of factors was indicated, with no clear trend emerging; a clear trend would have been valuable.

Saudi Arabia was one of the countries featured in Mina's (2007) study on FDI in Gulf Cooperation Council (GCC) countries. Locational determinants of Dunning's OLI paradigm were measured for data covering 1980–2002. Contrary to commonly held perceptions, oil potential measured by oil reserves, oil utilisation and oil price negatively influenced FDI inflows. On the other hand, the relative utilisation of oil measured as the ratio of oil production to oil reserves positively influenced FDI inflows. Institutional quality, trade openness and infrastructure development promoted FDI, while human capital decreased FDI. The separate effects for each country were also estimated by classifying them into income groups as per the World Bank classification.

Onyeiwu (2003) found that the relative importance of FDI factors behaved differently in the MENA region (which includes Saudi Arabia) compared with other regions. Trade openness increased FDI inflows, while the existence of corruption/bureaucratic red tape in MENA region countries reduced FDI flows. The need for trade liberalisation and privatisation to increase FDI inflows was stressed. Data for 51 countries, of which 10 were from the MENA region, for the period 1974–1999 were used in this study.

Alkhathlan (2011) noted a long-run positive relationship between FDI and export growth in the case of Saudi Arabia using Johansen's co-integration method. Results of the vector error correction method showed exports were positively and significantly associated with FDI, GDP and export prices. From the results of the variance decomposition ratio, FDI was the major

cause of export growth in the initial years and price was the major cause in later years. In another study, Al Khathlan (2014) obtained a long-term positive but insignificant role of FDI on economic growth in Saudi Arabia for 1980–2010. There was a positive significant effect of government expenditure on economic growth in the long term. Domestic capital and labour force had a significant positive short-term effect on economic growth. A Granger causality test indicated that government expenditure and domestic capital were driving economic growth.

Foreign MNEs with investments in the Middle East perceive cultural risks to be more important than economic, political or financial risks (Hain 2011). Firms use informal rather than formal approaches of structured hedging or insurance to mitigate the risks. However, perception of risk factors depended on firm size. These conclusions were drawn on the basis of a survey of German firms operating in Saudi Arabia; cultural risk might have been magnified post-9/11.

The long-standing relationship between Gulf States and East-Asian countries has been a major contribution towards FDI particularly the Asian economic powerhouse countries such as Singapore, Malaysia, Thailand and Philippines China, Japan, and Indonesia has been transforming from oil-based to more multisector partnerships (Yamada 2011). The relationship between China and Saudi Arabia is horizontal, providing export and investment opportunities, simultaneously with increasingly competing in trade. Japan has a vertical relationship with Saudi Arabia, which benefits Saudi Arabia via technology transfer from inward investment and aid. The need for Saudi Arabia to discern 'the two Asias' and refocus on the roles played by advanced economies in Asia, especially China and India, in the Gulf economy was suggested.

R&D collaborations as a method of diversification from resource-seeking FDI to other types of FDI in Saudi Arabia was suggested by Al-Sultan and AL-Zaharnah (2012) in their work on university–business–foreign collaborations in Saudi Arabia for the shift towards a knowledge-based economy.

The analysis of Gylfason (2004) shows that FDI as percentage of GDP was not significantly different between oil-producing and non-oil-producing countries of the Middle East. Oil was the major export of the former and manufacturing exports of the latter contributing to FDI growth in the respective groups. In the context of declining oil prices and need to diversify from oil dependence for growth, the need to attract FDI in manufacturing and other sectors is important for the oil-producing group of Gulf States, which had been the only natural option

for non-oil-producing countries. Hence, competitively, non-oil-producing nations are at greater advantage. This may affect the success of the efforts by Saudi Arabia to increase inward FDI.

In 2015, Saudi Arabia was the largest pharmaceutical market in the Middle East, with one of the most sophisticated healthcare systems in the region because Saudi Arabia has been improving its regulatory climate specifically for FDI opportunities in the pharmaceutical industry, as observed by Asiri (2017). However, the Saudi drug regulatory regime was inadequate due to ambiguous procedures preventing both domestic and foreign drug companies from operating competitively. Recently, many international agreements have been signed by the Saudi government to encourage and protect FDI in different sectors, including the pharmaceutical industry. The main concerns are about the protection of IPR, ownership/lease contracts, delays in dispute settlement, and restrictions on repatriation of profits.

In his study, Albassam (2015) did not find any relationship between FDI and economic growth in Saudi Arabia. FDI contributed only to decreasing the unemployment rate, despite 50% of Saudi workers being employed in the public sector. The positive effect on reducing unemployment would be limited to the extent of FDI in the public sector. These results were based on analysis of data from 1999–2012. As FDI has been declining since 2008, this might have contributed to absence of a relationship.

Elimam (2017) analysed the determinants of FDI in Saudi Arabia. Three factors of mutual benefit to investors and Saudi Arabia were identified as important: trade openness, infrastructure availability and market size. FDI can increase economic growth and facilitate socioeconomic transformation. Growth rate, GDP and exports and imports affect FDI inflows into the country; thus, the government's efforts to improve human capital may not have any bearing on FDI.

From their analysis of data, Nasir, Rehman and Ali (2017) did not find any long-run relationship among FDI, nor any economic growth and financial development via the co-integration method. However, vector auto-regression (VAR) results showed positive relationships among FDI, economic growth and financial development. According to the Granger test, economic growth caused FDI growth and financial development. No causality was observed between FDI and economic growth empirically. These results may imply persisting dependence on the oil economy.

Saudi Arabia has not been able to market itself as a favourite FDI destination (Qureshi & Medabesh 2016), despite securing high ranks for Global Competitiveness (WEF) and Doing Business (World Bank). However, the best countries to do business in, as published by Forbes magazine, rated Saudi Arabia poorly, mainly based on CIA profiles of countries. Strong marketing strategies to counter this negative propaganda were suggested by the authors.

In a paper investigating the effect of public and private investment in non-oil GDP, Mensi et al. (2017) reported strong short-term effects of past non-oil GDP shocks on current non-oil GDP for Q1 1992 to Q4 2014. A rapid increase in public investment increased non-oil GDP both in the short and long run. A negative private investment shock reduced non-oil GDP in both the short and long run, while oil production shocks increased non-oil GDP in the short and long run. There was a positive relationship between negative and positive inflation shocks and non-oil GDP in the long run, while negative inflation shocks decreased non-oil GDP. There was no Granger cause for non-oil GDP with any of these variables. These results for this major oil exporter were different from those of highly diversified developed countries.

Alodadi and Benhin (2015) found that all non-oil variables, including private and public investment, government spending, labour and capital, religious tourism, but not exports, were associated with economic growth in Saudi Arabia over 1970–2011. Religious tourism had a significant effect only with respect to non-oil economic growth. Government spending had a significant effect on economic growth.

The six dimensions of the World Governance Indicators (World Bank) are voice and accountability, political stability and lack of violence, government effectiveness, regulatory quality, the rule of law, and control of corruption. Countries can be rated based on these dimensions to provide a cumulative index value; the higher the value, the better the institutional quality. In Seth (2018), FDI inflows were related to control of corruption and regulatory quality most significantly, with a random effects model emerging as the best of the four models tested for studying the effect of governance quality on FDI/GDP ratio. Data on 30 developing and developed countries (including Saudi Arabia) for 2004–2015 were used in this work, which found that governance institutions were relatively good in all 30 countries.

In the MENA region, Abdouli and Hammami (2017) found an increase in environmental degradation with the increase in FDI, trade openness and energy consumption over 1990–2012.

A failure analysis of Saudi Arabia's main policies since 1970 aimed at Saudisation in the private sector to reduce unemployment, diversification from the oil economy and privatisation of major economic activities led Spitler (2017) to note that 'improvements to governance and modifications to the country's patronage policies' are required for significant economic change. Barriers of preferences for blocking any political reform by elites have seriously affected the achievement of economic goals, which will continue if suitable steps are not taken. These factors may also affect the achievement of the aims of Vision 2030, announced in April 2016.

In terms of the applicability of factors from research on other countries, first, there is no clear evidence that FDI is related to economic growth in Saudi Arabia. In the context of the massive investment required for Vision 2030, Saudi Arabia needs to rely heavily on FDI. But if higher FDI inflows have little to do with economic growth, methods to connect the two need to be devised. Orthodox views of small powerful elites can act as barriers. If the cultural risk is perceived, even if it is not true, attempts need to be made to remove this perception of investors. It is widely accepted that the implementation of policies is poor in Saudi Arabia. Mechanisms to accelerate the implementation of FDI policies also account for the quality of policies and regulatory mechanisms. Allowing FDI in pilgrimage tourism may need some cultural compromises if foreign firms are desired to invest. It seems better to promote financial sector FDI focusing on non-oil export-seeking investments for Saudi Arabia.

2.5 Chapter Summary

While there is an abundance of literature on FDI, gaps in the literature is prevalent especially in relation to KSA's FDI into non-oil sectors. Several credible reports through repetitive and speculation on Vision 2030 is also in abundance. However, to date there is little to no empirical study that has been conducted that looks specifically at whether Saudi Arabia's current business environment and in the light of Vision 2030, is conducive to attract FDI, particularly in non-oil sectors and what will determine its success. This research study aims to contribute

to the understanding of Saudi Arabia's realization of its economic prospects through FDI into non-oil sectors.

A large number of research efforts on the positive and negative factors affecting FDI were reviewed above. The effect of FDI on economic growth was also reviewed. The review used work related to global, regional and country dimensions of FDI and associated factors. China, a top FDI destination, was specially treated. Many factors affecting FDI positively or negatively and its relationship with economic growth both short term and long term were reviewed. Some of these effects are not clearly established as there are diverse findings. Lack of empirical support for theories is a serious problem. Some sampling, period selection, and analytical methodological problems could have affected the preciseness of many findings.

In the case of Saudi Arabia, methods to link FDI with economic growth, focusing on export-seeking financial services FDI, may neutralise the problems related to clearly defined factors of FDI. Even if imagined, perceptions of cultural risks need to be removed by efficient marketing of the country as a favourite FDI destination.

The research aims and objectives formed for this study, and the methods used to collect and analyse the data are described in detail in the next chapter.

Chapter 3: Methodology

3.1 Introduction

In the previous chapter, a detailed review of the literature on FDI was presented that highlighted the gaps with FDI in non-oil sectors in Saudi Arabia. This Chapter discusses the research strategies, design, and methods used in this study as well as the data collection and analysis. The research methods used were based on both quantitative and qualitative techniques to address the aims and objectives of the research.

The overarching aim of this study is to evaluate the elements and factors of FDI conducive to attracting higher rates of FDI into the Saudi Arabian non-oil sector, to contribute to the achievement of the county's Vision 2030 targets. One of the main factors is the motivation of foreign investors to select Saudi Arabia for their investment. As previously mentioned, Vision 2030 is a significant long-term strategic initiative to move Saudi Arabia from extreme dependence on oil for its economic needs, given the continuing scenario of lower oil prices. But this fundamental shift poses challenges of global competition, as Saudi Arabia may need to compete for resources, skills and technologies in the international market. FDI may be a factor here.

Many factors may influence the preference of foreign investors for a specific country, including the social, cultural, political, economic, administrative, regulatory, legal and judiciary systems.

All these factors are built into the six objectives of this research (as underlined in the introduction chapter).

A conceptual framework for this research is presented in Figure 3.1. The effect of the economic reforms on human resources, natural resources, infrastructure, investment climate and guarantees and policies are evaluated through a questionnaire survey and semi-structured interviews. The impact of these on implementation of Vision 2030 is an important dimension. Key variables emerging out of the analysis of data are used in the SWOT analysis, leading to the proposal of an FDI framework. The intention is to triangulate the findings with the literature from the point of view of the eclectic OLI framework. The outcomes of the proposed

framework are expected to lead towards reform policies to substantially increase FDI so that funding of Vision 2030 projects is achieved.

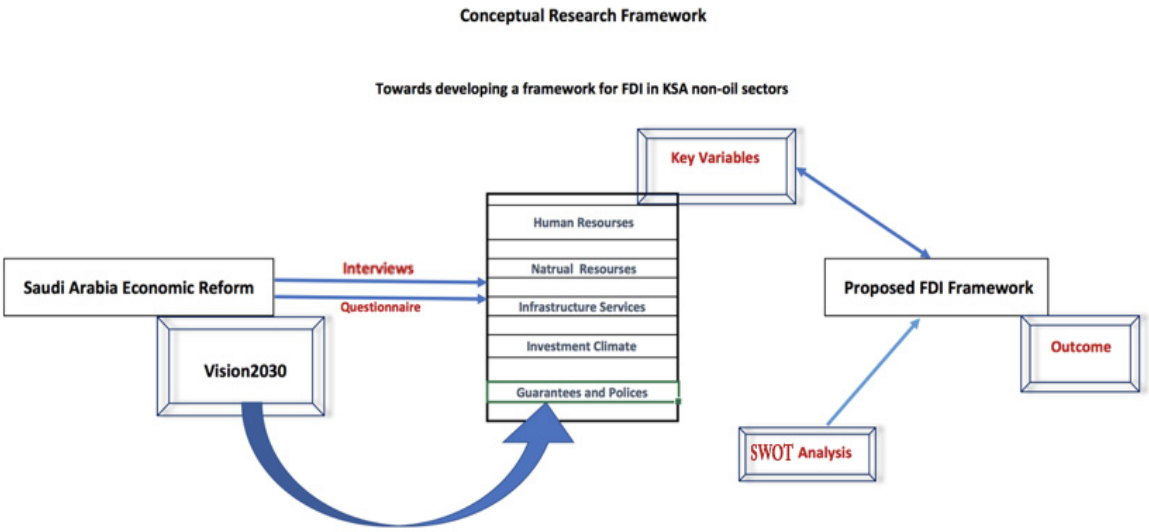

Figure 3.1: Conceptual framework of this research

The methodology adopted to collect the data are described in detail in the following sections and subsections.

3.2 Research Strategy

According to Bryman (2008), there are two types of strategies in research: a deductive strategy and an inductive strategy. The deductive strategy concentrates on logical conclusions from given facts. This type of method requires the researcher to collect a large amount of facts, from which conclusions can be drawn. The inductive strategy concentrates on observation and data collection of a certain phenomenon to answer research questions, which in turn leads to developing theories. This study is primarily based on qualitative method but uses a mixed method approach where both semi-structured interviews were conducted with participants and a survey questionnaire (descriptive) was utilised to gather information from the participating organisations where large sample of data was collected. The methods used is explained in later sections.

3.3 Research Methodology

The research methodology is an orderly method of describing the procedures used for the collection and analysis of data required to achieve the aims of the research. Three primary approaches are possible: qualitative, quantitative and mixed (Bryman 2008; Creswell 2013). Rubhy (1998) explained that the selection of the appropriate tool by the researcher depends on several factors including the research aim, objectives, nature, the associated information and the nature of the targeted population, in addition to time and money factors. In this research, primarily the method used are based on qualitative research techniques and consists of two modes of data collection: The first was a questionnaire (survey interviewing) through which primary data was collected from senior managers who work in foreign companies in Saudi Arabia with the objectives of understanding the demographics of the companies and to ascertain their perception of the FDI in Saudi Arabia. The second method was semi-structured interviews with the officials of the regularity governmental body known as SAGIA to ascertain details of FDI and its operations to support the FDI in non-oil sectors. This mixed approach was found most suitable to obtain data from the viewpoint of the companies and from the viewpoint of the government regulatory organisation that can complement the study's aims and objectives.

Sieber (1973), provided a compelling reason to combine quantitative and qualitative research that resonates with this study. He makes the following observation "a combination can be effective at the research design, data collection, and data analysis stages of the research process. For example, at the research design stage, quantitative data can assist the qualitative component by identifying representative sample members, as well as outlying (i.e., deviant) cases. Conversely, at the design stage, qualitative data can assist the quantitative component of a study by helping with conceptual and instrument development. At the data collection stage, quantitative data can play a role in providing baseline information and helping to avoid "elite bias" (talking only to high-status individuals). On the other hand, at the data collection stage, qualitative data can help in facilitating the data collection process. During the data analysis stage, quantitative data can facilitate the assessment of the generalisability of the qualitative data and shed new light on qualitative findings. Alternatively, during the data analysis stage, qualitative data can play an important role in interpreting, clarifying, describing, and validating quantitative results, as well as through grounding and modifying" (R. Burke Johnson et.al 2007).

3.4 Research Design

As mentioned earlier, there were two types of populations in this research; senior managers who work in foreign companies in Saudi Arabia; and the officials of the regulatory governmental body known as SAGIA, which is responsible for legislating and administering all matters related to FDI in Saudi Arabia. The quantitative method of a questionnaire survey was used for the first population. There are more than 7,000 companies in Saudi Arabia; hence, a large number of firms were available to sample and survey. However, the number of senior officials who could answer questions directly relating to FDI in SAGIA were very few; hence, the survey method could not be used. Instead, a semi-structured interview was conducted with eight senior Saudi officials at SAGIA. This mixed-method procedure is applicable for this study since it provides high generalisability for both types of population given the circumstances of this study.

The research process utilised in the study is explained in the figure below.

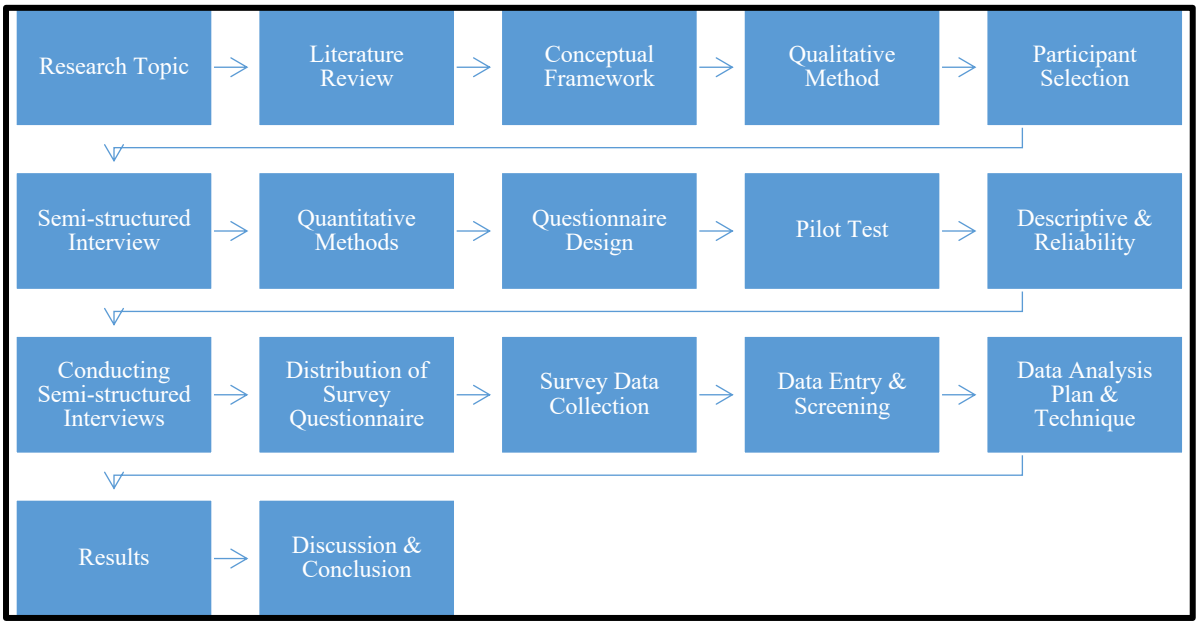

Table 3.1: The Research Process

The following sections will discuss the design of both the qualitative and quantitative questionnaires in detail.

3.4.1 The Quantitative Method: Questionnaire Survey

A purposive sampling method, also known as subjective sampling, was used as this type of sampling is based on a non-probability sampling that is selected based on the objective of the study and characteristics of a population as a large number of firms were available for sampling. Non-probability sampling is a sampling technique where the odds of any member being selected for a sample cannot be calculated. This contrasts with probability sampling, where you can calculate the odds. In addition, probability sampling involves random selection, while non-probability sampling does not–it relies on the subjective judgement of the researcher. While there are many times of non-probability sampling, this research utilises purposive sampling and convenience sampling method. This method allows the researcher to select a sample based on their knowledge about the study population. The participants are selected according to the needs of the study (deliberate sampling) who can provide in depth knowledge of the phenomena studied. The convenience sampling is where you include participants who are easy to reach. In this research, the phenomena studied is whether Saudi Arabia's business environment is conducive to attract foreign direct investment into non-oil sectors. Consequently, the participants perceptions of the investment climate are central to this study. For this reason, purposive sampling is best suited for the study.

The steps involved in conducting and managing the questionnaire survey of company managers are outlined below.

3.4.1.1 Design of the Questionnaire

This study adapted a questionnaire developed by Abdulla (2010) in Libya that is based on purposive sampling. His study looked at similar variables and resonated within the Saudi context. This questionnaire was based on a previous questionnaire introduced by the Investment Promotion Agency (IPA). Thus, the use of a survey instrument that was tested and validated in an earlier similar study adds validity and justifies its use in this study. However, modifications were made to align the questionnaire with the key variables in this research.

The questionnaire used in the survey is provided in Appendix 1. It includes four main parts; each part, items contained therein and how it was used in response ratings are described below.

Part One comprises of demographic information and is divided into two sections: personal information and company information. In section A, personal information, educational

qualifications, experience working overseas, countries worked, specific experience in Saudi Arabia and current position in the company were requested. Participants were asked to tick options as applicable; if there was more than one answer, they ticked all applicable answers, when the answer was 'other', they were asked to specify. In section B, company information is sought. Nationality of the company, business sector, whether under operation or implementation, city of company location in Saudi Arabia, length of time the company has been involved in overseas business, how many countries the company was operating in currently and length of time the company has been operating in Saudi Arabia were included in this section. The options and methods for answering are similar to section A.

Part Two deals with economic resources. Section A concerns human resources. First, the quality of human resources in terms of language, technical knowledge and teamwork was requested. There were three response options: 1) *satisfied*, 2) *unsure* and 3) *dissatisfied*. Only one option could be ticked. Next, participants could select from five problems on human resources in Saudi Arabia. The first option of 'no problems' does not provide for any further options, but multiple choices are possible from the remaining four options. The option of 'others' requested specification. In section B, the use of local resources for production was answered with a yes or a no. Problems with accessing local natural resources have five options similar to problems of human resources and responses. The level of satisfaction with infrastructure was assessed in section C using ten items, which could be answered using one of the three options of satisfied, not sure and dissatisfied.

Part Three deals with the investment climate. Satisfaction on four items could be rated as satisfied, not sure or dissatisfied. The four economic and financial issues in the next question had similar options for responses. The level of satisfaction with registration and subsequent procedures were also rated similarly. Time taken for official approval could be rated by selecting the appropriate option from a list of five options.

Part Four deals with guarantees and policies. The satisfaction rate for legal guarantees for investors could be rated by selecting one of the options of satisfied, not sure or dissatisfied. Business obstacles have five options; excepting 'none', the others are multi-choice. Seven policies that could improve FDI to Saudi Arabia are listed and the most applicable ones selected by the participants, with multiple choices possible.

3.4.1.2 Pilot Questionnaire

A pilot study, prior to the actual survey, was sent for review to 11 senior managers of foreign firms to evaluate its applicability to the Saudi context, as the constructs and items were relevant to FDI factors in Saudi Arabia. The feedback received in relation to the format of the questionnaire and language were used to make amendments and the final version was prepared for use in the actual survey.

3.4.1.3 Targeted Population for the Questionnaire

A questionnaire was used in this study to measure the perception of senior managers of foreign companies in Saudi Arabia. The number of foreign companies registered with the SAGIA was 7,676, in which both operating and under implementation types were included.

3.4.1.4 Sample size for the Questionnaire

To define the sample size, a mathematical formula was used. This formula, introduced by Yamane (1973, p. 727), is as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Source: Yamane (1973, p.727)

Where:

n = the sample size

N = the size of the population

e = the margin of error ($\pm 5\%$) at confident level 95%

Therefore, the sample size for the targeted population of this study is 366 firms, as set out in the calculation below:

$$n = \frac{7676}{1 + 7676\ (0.05)^2} = 366$$

The firm samples were selected using convenience sampling. Convenience sampling is a type of non-probability method which was performed to choose managers from the 366 sample firms by nomination from the top management. The firms were requested to nominate only those officers who could answer questions about FDI. A cross-section selection from the firms ensured unbiased sampling, irrespective of the sectors, and duration of their presence in the country. Convenience sampling of participating management was achieved as they were nominated by the top management of the selected firms that were in decision making roles that impacted FDI. This method of sampling managers ensured that the managers were in positions dealing with FDI and therefore could give in-depth responses and provide precise answers.

3.4.1.5 Conducting and Administering the Questionnaire

Questionnaires can be conducted in four ways: 1) *face-to-face*, 2) *via mail*, 3) *by telephone,* and 4) *via the internet* either through commercial survey websites such as *SurveyMonkey* or equivalents (Bryman 2008). In this study, 366 survey questionnaires were sent to participants via email, and 308 valid responses were obtained by email. It's worth mentioning that the researcher works with the Institute of public administration- governments training and research arm and was able to get access and cooperation from the SAGIA investor relations department by inviting the firms' managers to respond to the survey. As a result, the collaboration of SAGIA has increased the response rate dramatically. Therefore, the distribution and collection of the completed responses to the survey lasted six months, from August 2017 to January 2018.

3.4.2 Qualitative method: semi-structured Interviews

3.4.2.1 Available methods

In their comparison of thematic and content analysis as two main qualitative approaches, Vaismoradi, Turunen and Bondas (2013) noted that qualitative approaches are characterised by recognition of multiple realities, need for in-depth understanding of the phenomena, interest in knowing participants' viewpoints, researching with the minimum disruption to the natural phenomenon and more literary style of presentation of results containing high levels of participant commentaries. The main aspects of qualitative methodologies include assumptions, postulates and philosophical perspectives. Some of the epistemological perspectives and pluralism lead to a range of approaches, such as grounded theory, phenomenology, ethnography, action research, narrative analysis and discourse analysis.

Among the methods available to the researcher, qualitative interviews (semi-structured) and observation provide possibly the best opportunities for the study of understanding processes (Gummesson, 1991). As Patton (1990, p. 95) observes “Process evaluations are aimed at elucidating and understanding the internal dynamics of how a program, organization, or relationship operates”. A major feature of this study is to evaluate SAGIA’s processes involved in “guarantees and policies” through which a license is issued for FDI activities, how effective is their processes, and the role played by the actors (decision-makers) in granting license.

In this type of study, the qualitative method is highly appropriate because the describing process requires a comprehensive explanation. The qualitative method provides the means to record the experience of process, which typically varies for different people, is fluid and dynamic, and participants' perceptions are a key process consideration (Patton, 1990).

3.4.2.2 Interviews

Interviews can be unstructured, semi-structured or highly structured. The degree of formality and restrictions on seeking elaborate information decreases from highly structured through unstructured interviews (Creswell & Poth, 2017). Unstructured interviews allow complete freedom to ask any question, often at the risk of straying from the focus. The questions and answers develop as the interview progresses. In-depth interviews for specific analyses often follow unstructured patterns. However, time is wasted in a ‘fishing expedition’. On the other hand, structured interviews are very formal, and questions are restricted to a list of pre-prepared questions. For this research, semi-structured interviews were conducted.

3.4.2.3 Semi-structured interviews

Semi-structured interviews provide a balance between the two extremes. In the case of semi-structured interviews, the focus on the topic of discussions is retained by asking questions only from pre-prepared guiding questions. Some points of clarification and elaborations may occur, but never beyond the scope of the interview. This is most convenient, consumes optimum time without wastage and is effective in obtaining all the required information within a short period of 30–60 minutes. This method is used in most research when interviews are used as a qualitative method.

3.4.2.4 Semi-structured interview procedure in this research

Following the approval of the university research ethics committee, a formal letter was sent to SAGIA detailing the study's aims and objectives and approval was sort for interviews with SAGIA officials directly involved with FDI. Once all the formalities were met, SAGIA provided a letter of approval and assigned a coordinator to support the research study. Several meetings took place with SAGIA coordinator to ascertain the background information of SAGIA's internal structures and processes before requesting to meet with the key officers who role directly related to FDI.

The SAGIA coordinator provided the names of eight officers who could be interviewed. Semi-structured open-ended questions were pre prepared to guide the conversation as well as to keep within the studies aims and objectives. The pre-guide contained 24 questions for the interview participant (see Appendix 2). The average duration was about 45 minutes for each interview. The interview proceedings with each interviewee were recorded with the permission of the participant. These recordings were converted to transcripts using a qualified Arabic to English translator. The transcripts were used for data analysis.

Among the 24 questions, the professional information of the participant was sought in the first two questions. This served to set the background for further questions on the actual topics. Also, communication was made easier by creation of an informal atmosphere by asking a little about professional background. Three questions followed on the current economic reforms. The answers naturally lead to Vision 2030; there were three questions on Vision 2030, covering the essential components. The SAGIA strategy for attracting more FDI into the country was the most important part of the interview and asked at this mid-stage of the interview. This was tactical; after asking initial questions on economic reforms and Vision 2030 to naturally provide a path for discussions on FDI. The question on SAGIA's role in FDI was followed by the effect of competition from MENA countries on FDI inflow and methods to counter this. FDI problems as a barrier to economic development was suggested in the next question. Saudi Arabia wants to diversify from dependence on the oil economy. Strategies to achieve this aim were probed in the next four questions, including its important link with Vision 2030, and the role of the participant in the implementation of these strategies. The reason for foreign companies leaving the country were asked in the next question. The new requirements for non-oil FDI companies to enter the Saudi market, whether these requirements are reasonable, preparedness of SAGIA for the new policy of privatisation of the Saudi public sector, readiness

of current infrastructure to attract FDI, and alignment of current regulations and labour laws with SAGIA strategy to attract FDI were the next questions so to get an understanding of SAGIA's current FDI environment and their future plans.

3.5 Data Analysis

This section will describe the process by which data were organised and analysed. As mentioned earlier, the study was conducted using qualitative approach with two modes of data collection: survey questionnaire using an online (email) questionnaire, with purposive sampling of respondents and semi-structured interviews with SAGIA officials. The following sections will explicitly explain how the techniques were used in analysing the data.

3.5.1 Survey Questionnaire

3.5.1.1 Aim

The aims of data analysis and modelling are to address the research questions in the following manner:

1. To describe the demographic characteristics of all participants who responded to the questionnaire, so that the profiles of the participants match the convenience sampling requirement that they know enough about FDI.

2. To establish the reliability of the scales used in the survey.

3. To describe the responses of the participants to the questions relating to economic resources, natural resources, investment climate, and guarantees and polices with regards to FDI.

4. To identify the significant drivers of promoting FDI in KSA.

3.5.1.2 Data analysis methods

Once the questionnaire was returned to the researcher, a number of steps were taken. A meeting was setup to take initial advice from an expert in relation to the use of Social Package for Social Science (SPSS) to find out the best way to code and analyse the data. The next step involved

entering the variables from the questionnaire followed by descriptive statistics which uses the data to provide representations of the population, either through graphs or tables or numerical calculations and inferential statistical analysis which makes predictions and inferences about a population based on a sample of data taken from the population in question. These techniques were used to analyse the data and interpret the findings.

3.5.1.3 Frequency counts and descriptive statistics

Frequency distributions (counts and percentages) were tabulated for all questions with a categorical response (nominal or ordinal). The trends were summarised, based on whether the majority (more than 50% of the participants) of the responses were located. The skewness of the distributions (e.g., whether the highest frequencies were located) was recorded where applicable. Summary statistics (e.g., means or medians) have been reported for questions with a continuous response.

3.5.1.4 Reliability analysis

To ensure consistency, the scale items were subjected to reliability tests utilising Cronbach's alpha as a measure. A 0.7 or above was considered reliable (Reynaldo & Santos 1999) and the set of items were internally consistent in measuring the intent of each factor. There are seven scales used in the survey, including economic resources – human resources, natural resources – infrastructure services, investment climate – political social, investment climate – economic financial, investment climate – registration procedures, guarantees and policies – legal guarantee, and guarantees and policies – promote FDI.

3.5.2 Semi-Structured Interviews

Content analysis and thematic analysis are two common methods of analysing qualitative data. The differences between the two have been discussed by Vaismoradi, Turunen and Bondas (2013). Content analysis is conducted to analyse the contents of documents. Generally speaking, thematic analysis is more suitable for analysing interview responses. Hence, thematic analysis was conducted to evaluate the responses of the eight interview participants from SAGIA. As stated above, the interview proceedings were recorded with the permission of participants and transcribed from Arabic to English by a qualified translator. These transcripts were used for the thematic analysis.

The most popular procedure for thematic analysis is the method prescribed by Braun and Clarke (2006), which has been reproduced and discussed by Vaismoradi, Turunen and Bondas (2013). Their procedure, reproduced in Figure 3.2, was used in this research.

Phase	Description of the process
1. Familiarising yourself with your data:	Transcribing data (if necessary), reading and re-reading the data, noting down initial ideas.
2. Generating initial codes:	Coding interesting features of the data in a systematic fashion across the entire data set, collating data relevant to each code.
3. Searching for themes:	Collating codes into potential themes, gathering all data relevant to each potential theme.
4. Reviewing themes:	Checking in the themes work in relation to the coded extracts (Level 1) and the entire data set (Level 2), generating a thematic 'map' of the analysis.
5. Defining and naming themes:	Ongoing analysis to refine the specifics of each theme, and the overall story the analysis tells; generating clear definitions and names for each theme.
6. Producing the report:	The final opportunity for analysis. Selection of vivid, compelling extract examples, final analysis of selected extracts, relating back of the analysis to the research question and literature, producing a scholarly report of the analysis.

Table 3.2: Procedure for thematic analysis (Braun & Clarke 2006)

Braun and Clarke (2006) provided a checklist for a good thematic analysis (see Figure 3.3). This checklist was used to ensure that the thematic analysis in this research is of good quality.

Process	No.	Criteria
Transcription	1	The data have been transcribed to an appropriate level of detail, and the transcripts have been checked against the tapes for 'accuracy'.
Coding	2	Each data item has been given equal attention in the coding process.
	3	Themes have not been generated from a few vivid examples (an anecdotal approach), but instead the coding process has been thorough, inclusive and comprehensive.
	4	All relevant extracts for all each theme have been collated.
	5	Themes have been checked against each other and back to the original data set.
	6	Themes are internally coherent, consistent, and distinctive.
Analysis	7	Data have been analysed - interpreted, made sense of - rather than just paraphrased or described.
	8	Analysis and data match each other - the extracts illustrate the analytic claims.
	9	Analysis tells a convincing and well-organised story about the data and topic.
	10	A good balance between analytic narrative and illustrative extracts is provided.
Overall	11	Enough time has been allocated to complete all phases of the analysis adequately, without rushing a phase or giving it a once-over-lightly.
Written report	12	The assumptions about, and specific approach to, thematic analysis are clearly explicated.
	13	There is a good fit between what you claim you do, and what you show you have done - i.e., described method and reported analysis are consistent.
	14	The language and concepts used in the report are consistent with the epistemological position of the analysis.
	15	The researcher is positioned as *active* in the research process; themes do not just 'emerge'.

Table 3.3: Ensuring good-quality thematic analysis (Braun & Clarke 2006)

In this research, the interview responses were thematically analyzed. The analyses were carried out using, NVivo. NVivo is a qualitative data analysis (QDA) software program used the analysis of unstructured text, interviews, focus groups, surveys (mixed methods) and social media. NVivo is a tool for qualitative researchers to use when working with heavy text-based and/or multimedia information; In other words, when small or big amounts of data are required for a very focused level of analysis.

This software allowed for efficient storage, coding, indexing and retrieval of data so that patterns in the data could be discovered. The software is based on a code-and-retrieve technique for within a "project" created by the researcher. It keeps "on-line" and "off-line" text organized and portable. On-line documents are the transcribed text while off-line documents are secondary data such as archival reports, tables and graphs from other sources.

3.6 Ethical Issues

All research involving living beings, especially human beings, must follow certain ethical guidelines. Victoria University has prescribed guidelines on ethical compliance. Only research that has ethical clearance from the university are allowed to proceed. These ethical compliances were furnished in the prescribed format of the university for approval by the competent authority. Only after gaining ethical clearance did the actual research involving human participants start.

In this research, human participants were involved in the questionnaire survey and the interviews. Ethical issues include the following.

Privacy of the participants. The personal profile data given by the participants were treated as confidential and were not and will not be revealed. The participants were not asked to give any identity information such as name or address. There was no attempt to trace the identity of participants by any person including the researcher.

Confidentiality of information given by the participants in the survey and interview responses. The survey and interview responses of any participant were not and will not be revealed to any person in any manner. The records of the survey and interviews were kept safe in secure storage, not accessible by anyone other than the researcher.

Informed consent to participate. In both the survey and interviews, the participants were briefed on the essential details of the project. They were requested to participate voluntarily. They were also informed of their right to withdraw at any stage of research without giving reason. They were assured of privacy and confidentiality. If using names in any report becomes necessary, only pseudonyms will be used to camouflage the real identity of the participants. The participants volunteered to participate and signed the prescribed consent form before their actual involvement.

In addition, permission was obtained from the interview participants to record the interview proceedings. The recorded interviews were made into transcripts for data analysis.

All the electronic data from this research were stored only on the personal laptop of the researcher with password protection and frequently updated malware protection. These data could not be accessed by anyone other than the researcher.

All hard copies were stored in a safe and secure place under lock and key, accessible only to the researcher.

3.7 Chapter Summary

This research consisted of both quantitative and qualitative approaches triangulated with other required data collected from authentic sources. The quantitative method consisted of a questionnaire survey of 366 participants yielding 308 usable responses. In the qualitative method, semi-structured interviews with eight nominated SAGIA officers were conducted.

The quantitative data were analysed using appropriate procedures to test validity and reliability, descriptive statistics, and response analysis. Thematic analysis was conducted on interview responses. All ethical requirements were complied with, and the ethical approval of Victoria University was obtained before the actual research work began.

Chapter 4: Descriptive Analysis of Survey Respondents and Their Perception of KSA Business Environment for FDI into Non-oil Sectors

4.1 Introduction

Chapter 1 described the background of this study and provided the study's aims, objectives, and research questions. Chapter 2 described the literature in detail on FDI and highlighted the shortcomings in the literature on FDI into non-oil sectors in Saudi Arabia. In fact, vision 2030 is underpinned by FDI inflows into the non-oil sectors to provide the backbone of the country's economic growth given the decline in the oil sector. The plan is set and designed for Saudi Arabia to decrease its level of dependency on oil and sets out an ambitious plan to achieve economical and societal goals for the Kingdom.

This chapter will provide descriptive findings from the survey respondents and their perceptions of FDI in Saudi Arabia. Using the core variables (see table 3.1), the chapter is divided into the following sections: Section 1, focuses on the demographic data of the companies that were involved in the survey and general information of the participants including nationality, qualification, experience and position in the company. Section 2 is concerned with the views of participants on the Economic Resources (human and natural). Section 3 focuses on Investment Climate and whether the participants feel satisfied with the investment climate, Section 4, is concerned with legal guarantee and policies.

4.1.1 Participant demographics

This section is devoted to the description of participant demographics including their nationality, academic qualification, work experience and the position they hold.

Table 4.1: What is your nationality?

	Frequency	Percent		Frequency	Percent
Saudi	75	24.4	Nepali	3	1
Indian	58	18.8	Spanish	2	0.6
Pakistani	49	15.9	Yemen	2	0.6
Egyptian	40	13	Japanese	1	0.3
Sudanese	16	5.2	Morrocan	1	0.3
American	15	4.9	Romanian	1	0.3
Canadian	15	4.9	S. Korean	1	0.3
Philippines	15	4.9	Sri Lanka	1	0.3
British	7	2.3	Syria	1	0.3
Jordanian	4	1.3	Tunisian	1	0.3
Total	**308**	**100**			

Table 4.1 shows the nationality of the respondents. While 24.4% are locals (Saudi), a staggering figure of 75.6% are overseas nationals with India and Pakistan comprising the vast majority amongst them at 34.7% followed by Egypt at 13% respectively. This highlights that there are more foreign nationals holding roles in FDI companies in Saudi Arabia than Saudi nationals themselves. This could be due to a shortage of talents within the local market.

Table 4.2: What is the highest level of education that you have attained?

	Frequency	Percent
Elementary / intermediate school	9	2.9
Diploma	45	14.6
Bachelor	191	62.0
Postgraduate	60	19.5
Other	3	1.0
Total	**308**	**100.0**

Table 4.2 provides details of education attained by respondents. The majority of respondents were well educated with 62% holding a bachelor's degree, 19.5% holding postgraduate qualifications and 14.6% with diploma qualifications. Furthermore, 2.9% of respondents surveyed had only completed elementary or middle school equivalents.

Table 4.3: For how long have you been working overseas?

	Frequency	Percent
None	75	24.4
Less than 5 years	34	11.0
5-10 years	91	29.5
11-15 years	61	19.8
16-20 years	23	7.5
More than 20 years	24	7.8
Total	**308**	**100.0**

Table 4.3 shows that 24.4% of respondents did not work outside of Saudi Arabia. This is consistent with table 4.1 where 24.4% of respondents are Saudi nationals. However, the table shows that in total 64% of respondents have worked overseas with 29.5% within 5-10 years. In total, 75.6% of respondents are from overseas. This highlights the importation of labour and skills hired by FDI companies outside of Saudi nationals.

Table 4.4: How many countries have you worked in?

	Frequency	Percent
None	22	7.1
One country	103	33.4
Two countries	118	38.3
Three countries	38	12.3
More than three countries	27	8.8
Total	**308**	**100.0**

The respondents in table 4.4 shows the level of experience working abroad as skilled labour. While 33.4% have only worked in Saudi Arabia, a total of 59.4% has worked in more than one country. This maybe the case where respondents work for the same FDI company in other countries.

Table 4.5: For how long have you been working in the Kingdom of Saudi Arabia?

	Frequency	Percent
Less than 5 years	82	26.6
5-10 years	118	38.4
11-15 years	58	18.8
16-20 years	20	6.5
More than 20 years	30	9.7
Total	**308**	**100.0**

Table 4.5 indicates that 73.4% of respondents have been working in Saudi Arabia for more than 5 years. This is consistent with table 4.3 where 75.6% respondents are from overseas. The less than 5 years shows 26.6% which can be assumed as that the Saudi labour market remains attractive.

Table 4.6: What is your current position?

	Frequency	Percent
Board Chairman	16	5.2
General Director	6	1.9
Manager	100	32.5
Head of Department	75	24.4
Other	111	36.0
Total	308	100.0

Table 4.6 highlights that 32.5% of the respondent's roles were at manager level and 24.4% at heads of department levels. This is consistent with table 4.2 where 62% of the respondents hold academic qualification. This explains that majority of the respondents hold a managerial position and have been in the country for more than 5 years. It is possible that 7.1% of the position held by board chairman and general director could be those that are highlighted in table 4.4 where 7.1% have never worked abroad. The other category of 36% could be in supervisor or assistant manager levels.

In summary, the above figures show that about 75% of survey participants were foreigners, and most (57%) were managers or heads of departments. About 75% had more than five years of experience, and about two-thirds had foreign experience of over five years. Nearly 60% had worked in two countries or more, and about 75% had been working in Saudi Arabia for more than five years. Thus, the officers nominated by the FDI firms were competent to answer the survey questions on the topics of interest.

4.1.2 Company demographics

Company demographics are relevant to examine the current status of FDI firms operating in the country. In particular, it sets the scene for examining the characteristics of foreign and partnership companies in Saudi Arabia. The results obtained on company demographics are presented in a series of tables below.

Nationality

Table 4.7 highlights that 27.6% of companies are in partnership with Saudi Arabia. However, an equally similar figure 26.9% are American owned companies. 42.1% of the companies with foreign ownership including Japanese, Canadian, Pakistani, British Indian and Chinese. In total, 68.1% of the companies are dominated as foreign ownership.

Table 4.7: What is the country of origin of your company?

	Frequency	Percent		Frequency	Percent
Partnerships with Saudi	85	27.6	Korean	5	1.6
American	83	26.9	Sudanese	3	1
Japanese	30	9.7	UAE	1	0.3
Canadian	26	8.4	Egyptian	1	0.3
Pakistani	21	6.8	French	1	0.3
British	19	6.2	New Zealand	1	0.3
Indian	19	6.2	Philippines	1	0.3
Chinese	12	3.9			
Total	**308**	**100**			

Table 4.8 shows the dominance of economic sectors. Health sector takes a large portion of the market with 24.7%. However, industrial sectors dominate the markets of Engineering 19.5%, Building materials 9.7%, Aviation industry 5.8%, Automotive industry 3.9% and other industry such as food industry 11.4%, marine services 2.9 and Automobile 2.4%. In total, the

industrial sectors equate to approximately 56.8% which dominates the foreign investment market. Services sectors equate to only 12.6%.

Table 4.8: What industry does your company mainly serve?

	Frequency	Percent
Medical services	76	24.7
Engineering industry	60	19.5
Food industry	35	11.4
Building material industry	30	9.7
Tourist services	22	7.1
Aviation industry	18	5.8
Education services	10	3.2
Retail	10	3.2
Marine services	9	2.9
Agricultural industry	7	2.3
Automotive	7	2.3
Automotive industry	5	1.6
E-Commerce	3	1.0
Insurance	3	1.0
Military aircraft / Aviation	2	0.6
Trading	2	0.6
Automobile industry	1	0.3
Automobile distributer	1	0.3
Automotive parts distributor	1	0.3
Car industry	1	0.3
Car accessories	1	0.3
Distributer of motor vehicles	1	0.3
Recruitment	1	0.3
Vehicle sales	1	0.3
Other	1	0.3
Total	308	100

Table 4.9: What is the current operational status of your company?

	Frequency	Percent
Under Implementation	4	1.3
In Operation	304	98.7
Total	308	100.0

Table 4.9 highlights that 98.7% of the foreign companies were in operation at the time of the study.

According to World Population Review (2019), Saudi Arabia is the world's 13th largest country by area, in the world. Saudi Arabia has four cities with more than a million people, 20 cities with between 100,000 and 1 million people, and 45 cities with between 10,000 and 100,000 people. The largest city in Saudi Arabia is Riyadh, with a population of over 4 million people, followed by Jeddah with close to 3 million. Mecca and Medina, each has a population exceeding one million. In addition to this, there are 20 cities that have over 100,000 residents and 45 cities between 10,000 and 100,000 people. The cities are spread across 13 different regions, with each region having a capital and governorates. However, the majority of the Saudi residents live in the urbanised cities that provide more opportunities, both in industries including oil, finance, agriculture, and education.

Table 4.10 provides the details of the company location. Consistent with the population, the majority of companies are located in Jeddah and Riyadh with many of them operating in both the cities. A small percentage of companies are operating in all four major cities.

Table 4.10: In which city is your company located?

	Frequency	Percent
Jeddah	67	21.8
Riyadh	56	18.2
Riyadh, Jeddah, Dammam	27	8.8
Dammam	24	7.8
Riyadh, Jeddah	21	6.8
Riyadh, Jeddah, Dammam, Tabouk, Jobil, Maddenah, Qasim, Jazzan	16	5.2
Riyadh, Jeddah, Dammam, Maddenah	11	3.6
Dammam, Jobil	9	2.9
All KSA cities	8	2.6
Jeddah, Dammam	6	1.9
Riyadh, Dammam	6	1.9
Riyadh, Jeddah, Dammam, Jobil	6	1.9
Riyadh, Jeddah, Dammam, Tabouk	6	1.9
Maddenah	5	1.6
Jobil	4	1.3
Riyadh, Dammam, Jobil	4	1.3

	Frequency	Percent
Riyadh, Jeddah, Maddenah	4	1.3
Dammam, Khobar	2	0.6
Dammam, Tabouk	2	0.6
Jeddah, Dammam, Maddenah	2	0.6
Riyadh, Jeddah, Dammam, Maddenah, Qasim	2	0.6
Riyadh, Jeddah, Dammam, Tabouk, Jobil, Maddenah	2	0.6
Riyadh, Jeddah, Dammam, Tabouk, Maddenah, Qasim	2	0.6
Tabouk	2	0.6
All KSA cities, GCC & India	1	0.3
Dammam, Tabouk, Jobil	1	0.3
Jazzan	1	0.3
Jeddah, Jobil	1	0.3
Jeddah, Maddenah	1	0.3
Khobar	1	0.3
Riyadh, Dubai, Bahrain	1	0.3
Riyadh, Jeddah, Dammam, Jazan	1	0.3
Riyadh, Jeddah, Dammam, Jobil, Maddenah	1	0.3
Riyadh, Jeddah, Dammam, Tabouk, Jobil	1	0.3
Riyadh, Jeddah, Dammam, Tabouk, Maddenah	1	0.3
Riyadh, Jeddah, Jobil	1	0.3
Riyadh, Jeddah, Jobil, Maddenah, Qasim, Jazzan	1	0.3
Riyadh, Jeddah, Maddenah, Dammam, Jobil	1	0.3
Total	308	100

Table 4.11 provides interesting data on the operation of the companies in Saudi Arabia. In earlier discussion, table 4.8 highlighted the economic sectors in which the companies operated. The industrial sector dominated with approximately 56.8% of the market. This was followed by the health sector 24.7%. These sectors would have taken a longer timeframe to set up and mature into the market. This is consistent with table 4.11 where companies that have been in operation for more than 10 years amounting to 75.4%.

Table 4.11: Since when has your company been involved in overseas business?

	Frequency	Percent
Less than 5 years	15	4.9
5-10 years	61	19.8
11-15 years	72	23.4
16-20 years	52	16.9
More than 20 years	108	35.1
Total	**308**	**100.0**

Table 4.12 shows that the companies operating in Saudi Arabia are largely multinationals with 87.4% present in more than one country. 32.8% has been operating in more than 10 countries. This correlates with table 4.11 where the majority of the companies, 35.1% have been in operation internationally for more than 20 years. It also correlates with table 4.8 where the two sectors health 24.7% and Engineering 19.5% are dominant in the country.

Table 4.12: In how many countries does your company operate?

	Frequency	Percent
None	11	3.6
1-5 countries	121	39.3
6-10 countries	47	15.3
More than 10 countries	101	32.8
Unsure	28	9.1
Total	308	100.0

Table 4.13 shows 96.1% of the FDI companies has been in operation for more than 4 years which is consistent with the above findings.

Table 4.13: How long has your company been in the Kingdom of Saudi Arabia?

	Frequency	Percent
Less than 2 years	4	1.3
2-4 years	8	2.6

More than 4 years	296	96.1
Total	**308**	**100.0**

The following points emerge from Tables 4.7–4.13 on company demographics. Two FDI routes are evident: foreign-owned companies (72%) and foreign companies with Saudi participation (28%). Medical, engineering and food industries dominated (55%), indicating some success in the diversification of FDI away from oil, which is necessary for funding Vision 2030 projects. The companies were well-distributed within the four main cities where the population is concentrated. However, some companies had multiple operations covering different areas of the country. The location of an industry leads to the development of that area. Therefore, the fair distribution of these FDI industries throughout the country is conducive to FDI helping the economic development of the whole country, which is the main goal of Vision 2030. With few exceptions, all were in operation for more than four years in Saudi Arabia, most being multinational in nature. Opportunity for very large amounts of FDI is higher with multinationals (as they have more funds) than those operating in one or two countries only. Thus, most of the basic conditions required for high levels of FDI for funding Vision 2030 exist.

Why then is this not occurring? The answers to other survey questions pertaining to factors of FDI may provide the answer.

4.2 Economic Resources

This section presents the results relating to the questions related to economic resources.

4.2.1 Human resources

When asked about the difficulties faced in regard to human resources in KSA, the largest group were people who said they did not face any difficulties (n = 142, 46.1%). On the other hand, nearly 54% reported some difficulties related to restrictive labour laws coupled with a lack of skilled labour and importing foreign labour. Table 4.1 above provided the details of the nationality of the workers in foreign companies. A total of 75.6% of the workforce are overseas workers. Thus, the importation of labour and specific skills hire from abroad is critical for the firms operating in KSA. Only 24.4% of the total workforce in the survey was local. However,

as mentioned earlier, 54% of respondents said that their company faced difficulty. This is an important finding as the success of FDI in large part dependents on human resources capability.

Table 4.14: What difficulties or problems has your company faced in regard to human resources in KSA?

	Frequency	Percent
None	142	46.1
3. Laws that specify the minimum percentage of locally sourced employment	53	17.2
4. Scarcity of skilled labour	33	10.7
2. Importing foreign labour	25	8.1
2, 3	20	6.5
2, 4	14	4.5
3, 4	10	3.2
2, 3, 4	9	2.9
Other	2	0.8
Total	**308**	**100**

4.2.2 Natural resources

As discussed in the literature, several authors have discussed the importance of natural resources to attract FDI into the country and the importance of the availability and quality of the natural resources. The respondents were asked if they rely on local natural resources in the production process.

A majority of the respondents indicated that they rely on local natural resources in the production process (n = 187, 60.7%). Thus, availability of natural resources is critical for their production operations. This may mean they are importing the raw materials.

Table 4.15: Do you rely on local natural resources in the production process?

	Frequency	Percent
Yes	187	60.7
No	121	39.3

Total	308	100.0

When asked about the difficulties faced in regard to access to local natural resources in KSA, a majority of people said they did not face any difficulties (n = 172, 55.8%). However, 44% of the companies faced difficulty with limited supply, high prices and low quality of raw materials which seemed to be important factors contributing to FDI firms not depending on local natural resources.

Table 4.16: What are the difficulties or problems that your firm has faced regarding access to local natural resources?

	Frequency	Percent
None	172	55.8
3. Limited supply of materials	43	14.0
4. High prices	41	13.3
2. Low quality materials	20	6.5
2, 3	10	3.2
2, 3, 4	8	2.6
2, 4	7	2.3
3, 4	6	1.9
Other	1	0.3
Total	308	100

4.3 Investment Climate

A majority of the participants indicated that their company was able to obtain official approval from the board in less than two months (n = 166, 53.9%). However, 46% of the firms reported that, there had been delays of four or more months.

Table 4.17: How long did it take for your company to obtain the official approval from the board?

	Frequency	Percent
Less than a month	105	34.1
Less than 2 months	61	19.8

Less than 3 months	26	8.4
Less than 4 months	26	8.4
4 months or more	90	29.2
Total	308	100.0

4.4 Guarantees and Policies

When asked about the business obstacles faced in KSA, a majority of respondents said they did not face any difficulties (n = 185, 60.1%). Bureaucratic procedures, financial difficulties and legal problems were the major obstacles, faced by 40% of the firms.

Table 4.18: Which business obstacles has your company faced in the KSA?

	Frequency	Percent
None	185	60.1
4. Bureaucratic procedures	37	12.0
3. Financial difficulties	31	10.1
2. Legal problems	29	9.4
2, 3, 4	9	2.9
2, 3	6	1.9
2, 4	6	1.9
3, 4	5	1.6
Total	308	100

4.5 Reliability Analysis

The reliability coefficients for all the scales used in the survey are shown in Table 4.19. Since all Cronbach's alphas are greater than 0.7, the items from all scales were deemed fit (reliable) to be used in subsequent analysis. The results of the reliability analysis indicate that the items included in the survey are valid, non-repeating and representative of the various aspects of FDI investment being measured. Therefore, the reliability analysis confirms the validity of the items used in the questionnaire.

Table 4.19: Reliability analysis (Cronbach's alpha)

Sub-scale	Number of Items (N)	Cronbach's Alpha
Economic Resources - Human Resources	3	.764
Economic Resources - Infrastructure Services	10	.818
Investment Climate - Political Social	4	.756
Investment Climate - Economic Financial	4	.786
Investment Climate - Registration Procedures	2	.888
Guarantees and Policies - Legal Guarantee	4	.770
Guarantees and Policies - Promote FDI	8	.891

4.6 Chapter Summary

Chapter 4 was devoted to the descriptive analysis of the survey questionnaire findings. The chapter consisted of the background characteristics of the individuals and companies, economic resources (human and natural), investment climate, guarantees, and policies.

It can be concluded from the results of the survey that respondents appear to be satisfied, although at varying levels, with the quality and availability of economics resources. However, there seem to be problems with the skillset within the local labour market as imports of foreign workers are high. It can also be summarised that both international and local investors face difficulties with the investment climate. The results also indicate that guarantees and policies especially with bureaucratic procedures, legal obstacles and financial obstacles are problematic. The next chapter will present the findings from interviews held with SAGIA officials.

Chapter 5: Thematic Analysis of SAGIA Officials and their Views of Vision 2030 and FDI in Non-oil Sectors

5.1 Introduction

The previous chapter presented the perceptions of foreign and joint companies and their perspectives on Saudi Arabia's business environment. This chapter will analyse and discuss the views of the government officials involved in implementing the Vision 2030 plan to reduce Saudi Arabia's dependence on oil and diversify its economy into other sectors such as health, education, infrastructure, recreation, tourism, manufacturing, construction and finance to name a few. As part of the plan, several supporting structures have been put in place to implement Vision 2030. The National Transformation Programme (NTP) is one of the leading programmes that are set specifically to support the Vision 2030, with its specified aim towards achieving the ultimate goal of the vision. Expanding the activity of fund-raising, involving the entrance of international capital markets, and revamping the fundamental of Saudi Arabia's investment strategy. These are some of the key factors of the restructuring plan. As part of the strategy, the Saudi General Investment Authority (SAGIA) is set up as the official investment promotion agency and foreign investment licence provider. The main functions of SAGIA are improving Saudi Arabia's competitiveness in order to help increase its investment destination; with its focus around the values and services offered to investors; in addition to providing new investment opportunities that are set to attract investors and business for the objective of adding to Saudi Arabia's agenda of economic diversification.

In the following sections, interviews held with SAGIA officials dealing with FDI issues will be analysed and discussed in detail. The focus of the interviews was to ascertain from the interviewees on their perception of what they think and understand of the Vision 2030, its strategy and its implementation. Importantly, it was getting an understanding of their perception of whether they thought Saudi Arabia's business environment is conducive to attract FDI in ono-oil sectors. In-depth interviews were held with eight members of SAGIA officials in their offices. An open-ended question related to the aims and objectives of the study was used to control the conversation. The 24 pre-prepared questions are attached in Appendix 2.

The interviews were originally conducted in Arabic and then translated into English. Once translated, a qualitative analysis (also known as a thematic analysis) was performed on the

transcripts. The aim was to tease out important themes that emerged from the interviews and that pertained to the research questions of this research study.

Several themes emerged from the interviews., sub-themes were identified under the umbrella of each major theme. The thematic analysis was performed along the lines suggested by Braun and Clarke (2006). In their work, they termed thematic analysis a foundational method for qualitative analysis in research, and described the method via six phases, include familiarisation with data, generating initial codes, searching for themes, reviewing themes, defining and naming themes, and producing the report.

The following sections provides the thematic analysis of the interviews conducted with SAGIA officials. The background of the interviewees is provided below:

5.2 Background of Interviewees

The background of each interviewee is given in brief below.

1. The interviewee denoted henceforth as P1 is a legal consultant working in the development and regulation department of SAGIA. The work he performs includes developing regulations for investment-related matters, developing internal regulation for the authority, working with the legislative board for the investment, and regulating the authority's legislative board. He began working at SAGIA in 2014 in the legal department, including as a director, before transferring to the investor services sector for approximately eight months as a legal counsellor. He then transferred to the Agency for Developing the Investment Environment in Systems Development Management and had worked there for over a month at the time of the interview.
2. The interviewee denoted henceforth as P2 is a Senior Specialist whose responsibilities include supporting management, providing consultation for different departments in relation to investment systems, rules, communicating information to investors, whether by email, individual meetings or investment presentations.
3. The interviewee denoted henceforth as P3 is an Invest Saudi Brand Manager whose job is to attract FDI. At the time of the interview, he had been with SAGIA in his current position for a few months and had previously worked in Saudi Experts for SAGIA.
4. The interviewee denoted henceforth as P4 is a General Marketing Director in the International Competitiveness Forum, and the General Director of Marketing and

Trademark within SAGIA. At the time of the interview, he had been working at SAGIA for only two months.

5. The interviewee denoted henceforth as P5 worked as a Director of Business Development and Management in the Investor Services Sector. His responsibilities included the development of services for foreign investors, validating procedures, checking if the requirements meet the regulations and policies, and preparing business reports, among others.
6. The interviewee denoted henceforth as P6 is a Governor's Agent whose role is to develop the investment environment. His responsibilities are to improve the investment environment by identifying the challenges facing the business sector in KSA and working with agencies to overcome these obstacles to improve the investment environment. He has worked with SAGIA in various roles for around 11 years.
7. The interviewee denoted henceforth as P7 is a consultant who works as a Governor's Agent. His job is to promote investment and attract foreign investors. At the time of the interview, he had worked for SAGIA for around one and a half months.
8. The interviewee denoted henceforth as P8 is the Deputy Governor of Investment Attraction and Development, and his responsibilities involve attracting and development of investment. At the time of the interview, he had worked with SAGIA for approximately three months.

5.3 Theme 1 - KSA Business Environment-

5.3.1 Vision 2030

The interviewees were asked the following: 'Can you talk about the Vision 2030 and its impact on the Saudi economy thus far? Is this vision achievable in your opinion?'
A number of respondents answered this question by taking a wider view:

"The brand needs to improve the image of the Kingdom, you know, the external perception of the brand, that is, to improve the image of the Kingdom is our goal. The second mission is the attraction of foreign investment." P3

"When you plan something, plan something really quite huge, and I will tell you if 50–60% of the 2030 goals are accomplished, we will be one of the top five countries in the world."…"Today, our role and the Ministry of Culture and Information, and the role of each one of us is to send an image of Saudi to

the outside world. This will ease the work of SAGIA later on, when they go to the company and promote the investment opportunities that are available here." P4

"Because the investors would come, and we were trying to give them things or licenses needed. After the drop down, which happened after 2008 to almost 2013–2014, the authority is looking for the investors but is not facilitating their presence. The authority is trying to establish external offices and they are in the direction of the market branding in Saudi Arabia". P2

The above respondents are conscious of the fact that Saudi Arabia does not have a brand name to attract global firms. A further question asked was; Is this vision achievable in your opinion? Despite their concern with brand image, respondents enthusiastically shared their positive thoughts:

"We are still at the first phase of the initiatives and things like this can be cruel to the community, it could even affect the individual, and the entry initially. The country is really exiting from the petroleum focus and raising the country to an economic country". P5

"It is in the infancy stage. If we split the Vision into a strategy phase and an implementation phase, then we are in the first steps of the implementation phase". P7

"Each program has different phases, some of them are in the planning phase and others have already progressed further. I would say it is in the first stage if we are discussing it in a general perspective". P8

"My worry with Vision 2030 is that there would be too many consultants". P7

"My perspective of the current economic changes is being ambitious and bold. It carries a huge change for the national economy if it is implemented as we have seen in the projects, initiatives, implementation of KPI's set for it, and achieves the desired results, it will be an excellent change'. P5

"In general, I describe these changes as inspiring and positive. Vision 2030 is an ambitious Vision that we would expect to exceed existing challenges and chart the way for the next 15 years of the Kingdom. In previous periods, there were only exceptions of five-year plans, even implementations were not well drawn or concrete. The challenges were always dealt with in a repetitive manner that was difficult to see in reality. Now the Vision 2030 has clear objectives, specific commitments, sectors selected for comparative and relative advantage and linked these goals and commitments to economic growth as benchmarks". P6

"It is very dangerous to change strategy, since a strategy does not show its fruit in one day, it takes time. You have to give a strategy time to be implemented on this basis. From there you would know if you need to stay on course or change the strategy. The danger of the Vision 2030, which I consider to be a huge ambition, is that we would not be able to implement it at the proper pace and feel under pressure of being behind; which might change the strategy to achieve it due to the overwhelming stress". P7

"The Vision is both comprehensive and detailed. Therefore, there is no reason why this Vision cannot be accomplished". P8

5.3.2 SAGIA Strategy to Attract FDI

What is SAGIA's strategy for attracting FDI in non-oil sector? The respondents below provided details of SAGIA strategy and its role:

"In its relationship with other governmental bodies, the Authority plays a very large role. It is a business centre affiliated with several government agencies to facilitate the investor's mission. We cooperate with the government agencies and we communicate with them. If the authority faced a problem in which the obfuscation of an agreement between us and the body such as the Ministry of the Interior. Between us and them, there is an agreement on the issue of visas, exit and return. Because the investor faces problems during his stay, I as an authority, I have to ease it. To do so, I have to contact the Ministry of Interior." P1

"We calculated FDI outflow for each country and based our strategy on it. The countries that are in the plan are America, China, the United Kingdom, Korea, France, Germany, and Emirates. These seven to eight countries are available to attract as a group or target." P4

"If you look at the Vision 2030, there are 96 strategic goals. The goals have been distributed into 12 programs. These programs have been cascaded into other levels, mechanisms of implementation, resource locations, considering constraints, and overcoming these constraints. There is no universal strategy implemented for all sectors, but a developmental strategy for each targeted sector. The higher goal is to raise the FDI contribution in the GDP from 3.8 to 5.7%. We are looking at spectre strategy, where we look at what is required for each sector in Saudi, where the value proposition and message needs to be enhanced so it can reach the investor in one perspective." P8

"The strategy is to open the door to larger activities that were previously non-permitted, to re-evaluate the negative list in which specific activities were forbidden to the foreign investor, to facilitate the speed of obtaining the licenses, to reduce the requirements that we need from the investor conditions or requirements to reduce them." P2

The respondents above highlight that the goal of increasing FDI is to contribute to the growth GDP. Responded P2 acknowledges previous problems existed where specific activities were forbidden to the foreign investor, but these conditions are changing. However, there still seem to be major concerns as respondents explain:

"We are in a big recruitment phase. To be honest, we still need more recruitment in the investment attraction team as they are the core business of the authority. They need staff, and they're working on it". P3

"The non-cooperation of ministries because of the difference in priorities between the authorities and the ministries, which is affecting on the attraction of companies". P5

"You cannot judge it now as it does not have the investment opportunity or the many that are available are not enough for SAGIA. You are asking SAGIA to bring a few big investments but there is a bottle neck in a particular place, which is not allowing it to be ready for the opportunities that suit the target that is needed to implement". P7

"The difficulty for SAGIA is to achieve its goals and make the customer and the investor satisfied is the response of the other sectors. The other stakeholders have to communicate their projects to SAGIA so it can be channelled with consistency. Otherwise, investors would go to Dubai". P7

From the above responses, it can be said that SAGIA is still grappling with teething problems even though the Vision 2030 has been in operation since 2016. The majority of the respondents interviewed were relatively new to their role.

5.3.3 Diversification of the Economy to Non-oil Sector

The respondents were of strong view that diversification into non-oil sectors was critical for the growth of Saudi economy. However, they did share their concerns in terms of its lack of progress as responded P5 explains:

"The strategy is to attract non-oil sectors through Vision 2030; the Vision has a specific purpose. For example, the authority raises the percentage of foreign investment to a specific percentage and will attract certain companies. However, the infrastructure within the authority has not been formed and the authority is trying to draw a strategy that would fit the Vision in a way that will aid in achieving that Vision". P5

"With the price of oil dropping and the productivity declining, the expenses of the country will exceed its revenue. From there, the operation of privatisation has opened its doors. Therefore, the situation has improved because of the price of oil, and the increased contribution of the private sector to the state economy through the non-oil economy". P2

"As for the non-oil sectors, we have identified and prioritised the target sectors. We have identified the measurement tools and they have been assigned to the relevant authorities in this sector and begin to facilitate the procedures and provide incentives to motivate the leading foreign companies in the targeted sector. The main objective of these changes is to reduce the dependence on oil income. We must find economic solutions that protect the Saudi economy for the long term". P6

"Culture and traditions are changing, as well as the community is starting to change. We are starting to accept things that were prohibited by law and policies within the Kingdom of Saudi Arabia. This direction towards openness and chaos in the laws and policies is matching that of the developed countries without mimicking their development". P5

5.3.4 Investor Attraction

"Currently there are two methods to attract investment. The two are supply and demand. The demand is when the investor comes to Saudi. We are using the supply method, and it is considered to be the first phase. Attracting a foreign investor requires a lot of effort for remediation. The remediation involves political adjustment and changes in policies. The ultimate objective is to attract the foreign investor into the current competition. The perception that the world has is based on media bias. The story of the Kingdom of Saudi Arabia has not been properly established. This is where we come in with crafting the story and unfolding it to the world; specifically, the investors". P8

"We have arranged a group of meetings and there are work groups working on establishing investment opportunities for each government sector to transform them to chances for investors, foreign and local". P4

"We have an agency called the Investment Attracting Agency. There are many steps on which the authority is working on attracting investment, in holding conferences, seminars, and participating in international forums. Direct in targeting some companies and some countries. A specific specialisation will be attracted directly, and we will communicate with them directly by offering them the facilities here". P1

"There are offices dedicated to investment opportunities in this sector, and we cooperate with them. Meaning we have sector heads bringing in investment and cooperating with the government sector for this". P3

"We are not only spreading information about the authority, but information on the new development in the country. Meaning that we are helping through our website. First, there are many ways and the website are one of them. However, we are doing a convention annually, which is the GSF (Global Investment Forum) in Saudi Arabia. We have a continuous presentation in the authority. We have a theatre and all the companies, even the ones coming to explore, will be given presentations by the authority. We will give them all the information about the state of the economy, and the new requirements conditioned by the authority. This information will aid in increasing the awareness for the investors that are interested in the Kingdom's market". P2

5.4 Theme 2 – KSA Readiness

Under the theme of KSA readiness, interviewees discussed the state of affairs within the Kingdom of Saudi Arabia and how prepared or unprepared it was to achieve the goals set under Vision 2030. Four themes: FDI companies that departed KSA, Areas that require improvement in KSA, Government policies and Manpower were issues of concern for the respondents.

They also discussed in detail the areas in which Saudi Arabia must improve, to be able to attract more foreign investment. Some of those areas included changing government policies and improving the human resources capacity of the Kingdom of Saudi Arabia.

5.4.1 FDI Companies that departed KSA

The respondents discussed candidly the reasons why companies had left Saudi Arabia previously, including not finding a favourable enough atmosphere for their continued presence when as the question: In your opinion, why the previous FDI company left the Saudi market?

"The process in the past from the companies that left the Kingdom were not following a proper, sound and real system. They were working in a front that looked legal, but in the end, it was completely

different. When the Vision came with its goals, it was a matter of compliance or move out of the way. There was no room for discussion for those fronts. I think the companies were working on their own diligence or illegal goals. When the regulations were to be implemented, these changes would not bring the income they had before or the ease of things they had before, so they decided to leave". P1

Respondent P1, is acknowledging that the laws and regulations that governed FDI in KSA prior to Vision 2030 were relaxed which allowed FDI companies to work around compliance but this seem to have changed after the introduction of Vision 2030 as the following respondents explains:

"The most important factor being the environment of investment, the processes, the legislation, and the investment system. The foreign investor will not only focus on one aspect, by a complete system of many gears that are interconnected". P8

"The foreigner that was participating in the trade work illegally using the license of a national (commercial concealment). The foreigner can transition into a legal foreign investor without concealment. However, the attempt to remedy this issue due to legislations and conditions within the authority, which did not help shrink the concealment in a clear way. In my opinion, this is the reason why most of the foreign investors have not left the Saudi market; not as the statistics suggested as well as the economic reports. In reality, they have returned to the market through trade concealment. Also, the current decrease is due to mechanism of entry for individuals and companies to the Saudi market being codified and they would have real participation in the prosperity of the local market". P5

The respondents below sight acquiring human resource is the major problem for FDI companies and explains this as one of the key reasons for companies to exit. The vision 2030 stipulates "Saudisation" and hire of local labour, however as the respond highlights, there is shortage of qualified local labour.

"Some companies left because they finished the projects that they were working on and could not get new projects. The cost of staying for two or three years without anything new for them is huge. Some companies left because they encountered some problems associated with the process of recruitment from outside of Saudi Arabia. Companies that left did not leave because of the authority. Most of them left due to employment concerns. The acquiring of employees is one of the reasons of why these companies have left". P2

"There are companies that say that due to not having laws in the country, you cannot protect us if there is damage here or anything. For example, there were companies that had difficult situations. Let's say they were required by Saudisation to hire a high percentage of locals in a certain sector(s), and we do not have enough qualified Saudi resources in a certain section. Why, because it might have to do with the education itself". P3

"To develop the economy, a company has to earn winnings and to have earned winnings; there has to be this partnership between us. That is why in my opinion, there wasn't a deep public-private partnership. That is why they left. They did not earn any winnings and unfortunately the change in policies and addition of taxes did not help. The environmental workplace is not supportive nor stable". P7

5.4.2 Areas that require improvement for KSA to attract FDI

The topic of improvements generated a rich and fair discussion from the respondents and at times their frustrations were evident as the answered the question: In your opinion, what improvement are needed for (SAGIA) to attract FDI in non-oil sector?

Majority of the respondents spoke on the extent of the issues and challenges that are facing KSA:

"Because FDI is a global trend, we haven't started it, it was started by other countries and we are catching up. Also, we are heading towards the same process of changes as other countries. The need for solar energy and nuclear energy is on its way, and for Aramco to open private investment. The process of education for the country, which is very large, in the private sector's entry into hospitals, means every destination 2030 to focus on involving private capital with the country in the process of construction and development.

Here the responded is referring to both internal and external difficulties especially with FDI to drive such an economic reform and highlights the challenges its facing. He goes on to say:

"The basic difficulty is that we are in a recession because of the decline within the Kingdom during the recent period of time. There are companies and projects standing, and the country in specific period have reduced their spending on projects, stopped funding others, and delayed others; due to the decreases in the income of the country. Therefore, there is pressure on the entire economic sector in the Kingdom and this news is reaching the external investors, and they avoid the market which has become slowed down. In general, investors move to markets where growth is more". P2

His views are consistent with several credible reports which suggest that hopes of FDI to develop new sectors of the economy whether in manufacturing, tourism, entertainment or defence are diminishing. FDI has declined in KSA for well over a decade, however since 2017 it has been in a downward spiral. This sentiment was echoed by the respondents who provided an insight into the administrations problems during the interview and are shared below:

"The Kingdom of Saudi Arabia has many capabilities. These capabilities are higher than the neighbouring countries on the Middle East level. Its capabilities are higher in term of geography, natural materials, and finances. What is missing is cultural capability, organisational capability, and policies. Difficulties lie in the organisational, legislative and structural changes in the economy. If they are improved and implemented, the foreign investor will start to come on his own.

You have the regulations and legislations which have not been updated or reviewed for at least 18 years. There is a need to review and modify laws to match the era and ambition of the authority; these are organisational and/or regulation needs. The authority needs to acquire more human resources and train the current resources.

Foreign investors will always come to the opportunities and regulations in the country that are already available. However, the country's regulations are complicated. The opportunities might not be available while the regulations are good, but that is not enough. Both of these variables have to complement each other as well as the legislation to make it easier for the work environment for investment itself so it can be attractive". P5

"Over the past years, Saudi Arabia has faced several difficulties in economic development, especially in attracting foreign investments that positively affect the GDP. However, the Kingdom of Saudi Arabia was not able to continue in this type of development due to the surrounding conditions.

The Foreign Investment Authority needs government support. We should have offices outside the Kingdom of Saudi Arabia in the target countries and within countries with targeted industries.

It is not a shame to have discrepancy, but fixing it is of importance. This why the Council of Ministers have decided that there would be no change or modifying except by means of a private sector survey. If the private sector poll is reviewed, the private sector will show you what the problems are in this decision, in this regulation, or in this system". P6

Further question: How has the current Economic Reform and Vision 2030 impacted on FDI in non-oil sectors?

"For anyone who would come to Saudi Arabia, I can say that 70–80% of the investment opportunities have not materialised. We need unique contributions to the local economy through creating jobs, through transfer of informal knowledge, or through transfer of technology. We need something to feed the local content and make the contribution of consultants and other countries zero". P7

"Some investors might not come as leasing a business is not easy in Saudi Arabia as the regulations are not clear. There are huge risks if they enter the Saudi market". P3

"In the short term, it has changed many things and it is natural for change to be negative at the beginning. The people are afraid to contract, those who have the cash will not spend it, individuals who have not understood the new system of changes. The government tries to fix it and makes mistakes just as any entity in the world. It is natural that there would be negative feelings at the beginning. But overall, I think in 2019/2020, we will see the positive aspects from it and the general atmosphere will take a positive turn. The people will start to believe in the Vision in a bigger way and start to ride the wave of change". P4

Clearly there are concerns raised by respondents that raises more questions about the bold economic reforms of Vision 2030. As the respondents are experiencing, attracting FDI is not as simple as it may have seemed.

5.4.3 Human Resources

In earlier section, respondents highlighted the problems faced by FDI firms with shortage of skilled labor. However, the issue on labor hire was brought up by all respondents at various times of the interview which led to a specific question: In your opinion does the current business regulations (labor law) aligned with SAGIA strategy for attracting FDI?

"The foreign investors will come for many reasons. They hope to take a new market for cheap labour, welcoming environment, business acceleration, and access to the geographical location. The Kingdom has everything except the ease of doing business. It still needs time to develop a welcoming environment which has both national and international labour. If your account for the jobs created by FDI, you will not talk about Saudi or not Saudi. A foreign worker spends his pay on rent, for example, which causes

a movement in the economic flow. The Kingdom does not want many of the current foreign labour because the criteria for selecting them were not clear. Now the Kingdom has a new strategy, it does not need random labour, it needs to pick labour that is valuable labour. This is where employment will flourish the economy". P7

"In the past five years, the state has tried to increase the number of local workers after the country reached 10 million foreigners". P2

"Today, we are talking about a generation of 50–65% of youth, and in some statistics almost 70% of the population of Saudi are youth that is willing to learn and is hungry. We need more talent and we need resources. The only challenge that we have is human resources.
The government had to spend money on me and I did not need to provide anything. Today, if you do not present something from your development, no one will guarantee you. This is a very positive thing because this creates fear in humans and make them work, produce and develop themselves, better reflecting the overall economy and the general atmosphere". P4

The above respondents are refereeing to policies of Saudization which started in 2011 and favours a domestic labour force. However, as respondents earlier highlighted that skills shortage or talented workers are critical for FDI firm's success. From this perspective, Saudization has been an obstacle to FDI.

5.5 Theme 3 – Simplified FDI systems and process for investment climate

This section will concentrate on establishing whether KSA business environment is conducive for FDI firms. In particular, investor requirement, conditions of doing business in KSA and infrastructure are discussed with respondents. Respondents positively spoke about the ongoing efforts to improve the investment climate.

5.5.1 Entry Requirements:

SAGIA is responsible for attracting FDI as such SAGIA officials interviewed spoke candidly about their efforts to reduce bureaucracy and instil streamlined processes for entry into KSA. Respondents explain:

"We welcome any investor. We are opening the way for all sectors and all levels, whether they are small, medium, large or gigantic. The most important thing is they are not from the excluded investors. There are three conditions to obtain a license for investment in the Kingdom of Saudi Arabia. If these three conditions are achieved, the investor can receive the licence. Even though it is a retail business, and it is possible to enter the Saudi market with 100% ownership, there are conditions of partnership. For retail and wholesale, conditions of 75% and 25% still exist". P1

"The first thing previously was the foreign investor file provides a wide range of requirements from the company: background followed by projects in the world, and details about the company and its

branches, its management. This means that there was a great deal of information required, about 10 or 12 pieces of information, over about four or five years. They were reduced to two requirements only. That is, the image of the company's commercial record in their countries, and the last year of their financials. The second thing is the requirements of capital or capital decrease, meaning industrial projects start with at least with one million riyals and nothing else. There is no need for capital, meaning that you can start with 50,000 and you would accept it. After, there was no conditions for capital". P2

There are many aspects such as technological aspects that still need the investors in a huge manner to compete with other countries in terms of e-portals and systems. The need for a technological system needs huge investment for it to reach the neighbouring countries and for it to be simple. P5

"The authority of investment eases the process for the investor to enter and removes difficulties to obtain licenses or extend their stay in the Kingdom. All these things contribute to the implementation of the Vision". P2

It appears from the interviews that while substantial progress towards simplifying the processes has been achieved, more needs to be done in order to have smoothly running system in place as 30% of survey respondents highlighted.

5.5.2 Ease of Doing Business for Investors

The respondents talked about how they simplified the processes and put systems in place to make it easier for investors:

"The authority of General Investment in their adjustment to their development and improvement, they have switched from paper-based applications to electronically based applications. This made the procedures quicker and yielded faster results". P1

"As for supporting the service sector, we contribute in facilitating processes, making use of the investors' experience, and improving it in a combative manner with neighbouring countries. Therefore, the country would be competitive in the region in terms of process, issuing licences, and reengineering them for the foreigners, as well as ease of the process in the e-portal and services". P5

"We start from the beginning to attract investment by creating the right environment for the investor, facilitating the procedures, and reducing the time required for each action. Also, we are working to reduce the financial burden of establishing the investment project, and we are working on the possible incentives, whether financial incentives such as loans and non-financial tangibles and intangibles, working to find amendments to existing regulations in these cases and the existence of a regulatory obstacle". P6

"The changes related to the foreign investors are the reforms. A lot of reforms, arbitration centres and currency. The most important sector is the inclusion of the private sector in the government decisions related to the many reforms. It is very important to establish firm ground, where the investor feels he is in a community that protects him and his investment, as well as supporting him to stand and develop". P8

The investor does not need to go to the visa centre here in King Fahd Road. We do have special passports here. All the work is done here including social insurance, all government agencies needed for the investor.

"Obtaining the license required 12 documents. Now, only they have an immediate license to the Kingdom of Saudi Arabia by entering the site and filling out the required information. The license is issued directly by virtue of the license, which begins the procedure. Once it is issued, the investor can finish the rest of the procedure once he arrives in Saudi Arabia". P1

"The authority of investment eases the process for the investor to enter and removes difficulties to obtain licenses or extending their stay in the Kingdom. All these things contribute to the implementation of the Vision". P2

"If investors need, we can help him on the basis that we facilitate his work, either through association with the Authority to speed issuing the license, terminating their work here in the body or associated with the authority, or engaging in their work and original activity". P1

5.6 Conclusion

This chapter provided a detailed analysis of the interviews with SAGIA officials. Several themes emerged from the discussions with the respondents. While the respondent views were understandably sympathetic and skewed towards their institution and its role in realising Vision 2030, overall, it was interesting that there was a positive attitude towards Vision 2030 and the hope that the Vision would be achieved.

However, they were also frank about the fact that the Kingdom still has a number of tasks to accomplish before it is able to achieve its dream of diversifying its economy, developing new sectors and promoting Saudi Arabia as a premier destination for FDI. In this regard, interestingly, developing the Kingdom's human resource potential and relying less on foreign workers was a point that was brought up as an area for Saudi Arabia to work on. However, the respondents also acknowledged that shortage of skills and talent within the local labour market is currently short supply, potentially due to the fact that Saudi nationals prefer to hold higher ranking positions in the workplace, which was identified as a hindrance for FDI companies.

Overall, the interviewees were positive about the fact that there has already been considerable progress in making entry requirements for investors easier – especially with regard to forms, licenses and documents required. Moreover, they stated that online applications and issuance of licenses made this process even faster. Despite this, they did concede that there were still

steps to be taken to ensure ease of business for investors and to build the necessary facilities to attract FD

Chapter 6:
Is KSA's Business Environment Conducive? A Discussion of the Findings

6.1 Introduction

The diverse nature of the firms and interview participants demonstrates a fair representation of FDI firms and authoritative structure in the country. The aim of this study was to investigate two aspects related to FDI in Saudi Arabia: whether the Saudi business environment is conducive to attract FDI in non-oil sectors and the factors that determine the motivation of foreign companies to invest in Saudi Arabia. This meant investigation into the global challenges that caused Saudi Arabia to move away from an oil-based economy and seek FDI in this direction. Naturally, there will be challenges to this policy shift. These challenges in the investment climate are in terms of social, political, economic, financial, administrative, organizational, legislative and legal factors. Some act as barriers and others as promoters. As the country has launched Vision 2030 as a major transformational program, it is imperative to relate these factors to this major attempt. The four main factors are adequacy of skills in sufficient numbers, availability of natural resources, infrastructure and investment climate. Interviews with SAGIA officers focused on Vision 2030 as an opportunity to attract FDI and how the business environment, human resources and infrastructure are conducive for this purpose. The reasons for the recent departure of firms were also explored in the interviews. The results obtained in the studies are discussed in the following sections.

6.2 The Overall Picture

FDI in Saudi Arabia has been decreasing since the global economic crisis of 2008–2009 (SAGIA). Vision 2030 endorses the theory of Heng (2015) that economic development is a process by which a traditional society employing primitive techniques and thus capable of sustaining only a modest level of per capita income is transformed into a modern, high-technology, high-income economy. Overall, there are many positive and negative factors affecting FDI in non-oil sectors, especially in the backdrop of the enormous funds required for the implementation of mega projects under Vision 2030.

The inter-connectedness of FDI, competitiveness and economic development has been highlighted by Japanese researchers such as Ozawa (1992). According to the WEF competitiveness index, Saudi Arabia slipped from 29th in 2017 to 30th in 2018 (Schwab 2018). According to this report, overall performance was relatively stable. Post-2015 oil price shock, there has been improvement in the macroeconomic environment. Misra (2017) showed that countries such as India, which occupies a lower rank (39th) than Saudi Arabia (30th), are in the top 10 FDI attractors. Thus, obviously, competitiveness is not entirely a factor. According to the WEF report, the financial market efficiency of Saudi Arabia has declined significantly, by 10 places. This was attributed to the increase in interest rates in 2016 and the reduction in credit growth. Dudáš (n.d.) noted that interest rates and exchange rates affect FDI.

Saudi institutions are stable; the quality of infrastructure is good, and it is the largest market in the Middle East. On the other hand, India is rich in skills (in fact, brain drain is the major problem). China and India are considered to be the two largest emerging markets in the world, with a diversity of natural resources due to geographical diversity, including topography, climate, soil, vegetation, etc. China is the second richest country in the global market with 15.5% global market share and GDP (PPP): $27.31 trillion. It has experienced exponential growth over the past few decades, breaking the barriers of a centrally planned closed economy to evolve into a manufacturing and exporting hub of the world. China is often referred to as the "world's factory," given its huge manufacturing and export base.

On the other hand, India is fifth richest nation with GDP (PPP): $10.51 trillion. Its service sector is the fastest-growing sector in the world, contributing to more than 60% to its economy and accounting for 28% of employment. Manufacturing remains as one of its crucial sectors and is being given due push via the governments' initiatives, such as "Make in India." Although the contribution of its agricultural sector has declined to around 17%, it still is way higher in comparison to the western nations. The economy's strength lies in a limited dependence on exports, high saving rates, favorable demographics, and a rising middle class. The common thread with both these countries is that they have manpower and are rich in skills (IMF, 2019).

Thus, the effects of various factors on attracting FDI are varied, and the country context is significantly essential. Of the factors discussed above, Saudi Arabia is deficient in financial market efficiency in term of prices. Fama (1970) established efficient market hypothesis (EMH) and classified them into three categories: weak, semi-strong and strong form of market efficiency. He explains that ‘when historic market data and past prices are fully reflected in share prices but are unable to predict future prices, any market with this element is considered

a weak form. Any market is considered as semi-strong form when all publicly available information is fully reflected in the share price. Finally, any market will be considered as strong form efficient when all available public and private source information is fully reflected in the share price' (Ali Murad and Ishtiaq Bajwa 2018).

A study conducted by Ali Murad and Ishtiaq Ahmad in 2018 on financial markets efficiency in Saudi Arabia using efficient market hypothesis (EMH), found that their research did not support semi-strong form of EMH, as significant abnormal returns were found in the days around announcement event. These significant abnormal returns witnessed on and around the event day also infer that the information contents exhibited by earnings announcements are considered useful by the market. Thus, they concluded that Saudi Arabia is deficient in financial market efficiency in term of prices. . Ylander (2015) found that high FDI implies higher market efficiency. In the discussion of FDI theories, the inter-country transfer of capital through multinational firms is an FDI route. For this to happen, KSA needs to have an efficient financial market by implementing the International Financial Reporting Standard (IFRS) and make it mandatory for all firms to follow to enhance transparency. With only one stock exchange, Tadawul high efficiency is not possible yet, but they are making progress to be an efficient market. Tadawul has efforts to boost new financial products such as options contracts, short selling to make the market attractive to local and foreign investors. However, Tadawul specific restrictions on foreign financial institutions operating in capital markets; this is one significant barrier for FDI.

In addition to FDI through foreign firms, fully free capital investments by foreign financial institutions need to be promoted. This is the most important single factor to attract high FDI. This is the exact problem of capital market efficiency in KSA. FDI through entry of firms in specific sectors can occur at a large scale only if the receiving country has the required skills and technology absorptive capacity; KSA is short in both of these.

Negative competitiveness factors were also listed by WEF for Saudi Arabia (Schwab 2018). Restrictive labour regulations are the most problematic area in doing business. There is high segmentation of the labour market into different population groups; in particular, the large-scale exclusion of women. In spite of good tertiary enrolment, there are inadequate skills. Education and upgradation of skills are developing fast as scholarships to study abroad are given to Saudi students, but it will take time to reach the levels and numbers required. One purpose of Vision 2030 is to accelerate and reduce this time requirement. However, this also requires FDI, taking us back to square one. It may not be difficult to obtain FDI to promote

education, provided the government relaxes policies on religious practices and gender separation.

Some skills shortage in adequate numbers may also be felt due to Saudisation policy, which acts as a barrier to availability of skills and technology absorptive capacity. The country does not have the required number and level of local skills, nor do its regulations allow the recruitment of expatriates where skills are needed. This problem is a huge deterrent to FDI.

With regard to facilitation of FDI, although there is some progress in quickening approval processes, problems still exist. This was reflected in about 30% of survey participants reporting delays of more than two months to obtain approvals. The major problem is related to guarantees and policies, as none of the other factors were related to FDI. Thus, the current low FDI inflows (and hence factors to increase FDI) may be related to what is not there, or insufficient, rather than what is there. These are the factors which lower FDI. Unless they are rectified, FDI inflow will not improve. Thus, a focus on these negative factors is critical.

Although mean response scores of survey constructs were tilted positively, this does not help to identify methods to enhance FDI, especially to finance Vision 2030 projects. To solve problems, negative factors need to be identified rather than mere reporting of majority trends.

From the negative responses on what is not there, the main problems of FDI in Saudi Arabia are the decline in the efficiency of financial markets and credit growth, increasing interest rates, restrictive labour laws, slow pace of facilitation steps of FDI and not so positive investment climate, inadequacies in natural resources and insufficient guarantees and policies.

More detailed discussions of the above-summarised overall picture are provided in the following sections. The conceptual framework of this research was presented in Figure 3.1; this framework is followed in the discussions below. Thus, the effect of the current status of human resources, natural resources, infrastructure, investment climate and guarantees and policies, as perceived by survey participants and SAGIA interviewees, are discussed in that order. The effect of all these factors on funding Vision 2030 through large FDI inflows are also indicated.

6.2.1 Vision 2030

Is the Kingdoms ambitious plan working? This has been a million-dollar question. Indeed, “Vision 2030” plan is to diversify its oil dominated economy with the aims to create, attract , and develop the non-oil dependent industries.

Huge investments are required for Vision 2030. The state cannot fund all these investments, and success depends heavily on FDI. So far, the direct involvement of the Crown Prince in certain ways has attracted investments for projects such as NEOM from Japan and Italy. Still, there are other mega projects needing huge funds. Therefore, it is necessary that SAGIA, as the nodal agency, plays all tricks, not just to increase FDI, but to meet the Vision targets. The interview responses show that SAGIA has achieved limited success only, partly because they are not sufficiently supported by the government departments. An annual Global Investment Forum is conducted, as in many other countries. The country's case is presented for investments from foreign firms for major economic activities, but how many of these forums and presentations resulted in subsequent successful investment is not known. In effect, Vision 2030 is becoming a tool for promotion of FDI. However, this year's (2018) investment forum was a limited success as the death of journalist Jamal Khashoggi damaged the country's image.

While SAGIA can partly fulfil the role of a nodal agency to attract FDI, it has certain limitations. SAGIA is unable to simplify approval procedures and make doing business in Saudi Arabia easier enough. There is unwillingness to change guarantees and policies in favour of FDI firms. This affects other factors of FDI, as shown in Table 4.23. Certain policies are under review and re-evaluation but have not progressed to the step of actual change. Almost all interviewees agreed that SAGIA is on the way but has not reached where it needs to be yet, even after two years of Vision 2030. These administrative weaknesses create barriers in enhancing FDI to the level required for the Vision.

Seven countries and associated sectors have been identified as potential investment opportunities. Selecting a few countries and sectors may lead to the same fate as the Make in India campaign. Even if investors from these countries are preferentially treated, the extent to which these will actually become investments for Vision 2030 needs to be evaluated. The target of increasing FDI from the current 3.8% to 5.3% in about 15 years may not be very ambitious. Even if this is achieved, the total investments will be able to finance only part of the projects in Vision 2030. It was noted by some interviewees that the country from which investment is targeted may not be politically ready for the opportunity. The firms also may not be interested in investing in the sectors chosen.

NEOM is a special case, as it has been declared free from the labour laws and certain policies of Saudi Arabia and thus almost similar to an export promotion zone. Naturally, investors will see an opportunity for testing out their most innovative ideas here. In this sense, it also serves

as a technology testing centre. The effect of removing restrictive labour laws in increasing FDI can be seen in this example.

P8In his interview, respondent P8, noted that 96 strategic goals have been distributed among 12 projects. On average, each project needs to achieve eight goals. But the goals are not evenly distributed and not without duplication. It is possible that some projects are overburdened with pressure to achieve more goals than others. In such cases, achievement of goals may go beyond the year 2030, if it ever happens.

He also noted that instead of mere change, a complete transformation is aimed at. Even changes have to cross several barriers; transformation is even more difficult. Changing the mindset of traditionalists will be a great problem; otherwise, they should be kept away from Vision 2030. But this is not possible within the Saudi sociocultural context. Often, the suggestion given by investors to make the country investor-friendly are not easy to accept, as some may compromise the economic integrity of the country.

SAGIA officials believe that there is a need for investment attraction teams consisting of numerous members; building these teams is still in process after two years of Vision 2030. These teams need more staff to assist them. Such a big set up will require huge investments for building, training and stationing the team and their staff. Unless the returns in terms of sufficient FDI justifies their existence, there is no point in having such big teams. In addition, too many consultants may actually be a barrier as they may give opposing advice. The project is in the beginning phase and in 2018, some projects have started. Plans may be changed or diluted at later stages, though this remains to be seen.

The economy is slowing and visibly moving into non-oil sectors. As the oil prices fall, the country faces a funding crunch from public sources. So, promotion of private funding into non-oil sectors has become necessary. Use of the private sector in this manner is a part of Vision 2030, but SAGIA does not have the infrastructure needed to make this shift. Target sectors for quick results are being identified using appropriate measurement tools. New sectors such as entertainment, health care, ICT, digitisation, and tourism have been identified for non-oil diversification. Lack of resources, infrastructure and staff and support from other departments are affecting the effectiveness of SAGIA and its role in Vision 2030.

The brand image of Saudi Arabia as a favoured investment destination is severely affected by the Islamic nature of its pre-existing laws. This can be a deterrent to FDI. Western countries

approach these laws with suspicion. This is why, except for the US, no Western country has substantial FDI in Saudi Arabia. This factor was avoided in interviews due to the associated cultural sensitivities of the subject. However, it is noted here in the discussion as societal and cultural norms are undoubtedly important factors in realising the Vision 2030 project. Therefore, it warrants a discussion at the very least.

Cultural Values of KSA

The eyes of the world do not see KSA's cultural values as a widely accepted norm based on sound and fair principles particularly with Wahhabi religious doctrine. King Salman bin Abdelaziz Al Saud's modern Saudi state rests on the three pillars of religion, tribalism, and oil. These pillars do not support the current vision in its form to achieve its key objectives. For the Kingdom to be successful, it will need to gradually deconstruct these pillars, particularly tribalism, in order to create a more modern KSA by international standards, as outlined in the Vison 2030 objectives. Saudi society is currently predominantly closed, and notably, largely status-oriented and tribally structured. Consequently, many Saudis are not law-abiding citizens, often violating laws with impunity. Expatriates of poorer developing countries in particular tend to be treated as nonentities unworthy of human dignity. It will be critical to assimilate the current social environment to severely decrease and restrict instances of shameful public behaviour and disrespect for the law. In addition, for it to succeed in achieving its Vision 2030 objectives, all citizens need to acquire the necessary skills to achieve their goals. However, this will be difficult in a society where family, tribal (cultural practices), and regional ties are strong factors that determine one's identity. As such, the participation rate of Saudi women in the workforce is the lowest in the world.

6.2.1.1 KSA readiness

Mismatch between expectations and requirements, and actual conditions in Saudi Arabia are the main reasons for foreign companies exiting. In recent times, economic pressure due to low oil prices has slowed FDI and its contribution to national economy. Investors hesitate due to unclear laws and regulations, as indicated by Table 4.23. Provision of adequate Saudi labour skills is still a problem. With Saudisation, foreign firms are facing difficulties in recruiting a local workforce with the required skills.

6.2.2 Human resources

In 2002, KSA government under the Ministry of labour and Social Development, set up the Human Resource Development Fund (HRDF) with the main objective of recruiting, qualifying, and training the Saudi labour, as well as helping the Ministry of labour and Social Development to maintain an up to date and productivity-led economy.

However, questions have been raised on its success as unemployment rate stayed at a record 12.9% among Saudi citizen.

According to the Economist (December 2018), "Jobs are Saudi Arabia's most immediate headache. It needs to create 1.2m of them by 2022 to meet its target of 9% unemployment for Saudi citizens. To free up work for them, it is discouraging the hiring of foreigners. Since January 2018, firms have been charged 400 rials ($107 USD) per month for each foreign worker, with a discount if they employ more Saudi nationals than expatriates. The levy will double by 2020. Migrants pay another fee for each of their dependents. At first glance, these charges seem to be working. Almost 1m foreign workers have left the kingdom since the start of 2017." However, Saudi's are not replacing them.

Vision 2030 identifies eight sectors that would generate at least 60% of KSA's economic growth (McKinsey Report 2015), including "mining and metals, petrochemicals, manufacturing, retail and wholesale trade, tourism and hospitality, healthcare, finance, and construction. The other 40% of the contribution would come from the private sector, thus lowering unemployment. However, "serious issues impede the planned economic expansion." For example, Riyadh cannot realistically compete in labour-intensive manufacturing industries, as low wages do not appeal to Saudis accustomed to high-paying public sector jobs. The petrochemical sector is already well developed and has little room to absorb more workers. The same thing goes for mining, which also does not require a large workforce. Even if Saudi Arabia further develops its health care sector, it would be virtually impossible for it to become a medical hub because other facilities elsewhere in the region, such as in Lebanon and Jordan, are already far more advanced and readily accessible. Likewise, banking and finance require specialised training." (Hilal Khashan Middle East Quarterly 2017)

Construction has been disproportionately affected. It employs 45% of the expats and accounts for 60% of the exodus. The number of Saudis working in construction, though, has also fallen. Overall, since January 2017, the number of Saudis in work has grown by less than 100,000; the unemployment rate has increased by 0.2 percentage points, to 12.9%. Jobs once held by migrants are not being filled because they no longer exist. Abdullah al-Hassan, a government economist explains; You have these expats with low skills, low wages, and you can easily not renew their contracts"

While 46% of survey respondents did not face any problems with human resources, the fact that 59% had some problems with restrictive laws on local employment is a problem that needs to be addressed to increase FDI. In Chapter 4, Table 4.1 provided the details of the nationality of the workers in foreign companies. A total of 75.6% of the workforce are overseas workers. Thus, the importation of labour and specific skills hire from abroad is critical for the firms operating in KSA. Only 24.4% of the total workforce in the survey were local. This is an important finding as the success of FDI in large part dependents on human resources capability. Generating new jobs, and enticing Saudis to take them, has proven difficult just three years into the economic transformation effort as highlighted above. A number of respondents talked about privatisation, this will necessitate the need to build infrastructure which will only increase the dependence on highly skilled executives and skilled specialist as well as foreign labour despite the unfavourable work environment and labour laws as Saudi's nationals prefer not to do manual or strenuous work.

As pointed out in the Economist (2018), "young Saudis are reluctant to work with their hands—and anyway firms cannot afford them. A low-skilled foreign worker takes home around 1,500 Saudi riyal each month. The de facto minimum wage for Saudi citizens is 3,000 Saudi riyal. The pay gap is much narrower for skilled jobs and there is a pool of talent eager to do such work: 56% of Saudi jobseekers hold at least a bachelor's degree. Officials have therefore discussed putting the migrant fees on a progressive scale, linked to income. Unless KSA seriously solves the paradoxes pertaining to labour laws, it will continue to serve as a deterrent for FDI companies.

A number of studies support the role of human capital in the positive effect of FDI on economic growth, including Borensztein, Gregorio and Lee (1998), Noorbakhsh, Paloni and Youssef (2001) and Balasubramanyam, Salisu and Sapsford (1999).

Saudisation policy stipulates minimum local jobs for private and FDI firms operating in Saudi Arabia. Some scarcity of skilled labour (approximately 10%) could be due to this restrictive policy. Vision 2030 has a strong focus on skill enhancement, which should increasingly reduce the skill shortage, but the data shows otherwise with unemployment at 12.9%. Importing foreign labour creates a situation of large-scale migration of semi-skilled people from other developing countries in search of remunerative jobs. Many such migrations are illegal but do exist in Saudi Arabia (just as in other Middle East countries) in spite of strict laws to prevent this. Relying only on quota system without enhancing skills of the Saudi workforce has resulted in reduced FDI according to Al-Dosary and Rahman (2005). Interviews with SAGIA officials also highlighted this issue. While they were in support of Saudisation policy, they were very much aware of its consequences particularly to labour-intensive industries as Saudi nationals who are accustom to high-paying public sector jobs will find low paid wages less appealing.

Koyame-Marsh (2016) cited studies by Ramady (2013) and Saudi Hollandi Capital (2012). Closure of more than 10,000 private firms within 16 months of implementation was attributed by Peck (2014) to 'inadequacy of skills from adopting Saudisation policy.' In the interviews, SAGIA officials wanted the firms to comply with the stipulation of local employment and contribute to the economic development of KSA. But skill shortage is a problem even in complying with the local employment requirement. No firm can employ labour simply to comply with laws. There is nothing wrong in asking FDI firms to ensure that their activities contribute to the economic development of KSA, but contributing to economic development needs to happen automatically, not as a forced requirement.

India has since been implementing *'Made in India'* into its FDI policy, by inviting foreign firms and investors to establish manufacturing facilities within the country. There are rival opinions about the positive impact of this Indian policy on FDI inflows. According to a very recent evaluation of this programme by Jain (2018), FDI share in Made in India sectors declined by about half during 2017–2018, with at least 20% not being fresh investments. The priority sectors of the government may not be interesting to investors. The same situation may exist in KSA when participation in economic development of the country is insisted on as a condition to allow FDI.

One way out for KSA would be to develop technical education.

6.2.3 Natural resources

The oil prices have gone through ups and downs in the recent decades in KSA, disturbing economic and social uncertainty that has led the nation to diversify its economic activity into non-oil sectors. As discussed in chapter 2, natural resources can be divided broadly into two categories, point-source natural resources which are oil and minerals and diffuse-source resources such as agricultural products, which are dispersed through the economy. In KSA's situation, the country has a small agriculture sector that is primarily based in the southwest region, where the annual rainfall averages 400 mm (16"). Notably, the country also is the largest producer of dates. It also contains small mineral deposits of gold, silver, iron, zinc, copper, lead manganese, tungsten, sulphur, soapstone and feldspar.

The Profusion of point-source natural resources is extensively associated with countries' low economic performance as in the case with KSA and this natural-resource curse entails low economic growth through lack of trade of manufactured goods, low institutional quality and undesirable allocation of resources in favor of rent seeking. This comes at a detriment to human capital formation. Plans to turn the economy into diffuse sources of natural resources require both availability of quality and quantifiable natural resources and the manpower in terms of skillset for non-oil associated economic activities.

Being largely an arid region, lack of rainfall seriously affects crop production. Hence, there may be difficulties accessing agricultural resources. When materials are scarce, prices are high, and it may be often cheaper to import them. There are two types of quality problems: that product of a specific quality is not available, or there is no guarantee that the quality of product offered will be consistent across supplies. These were reflected in the negative responses of about 44% of survey respondents. Lack of skills and poor technology absorptivity affects improvement and maintenance of quality in adequate numbers consistently. It may be cheaper to import the raw materials than depend on inconsistent local sources. Natural resources and large markets promoted FDI in the findings of Asiedu (2006) and Asiedu and Lien (2011), but not when democracy is a favourable factor.

The location theory of North (1955) and modified versions of Whitley (2000), Dunning (2000) and Krugman (reviewed by Martin & Sunley 1996) deal with the strategic advantage of the location in the case of certain countries in attracting FDI. According to the OLI concept of

Dunning (2000) in his eclectic paradigm, four types of FDI can be identified: resource seeking, market seeking, efficiency seeking (global sourcing), and strategic assets and capabilities seeking. In the case of Saudi Arabia, although it is the biggest market in the Middle East, it is not as big as countries such as China and India in terms of population. It is not among the first 10 most populous countries (Census Bureau 2018) and is only 47th in rank.

Efficiency-seeking FDI occurs in developed countries. On the other hand, if it is for global sourcing, Saudi Arabia is not particularly strong in any specific resources. Strategic assets are a possibility, as Saudi Arabia is geographically located in a very strategic place. Having a subsidiary in Saudi Arabia can facilitate exports to a large number of countries in western and eastern Europe, western and southern countries of Asia, and northern Africa. Thus, this strategic location might be the dominant factor for FDI to Saudi Arabia. Therefore, facilitating FDI for resource seeking or market seeking may not be successful to attract FDI to the country. There appears to be a mismatch. Employment potential for such units will be minimal. This may be the reason for the observed effect of increased Saudisation not reducing unemployment, as was noted by Koyame-Marsh (2016). The need for strong local capability for increased FDI was highlighted by Lall and Narula (2004). This is also essential for implementation of Vision 2030.

6.2.4 Investment climate

In 2002, KSA government announced a new Foreign Investment Law, introducing major regulatory incentives to attract FDI. As part of this initiative, SAGIA was established to assist foreign investors in the application and approval process for operating in KSA and this included; accelerated investment applications, business registration, and set-up process with a guaranteed decision for foreign investment applications within thirty (30) days of submission to SAGIA.

Although about 54% of firms gained approvals from the board within two months, another 30% had to wait for four months; thus, the process is highly inconsistent. The investment climate may not have reached the desired level. Bureaucratic delays, financial problems related to foreign exchange convertibility and gaining access to local finance and absence of legal guarantees of ownerships and IPR are major problems existing to varying extents regarding FDI inflows.

It appears from the interviews that while substantial progress towards simplifying the processes has been achieved, more needs to be done in order to have smoothly running system in place as 30% of survey respondents highlighted.

Investment climate is also related to market liberalisation, economic freedom and political stability (Bengoa & Sanchez-Robles 2003). The imperfections in market liberalisation in Saudi Arabia were pointed out by some of the SAGIA interviewees; thus, they have large investment promotion teams focusing on selected countries and sectors. Here, Saudi Arabia may be making the same mistake as India in its Make in India programme discussed above: the sectors identified by SAGIA may not be the favoured sectors of foreign investors.

However, as pointed out by Lall and Narula (2004), market liberalisation can only facilitate FDI with existing capabilities; other barriers may still exist. High absorptive capacities for technology is essential for FDI increases. This needs especially skilled human resources, which are inadequate in Saudi Arabia.

The results on the relationship between investment climate and FDI in Kinda (2010) show that physical and financial infrastructure, human capital and institutions are potential investment climate problems. Of these, only human capital is a problem with respect to Saudi Arabia, as discussed above.

Nair et al. (2001) suggested there is some evidence that the effectiveness of FDI in raising future growth rates, although heterogeneous across countries, is higher in more open economies. According to Sekkat and Veganzones-Varoudakis (2007), the most effective factors for investment climate in the cases of South Asia, Africa and the Middle East (especially for the manufacturing sector) were openness, infrastructure availability and sound economic and political conditions increasing developing countries' attractiveness with respect to FDI. Strengthening IPR was added to degree of openness and economic growth rate of the country as conditions for a favourable investment climate by Adams (2010).

The World Bank measure of trade openness measured Saudi Arabia at 67% in 2018 (Trade % GDP) and ranked Saudi Arabia at 94th globally compared to India 145th and China 148th, yet China attracts higher levels of FDI. Nunnenkamp (2002) and Yoa (2006) pointed out that market size ignores the export market size, and the high levels of FDI into China is a reflection of this. The adoption of global technology and business practices and FDI diversity (Zhang et al. 2010) also contributed. Comparison between China and India by Agrawal and Khan (2011)

reveals the combination of prerequisites promoting different rates of FDI increases, including in the case of China larger market size, easy accessibility to export markets, well-developed infrastructure, cost-effectiveness, favourable macroeconomic climate and government incentives, and in the case of India a talented management system, rule of law, transparent system of work, cultural affinity and regulatory environment. The position of Saudi Arabia may be between the two. Similarly, Faruk (2015) found that a variety of factors promoted a high level of FDI in Bangladesh—a hardworking low-cost workforce, strategic location with regional and global access, a fairly large local market and steady economic growth, low energy costs, high export competitiveness with tariff-free access to some developed countries and the EU, good incentives and competitive export processing zones—even without good macroeconomic policy, governance or infrastructure.

In contrast, some developed countries such as Germany and Poland have openness ranked lower than Saudi Arabia, yet these countries are among the top 10 FDI recipients. Therefore, trade openness cannot be the only direct cause for higher FDI. Infrastructure in Saudi Arabia is good, according to the WEF. Developed countries are able to attract much larger FDI by providing a business-friendly environment, modern infrastructure facilities, quick internet communication, larger GDP and high GDP growth rate, according to Mottaleb (2007). The last two may not be valid, as recently, some emerging economies have had high GDP growth rates and are able to attract high levels of FDI. This effect was also endorsed in a later paper by Mottaleb and Kalirajan (2010). Other factors such as market size, economic freedom, trade liberalisation and technology transfer have also been studied. According to Vijayakumar, Sridharan and Rao (2010), market size, labour cost, infrastructure, currency value and gross capital formation are the factors that influence FDI in BRICS countries. According to Jadhav (2012), BRICS countries are able to attract more market-seeking FDI, as market size is the most significant economic factor.

Some observations of Adams (2009) raise important issues not considered by other research. Although FDI is required, it is not sufficient for growth. FDI supplements domestic funds and enhances efficiencies through transfer of new technology, marketing and managerial skills, best practices and innovation, but FDI has both benefits and costs. The impact of FDI depends on policy environment, ability to diversify and absorption capacity. Lack of consistent policy and political instability have been identified as the main reasons for no growth of FDI in politically fragile countries by Obwona (2001). Different causes and effects of FDI on

economic growth before and after structural adjustments in some countries were studied by Frimpong and Oteng-Abayie (2006), Ayanwale (2007) and Hassen and Anis (2012). These causes and factors exist to various extents in Saudi Arabia also. The cost of FDI into Saudi Arabia might be high and this may act as a deterrent. However, no estimate of cost of FDI has been found in the literature. Rate of return for FDI inflows has been declining across the globe (UNCTAD, 2018).

In the case of Saudi Arabia, earlier studies by Ramady and Saee (2007), Mina (2007) and Onyeiwu (2003) have shown implementation failure, institutional quality, trade openness and infrastructure development and red tape are deterrents to FDI. Implementation failure may be a major bottleneck in the case of many economic reforms, and this could be the case with FDI into Saudi Arabia. The challenges thrown by the two-year history of Vision 2030 may be indictive of implementation problems of this mega project, as pointed out by Mehdi (2018) and Carey and El Baltaji (2018).

There are conflicting reports on whether FDI increases economic growth in Saudi Arabia. One recent report suggests an endogenous relationship between FDI and economic growth at the aggregate level (Al Obaid 2018). One reason for Saudi Arabia failing to attract FDI may be its negative image in Western countries, especially after the 9/11 incident, according to Qureshi and Medabesh (2016). In the doctoral thesis of Alshareef (2018), low FDI from UK MNEs into Saudi Arabia was attributed to a lack of consistency in business regulations in dealing with the government, bureaucracy, cronyism (Wasta) and poor enforcement by the legal and judicial system and possible effects of religion and culture. The controversies over the recent death of journalist Jamal Khashoggi have only added to the negative image of KSA (its impact on FDI was discussed in the introductory chapter).

Economic policy has been steadily improving, and the big leap forward planned in Vision 2030 is a further improvement in economic policy. The political situation is stable for Saudi Arabia, but the country is surrounded by politically fragile regimes. IPR has not been an issue so far. Strong institutions and regulations favouring investors exist in the country, and were rated as facilitators of FDI in the discussions of Hornberger, Battat and Kusek (2011). Trade openness has been related to both GDP and FDI growth in Saudi Arabia too (Belloumi & Alshehry 2018). Jadea and Basir (2017) noted that, since 2000, Saudi laws have been progressively made more FDI-friendly by establishment of SAGIA, removing local partnership requirements, lowering taxes and improving standards of legal protection and resolving disputes, allowing foreigners

to own properties and sponsor foreign employees. Thus, many of the conditions required for attracting high levels of FDI are now in place. While these facts are known, a highly critical assessment of the implementation of Vision 2030 was provided in the doctoral thesis of Spitler (2017). The author notes that although the monarch has autocratic power, there have been failures with respect to large-scale employment of citizens in the private sector, diversification of industries from oil and privatisation of the key economy drivers since their introduction as goals in the 1970s. The majority youth (under 30) population is stricken with a high unemployment rate. The changing international energy markets render the Saudi economy unsteady. There is an urgent need to improve governance and modify patronage policies, so that the elites do not block political reforms that can lead to economic growth. The author analysed secondary data to reach these conclusions.

6.2.5 Investor requirements

Most of the requirements of investors have been met or are in the process of improvement. However, ease of doing business, laws related to ownership lease and contracts confuse them. Facilitation of licensing has been centralised and an online facility can even be used. SAGIA is empowered to issue visas for investors. There is no need for local consultants, as SAGIA can provide all assistance. The deal is direct between investor and country. There is help in opening up new areas and scope for adjustments to increase investment in later stages. However, units of the same company approach multiple departments seeking large incentives. This is not approved. Just as investors have certain conditions to invest, the government also has conditions to accept investments. Investments are possible only if both meet or adjust to some extent. But too much adjustment of government conditions is not possible. Facilities for families, education of children, healthcare and other facilities for comfortable living are provided. Saudi Arabia compares itself with its neighbours and tries to improve procedures to higher levels. The environment for investment is mostly ready, but loose ends remain.

6.2.6 Entry requirements

There are some sectors that are excluded from foreign investment; all other sectors and levels are open for investment. Ownership of 25–100% or partnership is possible, including in the retail sector. There is no minimum capital stipulation. Separate offices for investment opportunities in different sectors exist, and SAGIA cooperates with them. The concerned minister conducts regular meetings of all departments and SAGIA to review and improve

where necessary. To attract foreign investors, information requirements have been reduced to two: the image of the company in terms of its commercial record in their home country and the previous year's financial data. There is freedom of movement and transport across the different Gulf countries. A separate Investment Attracting Agency is functioning with the cooperation of other departments to identify opportunities and map them. Many procedures have been simplified with reduced documentation requirements. The country, in turn, expects a positive contribution to the national economy through value addition from these investors. This condition may not be acceptable to investors. Human resources is the only other challenge to the whole effort, though ease of doing business is another area of concern.

6.2.7 Guarantees and Policies

Guarantees and policies to promote FDI have not been supported by human resources, political and social factors, economic financial factors, registration procedures and legal guarantees; the current status of human resources, political and social factors, economic and financial factors, registration procedures and legal guarantees do not support guarantees and policies, which in turn, do not help to promote FDI. For example, human resource factors involving skill shortages and Saudisation work against guarantees and policies, affecting FDI negatively.

Absence of these relationships show the weaknesses in the system, which slows FDI inflow to the country. Thus, the types of correlations noted in other work discussed above were not obtained in this research. If FDI does not support any of the factors nor any of these factors favour FDI, what is the use of improving these conditions and making Saudi Arabia FDI-friendly? Here, attention to negative factors is important, even if expressed only by a minority of firm participants.

This question can be answered only by linking the high investment requirement of Vision 2030, which cannot entirely be borne by the Saudi government. Which factors will need to be a focus to achieve this? The interview responses provide some direction on this aspect.

6.3 Theories of FDI and Their Applicability to Saudi Arabia

In the literature review chapter, three main sources, namely, Dudáš (n.d.), Duong (2017) and Shodhganga (2009), were used as the basis to review FDI theories and their tabulation with relevance to KSA. Here, the same sources are used as the basis of discussion on the applicability of the FDI theories.

As one of the earliest theories:

> Ricardo's theory of "Comparative Advantage is an economic term that refers to an economy's ability to produce goods and services at a lower opportunity cost than trade partners. A comparative advantage gives a company the ability to sell goods and services at a lower price than its competitors and realize stronger sales margins."(Investopedia 2018).
>
> "The law of comparative advantage is popularly attributed to English political economist David Ricardo and his book on the Principles of Political Economy and Taxation in 1817, although it is likely that Ricardo's mentor James Mill originated the analysis". (Investopedia 2018)

A modern example of the applicability of this theory was given in Investopedia. China's comparative advantage over the US is in the form of cheap labour. Chinese workers produce simple consumer goods at a much lower opportunity cost. The US' comparative advantage is in specialised, capital-intensive labour. American workers produce sophisticated goods or investment opportunities at lower opportunity costs. Specialising and trading along these lines benefits each (Investopedia 2018). A recent validation of the theory using agricultural productivity data from many countries was done by Wagner (2017). According to Densia (2010) and Kurtishi-Kastrati (2013), FDI cannot be explained by this theory. However, the example given in Investopedia on the US and China shows that FDI to China can be aimed at lowering labour costs. China can attract more FDI inflows demonstrating the cheap labour available in the country to foreign investors. Other cheap labour countries such as Bangladesh can attract FDI only for certain sectors such as textiles. However, China was able to attract FDI not solely based on cheap labour. Many policies and strategies for cooperation with other countries, making business easier and market access also played a role in the achievement of China in attracting FDI. In the case of Saudi Arabia, oil is the only strong commodity of advantage to the country; but the country wants to diversify from an oil-based economy.

Location theory was suggested by North (1955) as an improvement over the regional growth theory proposed by earlier research. The suitability of the nation as an FDI destination and availability of a suitable location for the firm's operations in the country are determined by many factors. In some respects, like modern infrastructure and its strategic geographic location for export units, Saudi Arabia has desirable location factors. On the other hand, several internal factors such as restrictive labour laws (which have been repeatedly noted at several points in this and earlier chapters) are negative location signals. Thus, Saudi Arabia gives out mixed

external signals for FDI. But once investors come, many negative factors interfere with their operations, and this is a strong reason for many foreign companies leaving the country recently. The need for foreign firms to contribute to the economic growth of the country and setting tight standards for contribution to economic growth will act as a FDI deterrent. Methods to remove the negative outcomes resulting from this need to be explored.

Social capital, citizen's trust in foreign firms, is important. When open protests against US firms on its anti-Islamic stand were expressed by the public, current US firms lost all intention to remain in the country and future investors may no longer be interested. On the other hand, in spite of negative publicity surrounding its ground water depletion, Coca-Cola is still strong in the Indian market because of the large supportive urban youth market available to it.

The production cycle theory of Vernon (1966) partially explains certain types of FDI involving technological advantage. Hymer (1976) introduced the concept of firm-specific advantages as a direct cause of determining whether by FDI the benefits of exploiting firm-specific advantages will be more than the relative costs of the operations abroad. At least in some cases, the cost of FDI may exceed the benefits to the foreign investor and this may be a reason for foreign investors shying away from Saudi Arabia.

Dunning's (2000) dynamic eclectic paradigm theory or OLI concept decomposes FDI into ownership, location and internalisation advantages. Of these, ownership advantage refers to the advantage derived from possession of intangible assets, enabling them to overcome the costs of doing business abroad due to which they compete effectively with local firms. This is an advantage related to the firm, and not Saudi Arabia. But the country can facilitate firms to use their ownership advantage by giving them more freedom to operate, and at the same time, strengthen local firms. This should provide a level playing field and thus become an FDI-enabling factor.

Location advantage has to do with achieving more profits in Saudi Arabia than producing at home and exporting abroad. This is possible if there are avenues to reduce cost or increase the price of the product in Saudi Arabia. The latter is difficult as it depends on demand and customer characteristics. The younger urban generation would like products of foreign firms, but unemployment is high among this cohort. Thus, even with good demand, low purchasing power of potential consumers offers little scope to sell products at high prices. On the other hand, although scope for cost reduction through cheap labour or raw materials is low,

incentives, reduction of taxes and extension of tax holidays for new projects can produce the effect of cost reduction. This may be an FDI enabler for Saudi Arabia.

Investing firms should be able to enjoy internalisation advantages; that is, facilitating transaction of their intangible assets through internal organisational networks rather than through the local market. Thus, the firms would get the highest price for the transactions. Suitable policies need to be made to make the internalisation advantage an FDI enabler.

Thus, all the three components of the eclectic OLI paradigm of Dunning (2000) are relevant to Saudi Arabia and important in showing positive ways of increasing FDI.

Saudi Arabia cannot claim technological advantage in any sector. Its strongest point away from oil may be Islamic pilgrimage. It needs the help of advanced countries such as the US and western Europe to use technologies in pilgrimage. But firms will only provide technologies on payment. We have already seen that, of the four types of FDI seeking suggested by Hyme, export seeking has the greatest scope for Saudi Arabia. Thus, policies and strategies to improve export competitiveness can attract foreign firms to establish export units in the country. However, the current labour policy is a serious obstacle. Unfortunately, Vision 2030 does not appear to consider this aspect adequately. In Dunning's OLI concept, technology advantage functions as ownership advantage for foreign firms and this will become an FDI attractant for high-tech projects of Vision 2030 and is already. Capacity to invest huge capital by foreign financial institutions such as the Japanese Softbank has already been used for Vision 2030. The utility of Saudi Arabia as an export base to attract FDI has been discussed above. Localisation will benefit foreign investors in non-oil sectors, where there are already successful international collaborations. Vision 2030, although not offering specifics, contains sufficient hints in this direction. Further collaborations involving government-government (perhaps with China), government-foreign public corporations and government-foreign private corporations have the greatest scope to attract foreign funds for Vision 2030. International financial institutions such as the World Banka and IMF may offer significant financial assistance. But all these organisations will make heavy demands in terms of liberal policies and high levels of returns from investments. Both these cannot be guaranteed, given the absence of specifics in the Vision 2030 document.

According to the competitiveness theory of Porter (1990), the economic development of nations is driven by investment. The need for rapid economic development can, therefore, lead

to strategies to increase competitiveness in factors that attract FDI. But this theory is not always true. India is ranked much below Saudi Arabia in competitiveness by WEF but attracts much more FDI, to remain among the top 10 FDI attractants. Therefore, FDI-enabling or deterring conditions are more important than mere competitiveness. The nature of these enablers differs from country to country, which necessitates country-specific studies on FDI, as has been done here.

Therefore, it follows that to meet the huge funds required to accelerate its economic development using Vision 2030, Saudi Arabia needs to improve its FDI enablers and remove or minimise the deterrents. Companies deploy new innovative strategies to expand into countries of their choice. Nations that offer maximum opportunities for such expansion are natural FDI attractors. Trabold (1995) identified the ability to sell, the ability to attract FDI and the ability to adjust as the three determinants of investment competitiveness of a country. These abilities are also FDI enablers. In their work based on this concept, Hunya (2000) observed differences among Estonia, Hungary, Czechoslovakia, Poland and Slovenia.

Saudi Arabia has been conducting global annual investment forums to sell itself to foreign investors. However, restrictive labour laws, gender separation and Islamic cultural influence in laws and regulations are sending negative signs and act as FDI deterrents. Strict adherence to these factors has been abandoned, but the change is slow and not visible yet. The ability to adjust is, therefore, slow. The strong influence of branding to attract FDI to MENA countries has been discussed by Papadopoulos et al. (2018).

The macroeconomic environment as an important FDI factor is evident from dynamic macroeconomic theory and related capital market theory. The exchange rate, inflation rate, unemployment rate and existence of a strong capital market are factors associated with both theories. Saudi Arabia is very positively placed in these respects, except certain clauses of foreign access to the stock exchange, which have now been removed, as shown elsewhere in this chapter. Innovation, geographical proximity and cultural proximity have all been shown to influence FDI inflows by some aspects of macroeconomic theories, as discussed by Dudáš (n.d.).

Overall, several theories expose positive and negative dimensions of Saudi Arabia in its efforts to attract huge FDI to implement its Vision 2030. Notably, the widely accepted eclectic OLI theory of Dunning (2000) has been discussed in detail for its relevance to Saudi Arabia. How

the three components become FDI enablers has been shown, and could be used for policy review and improvement by the Saudi government.

It is advisable for the Saudi government to take remedial steps to eliminate or at least reduce these negative dimensions, as quickly as possible. Time is fast running out for the implementation of Vision 2030. The urgency for drastic reforms is clear. The current slow change needs to be replaced with fast track changes. These are the lessons to be learned from considering FDI in Saudi Arabia based on various theories.

6.4 Answering the Research Questions and Qualitative Findings

The research questions and how the findings address these are discussed below.

1. To what extent do FDI companies feel attracted to Saudi Arabia's business environment? What factors determine the effectiveness of FDI in Saudi Arabia?

Investors are basically interested in Saudi Arabia due to its strategic location for exports to many countries. Government policies, Saudisation, availability of required skills, ease of doing business, infrastructure, local employment, taxes and incentives, ownership issues, issues related to settling disputes and domestic market size affect different types of FDI in different ways. Limitations in some of these factors make investors hesitant to invest in Saudi Arabia. Overall effectiveness of FDI is only partial. FDI has been steadily declining since 2008–2009.

2. What are the strengths and weaknesses as well as threats and opportunities that exist in Saudi Arabia's business environment in attracting FDI?

A SWOT analysis can be done to reveal these four aspects, as given in the following box. This analysis is adapted from Aloqaibi (2016), with the key variables identified from the research findings used in the SWOT analysis below.

SWOT analysis of FDI in Saudi Arabia

Strengths - WTO member since 2005, member of many multinational trade agreements. Fair market size of 27 million people, high public and individual spending, recent improvements in investment climate, economic and political stability, good infrastructure, properly regulated banking system, largest stock market in MENA.

Weaknesses - Inefficient legal system to settle commercial disputes, unclear IPR protection, Saudisation restrictions in spite of skills shortages, delayed payment of government contracts, restrictive visa policy for all workers. Conservative culture and gender separation may deter

investors from a social equity point of view. Some of these are being improved by suitable amendments to the current laws.

Opportunities - Vision 2030, FDI allowed in all sectors except a few reserved ones, with this negative list being reduced gradually. No need for local partnership, ownership rights to properties are now given, limitless transfer of money outside the country and sponsoring foreign workers within the Saudisation policy, setting up of investment service centre by SAGIA to facilitate licensing within 30 days, stock markets open for foreign investors without any restriction and may extend to foreign banks and financing institutions.

Threats - Competition from other developing countries, rapidly changing financial market and global economic scenarios, newly evolving business models, changes in monetary policies and controls by major developed countries such as the US affecting the global economy, unpredictable structure of government decision-making system, changing approaches to security issues, adverse influence of Islamic radicalism.

Generally speaking, the maximum advantage of strengths needs to be derived. Steps to remove weaknesses and convert them to strengths should be taken. Threats should be converted to opportunities and all opportunities need to be exploited to the full extent. In the case of FDI in Saudi Arabia, the range of advantages of investments are wide and high, judging from the strengths. The weaknesses stand in the way of achieving these advantages, first by affecting investment itself and second by making investments ineffective. These weaknesses will fade if opportunities are utilised fully. Conversion of threats through reforms and adaptations can add to the opportunities, which also need to be exploited fully.

The sub-questions include the following:

3. To what extent are foreign investors satisfied with the business environment? Is the investment climate conducive and favourable in Saudi Arabia?

Requirement of local labour recruitment through Saudisation in spite of shortages of critical skills, inadequacies of governance and policies favouring FDI, unclear IPR protection, delayed payments from the government and restrictions in foreign contract labour are not favourable. Thus, business environment and investment climate are not meeting expectations.

4. To what extent do foreign companies feel satisfied/dissatisfied with the quality of local labour? What barriers exist in relation to the human resources required for FDI operations?

Foreign companies are not fully satisfied with the quality of labour available. Although Saudi Arabia has been improving its image as a preferred FDI destination by implementing several measures, these fall at least slightly short of expectations. There is a dearth of required local

skills for many foreign firms. In addition, Saudisation makes it mandatory to employ a minimum percentage of local workers. Foreign skills are permitted only after fulfilling this requirement. In spite of large-scale efforts to achieve a large skilled workforce, there is serious inadequacy and mismatch between what is available and what is required. This is a real problem.

5. To what extent do foreign investors feel satisfied with the quality of the infrastructure?

There were no complaints about the quality of infrastructure, which is generally of a high standard, except for communication facilities. High-speed internet needs to be installed and the range of availability of internet expanded to reach the entire country.

6.5 Chapter Summary

The discussion of the results revealed certain problems in attracting adequate FDI as a funding source for Vision 2030 programmes. Although many factors are favourable for investment, there are many other factors that fall short. Both positive and negative factors have been identified. Rectification of these problems has begun, but the pace needs to be accelerated. Reforms and removal of unwanted interference must be accelerated. The big question remains: does FDI promote economic growth? Conflicting findings have been reported. If so, the way forward is FDI for Vision 2030 for economic development. Then FDI may be only endogenously related to economic growth, as some findings indicate. Various FDI theories were applicable to various aspects of FDI in Saudi Arabia. Firm-level responses by managers were more closely related to the eclectic paradigm of Dunning.

Overall, the findings of this study answered all research questions and thus fulfilled the objectives. However, the answers are not all positive. Attention to improving negative answers should be immediate, as missing the targets of Vision 2030 will be very costly for the country economically, politically and socio-culturally.

The overall aim was to improve understanding, to contribute to the knowledge and understanding of FDI in Saudi Arabia, particularly in the non-oil sectors. Specific focus on Vision 2030 was given as that is the medium for the expression of FDI. The findings, together

with the reviewed and discussed literature, have helped to gain deep knowledge and understanding of various dimensions and factors of FDI in Saudi Arabia; thus, the aim has been achieved.

Chapter 7: Conclusions

7.1 Background and Aim

FDI inflow has been declining since the global economic crisis of 2008–2009. To achieve the goals of Vision 2030, Saudi Arabia needs huge investments, primarily through FDI. The gap between the current status and the requirement can be closed only by understanding the factors related to investors preferring Saudi Arabia as their investment destination. This research was conducted to understand the current limiting factors of FDI into Saudi Arabia and identify methods to eliminate negative and improve positive factors; the exact aim of this study was to evaluate the elements and factors of FDI conducive to attracting higher rates of FDI into the Saudi Arabian non-oil sector, to contribute to the achievement of the county's Vision 2030 targets. To achieve this aim, research questions were framed. The answers to these research questions were obtained through questionnaire surveys on managers of foreign firms and interviews with senior officials of SAGIA. The main conclusions are summarised below.

7.2 Key Findings

Overall, there are many positive and negative factors affecting FDI in non-oil sectors, especially against the backdrop of the huge funds required for implementation of mega projects under Vision 2030. The projects under Vision 2030 aim to transform Saudi Arabia from a traditional oil-based economy of moderate income into a modern, high-technology, non-oil-based, high-income economy is ambitious. For start such economic liberalisation, requires social liberalisation- a move away from a religious, tribal based, closed society to a more open, politically stable and sound governance structures to bring about the disruptions its promising at a mega scale. The frustrations were evident as the SAGIA officials spoke about the complexity and paradoxes of trying to manage such disruption.

The available data do not show any effect for competitiveness of the country on FDI. Although the competitiveness index rank of Saudi Arabia dropped from 29th in 2017 to 30th in 2018, countries such as India (39th), which occupy a much lower rank in the competitiveness index, are able to attract much more FDI. Financial market efficiency is much lower, and the interest rates are higher in Saudi Arabia, but they are shown to not affect FDI by Dudáš (n.d.). Saudi Arabia has the largest stock market in the Middle East, the quality of its infrastructure is good,

and institutions are stable. On the other hand, India is rich in skills, the second largest market in the world and has rich diversity of natural resources due to its geographical characteristics.

The negative aspects of competitiveness in the case of Saudi Arabia are restrictive labour regulations and the high level of segmentation of the labour market, large-scale exclusion of women from jobs and the Saudisation policy. All of these can seriously affect skills in some sectors and deter foreign investors from investing. In spite of quickening of approvals, some problems remain, causing delays of more than two months in a majority of cases. Guarantees and policies have been strongly linked to a reduction in FDI inflows into the country. Therefore, what is not there is more important than what is already there. Thus, the main problems of FDI in Saudi Arabia are associated with a decline in the efficiency of financial markets and credit growth, increasing interest rates, restrictive labour laws, slow pace of facilitation steps of FDI and a not so positive investment climate, inadequacies in natural resources and insufficient guarantees and policies.

7.2.1 Human resources for required skills

Restrictive labour laws have a negative effect on human capital, and this has hindered FDI, according to about 59% of survey participants. The positive effect of human capital reported by a number of workers endorses this finding in a reverse manner. A part of the skills shortage may be due to Saudisation; even if the minimum percentage of Saudi workers are not available, non-availability of Saudi skills for specific jobs cannot be an excuse for appointing expatriates to fill the gap. This policy seriously affects the operations of foreign firms, especially in IT and health care sectors. Vision 2030 contains a plan for a large-scale skills enhancement programme to solve this problem, but it will take time. Until then, the effect of skills shortage linked to Saudisation on FDI will continue. More than 10,000 foreign firms have closed due to this problem.

7.2.2 Natural resources

Being an arid region, low rainfall affects crop production; thus, animal raring for eggs, meat and hides is the only possibility. Thus, there is a very limited range of resources in Saudi Arabia. Scarcity of resources for industrial production leads to imports, which increases costs. Lack of adequate quality and guaranteed consistency of quality are also problems for local resourcing of raw materials. These factors increase the cost of foreign investments. Of the

survey participants, about 44% aired this view in their responses. The positive effects of natural resources and large markets on FDI has been shown by much research.

7.2.3 OLI concept

Location theory endows strategic advantage on certain countries for FDI inflows merely due to their strategic geographic location. The OLI concept of Dunning (2000) identifies four types of FDI: resource seeking, market seeking, efficiency seeking and strategic assets and capabilities seeking. The Saudi market is much smaller than India or China due to population differences; thus, market-seeking FDI will prefer India or China. Efficiency seeking occurs only in developed countries. For global sourcing, Saudi Arabia cannot compete for any specific resource. The geographic location of Saudi Arabia gives it a strong strategic advantage and hence strategic assets seeking firms may prefer Saudi Arabia. But other negative factors may counter this advantage compared with other strategically located countries with better factors. Locating a subsidiary in Saudi Arabia can facilitate exports to a large number of countries in western and eastern Europe, western and southern countries of Asia, and northern Africa. Thus, strategic location might be the dominant factor for attracting FDI into Saudi Arabia. Employment potential for such units will be minimal. This may be the reason for no reduction in unemployment in spite of FDI increase noted by Koyame-Marsh (2016). If strong local capability is built, better chances of increasing FDI exist, as highlighted by Lall and Narula (2004). But this type of FDI will have very little impact on total FDI inflows, and may mean inadequate FDI for Vision 2030.

7.2.4 Administrative problems

In this study, 30% of firms could not get approvals for four months, while other firms got approvals within two months, implying inconsistency in implementation of policy or perhaps the delayed cases had specific problems in complying with approval requirements. However, the negative message communicated by these 30% of firms can deter other foreign firms from investing in the country.

7.2.5 Market liberalisation reforms

The problems related to the investment climate yet to be solved are bureaucratic delays, financial problems related to foreign exchange convertibility and gaining access to local finance and absence of legal guarantees of ownerships and IPR issues.

Another aspect of the investment climate is market liberalisation, economic freedom and political stability. Market liberalisation in Saudi Arabia is imperfect. Currently, the country is focusing on attracting FDI from selected countries in selected sectors. But with existing limited capabilities, market liberalisation may have limited impact in increasing FDI to Saudi Arabia. High technological absorptive capacity is also required, which depends on skills available. Saudi Arabia is weak in this aspect. Of the four factors affecting investment climate—physical and financial infrastructure, human capital and institutions—only human capital is a major problem in Saudi Arabia.

7.2.6 Trade openness and country specific FDI attractants

If FDI cannot enhance economic growth, it is useless. Trade openness is a factor affecting this relationship. The rating for trade openness in Saudi Arabia was 72.08 and the country was ranked 94th. In contrast, the rankings for India and China were 145th and 148th; yet China attracts the highest FDI in the world. Other factors interacting here are IPR guarantees and sound economic and political conditions. Neither India nor China have a good reputation in these respects. More than mere market size, export market size is a better factor to enhance FDI and this was perhaps reflected in the case of China as best and India next. The comparative study on FDI factors into India and China by Agarwal and Khan (2011) showed that in the case of China, larger market size, easy accessibility to export market, well-developed infrastructure, cost-effectiveness, favourable macroeconomic climate and government incentives were major factors to attract FDI, and in the case of India, a talented management system, rule of law, transparent system of work, cultural affinity and regulatory environment were the major FDI attractants. The factors favourable for FDI in Bangladesh were a hardworking low-cost workforce, strategic location with regional and global access, a fairly large local market and steady economic growth, low energy cost, high export competitiveness with tariff-free access to some developed countries and the EU, good incentives and competitive export processing zones, but without good macroeconomic policy, governance or infrastructure. In the case of developed countries such as Germany and Poland, which rank lower than Saudi Arabia in trade openness, FDI-favourable factors are a business-friendly environment, modern infrastructure facilities, quick internet communication, larger GDP and a high GDP growth rate. However, the factors related to GDP are now more favourable in the case of some emerging economies, which attract high rates of FDI. GDP is a reflection of good economic health. High annual rate of GDP growth may be favourable for high levels of investment. Labour cost, market size,

infrastructure, currency value and gross capital formation have been shown to be the FDI-positive factors in the case of BRICS countries. Many researchers have given market size as an important factor for FDI, but this may be valid only for market-seeking FDI and not for other types. Thus, FDI attractants differ by country.

7.2.7 Political stability

Investors will hesitate to enter countries where there is political instability. This is natural. Its use in supplementing domestic funds and enhancing efficiencies through transfer of new technology, marketing and managerial skills, best practices and innovation needs to be ensured by appropriate policies, strategies and institutions. Political stability is necessary for these. Being a monarchy-ruled state, Saudi Arabia has no political instability, unlike some other countries in the Middle East.

7.2.8 FDI and economic growth

The primary purpose of the efforts to increase FDI is to improve economic growth, but FDI alone is not sufficient for economic growth. There are conflicting findings on whether FDI increases economic growth in Saudi Arabia. Implementation failure of policies and strategies and red tape are FDI-negative factors for Saudi Arabia identified in this work, as well as in other work. Lack of consistency in business regulations, in dealing with the government, bureaucracy, cronyism (Wasta) and poor enforcement by legal and judicial system and possible effects of religion and culture are factors that have been identified as FDI-negative in the case of Saudi Arabia; some of these were echoed by the survey participants also.

Vision 2030 is seen as an opportunity to increase FDI as the large requirements of funds and advanced technology for the mega projects under the Vision are possible only with FDI. Progressive easing of laws and policies unfriendly to FDI have been made since 2000 but have not been effective. Vision 2030 may reassert these changes in policies and regulations so that foreign investors feel comfort in investing in the economic development projects envisaged in the Vision.

7.2.9 Relationships between FDI factors

No significant relationship was obtained for FDI with the variables of human resources, political social factors, economic financial factors, registration procedures or legal guarantees.

Thus, the commonly observed trends in other work were not supported. Absence of relationships may indicate the weaknesses in the system, which slow FDI inflow to the country. Therefore, justification for increasing FDI in Saudi Arabia does not arise from the effect of these factors, but due to the need for high levels of investment to implement Vision 2030, which cannot be entirely funded by internal sources. The factors considered for this were sought from the interview responses. Only limited success has been achieved by the Crown Prince or SAGIA in attracting FDI into Vision 2030 projects, primarily due to lack of support from other departments. Global investment forums are not specific to Saudi Arabia; many countries conduct similar conventions to attract FDI. SAGIA has limitations regarding simplification of approval procedures and making doing business in the country easier. Unwillingness to change guarantees and policies to attract FDI also affects FDI increases. Although some policies are being evaluated, actual change has not occurred, even two years after the announcement of Vision 2030. Administrative weakness can become a barrier to FDI targeted in the Vision.

7.2.10 Brand image of Saudi Arabia

Brand image of Saudi Arabia needs to be shifted to more positive levels. Islamic laws are a deterrent to outsiders. At least for foreign investors, their personal and religious independence needs to be guaranteed. This was indicated in the interview responses, in a subtle manner, as the reason all Western countries, except the US, shy away from FDI into Saudi Arabia (and other similar countries), no matter how positive all other factors may be. Some recent incidences have affected the brand image of Saudi Arabia and thus potential investments.

7.2.11 Effectiveness of shortcuts

Saudi Arabia has used a short-cut method of selecting seven countries and sectors as potential FDI sources for focused efforts. Such selections can create problems such as those seen in the Make in India programme. Countries and firms in these countries may not be willing to invest in the selected sectors. Thus, even achieving the modest target of increasing FDI from the current 3.83% to 5.3% in about 15 years may experience problems.

7.2.12 NEOM as the testing ground for desired policy changes

The NEOM project is projected as the model for change to happen in the country in 2030. This $500 billion project requires heavy FDI, part of which has already been promised by foreign

organisations, representing the only achievement in increasing FDI into the country so far. The main attraction for investors is that NEOM will have a completely independent governance system with business-friendly laws and free from the labour laws and other certain policies of Saudi Arabia, which are deterrents to FDI. If the FDI response from investors is good, this could serve as a model to shape the laws and regulations of Saudi Arabia to attract more FDI into the country as a whole. Then, the need to focus on seven states and sectors would not exist.

7.2.13 International collaborations to finance Vision 2030

In Vision 2030, 96 strategic goals have been unevenly distributed among 12 projects. Some projects may be overburdened, causing delays in their achievement. If this happens, Vision 2030 will not be completed by 2030. This implies a need for FDI support beyond 2030. The Saudi government needs to be prepared for this eventuality. There is scope for collaborative projects between Saudi government and public/private/international financial organisations as a means of attracting high levels of FDI for Vision 2030. This may help to reach the Vision 2030 goals in time. This is exemplified by the NEOM project.

7.2.14 Need for investment attraction teams

This question is currently considering whether it is necessary to have investment attraction teams. It has been building such teams over the past two years, with little impact on attracting FDI. Building such teams involves high costs as additional staff and facilities are required. Unless the return is sufficient in terms of high FDI, this cost is not justified. Having too many people engaged in the same work will create confusion and defeat the purpose. Hence, this may not be an attractive idea.

The drop-in oil prices during 2014–2016 was an opportunity to diversify from oil into healthcare, IT, entertainment and tourism sectors. However, lack of infrastructure, staff and support from other departments limited the effort of SAGIA in this direction.

7.2.15 The nature of negative factors as the reasons for the exit of firms

The reasons for the exit of about 10,000 foreign firms could be a mismatch between expectations/requirements and actual conditions, particularly as relates to unclear laws and regulations and inadequate Saudi skills due Saudisation requirement. Neither SAGIA nor the government has taken this issue seriously.

7.3 Corrective Steps and Challenges Ahead

The experiences on FDI so far are being used to correct conditions, but very gradually. Centralised and online facilitation are now available. SAGIA can now issue visas to investors. Consultants can be avoided in view of the capability of SAGIA to provide all assistance. Some firms approach multiple agencies with different programs to maximise incentives; this is considered an unethical practice. As in the case of investors requiring certain conditions, the government also has certain conditions for investment; these may not meet. The government cannot make too many adjustments. Facilities for family, education of children, health care and other facilities for comfortable living already exist. Saudi Arabia has improved its investment conditions to levels better than its neighbours; however, significant problems continue with ease of doing business, laws related to ownership lease and contract, and lack of local skills given Saudisation is mandatory.

Entry qualifications are fairly easy. Investment is welcome in any sector except those excluded. Ownership of 25–100% is possible in any sector, without a minimum capital stipulation. Partnership with local or foreign firms is also allowed. There are separate offices for investment in different sectors. Continuous review for improvements is performed through periodical meetings. Foreign companies need to provide information only about their image, as revealed by commercial record in home country and financial data for the previous year. Freedom of movement and transport across the Gulf States exists. A separate Investment Attraction Agency works with other departments to identify investment opportunities in different sectors. In return for all facilitation and dilution of laws for FDI, a positive contribution to the national economy through value addition is expected from these investors.

7.4 Addressing the Research Questions

All research questions could be answered satisfactorily using the research findings. The first question was on FDI attraction factors and their effectiveness. The only significant FDI-positive factor is the strategic location for exports. Other factors have varied effects. Some of the negative factors make investors hesitant to invest in the country. Overall, effectiveness of FDI is only partial, and FDI has been steadily declining since 2008–2009.

The second question on strengths and weaknesses was answered using a SWOT analysis. The prudent approach is to utilise strengths to avail opportunities and convert weaknesses into

opportunities. Threats need to be addressed using specific strategies, including for the threats of competition from other developing countries, rapidly changing financial market and global economic scenarios, newly evolving business models, changes in monetary policies and controls by major developed countries such as the US affecting the global economy, unpredictable structure of government decision-making system, changing approaches to security issues, and the adverse influence of Islamic radicalism. Showcasing promising projects such as NEOM could improve the image of the country to make it a favoured FDI destination. Policies and strategies should be continuously reviewed and adapted to address rapidly changing global economy and business models. Internal weaknesses such as government decision-making structure need to be addressed by appropriate administrative reforms.

There were three sub-questions: Saudisation, irrespective of the shortage of critical skills, government policies inadequate for FDI, no specific law for IPR protection, restrictions on foreign contract labour and delayed government payments are major points of dissatisfaction among foreign investors. These negative elements also make the business environment and investment climate insufficiently favourable. A mismatch between expected skills and quality of available local skills is a major problem. On the other hand, the quality of infrastructure is good, with only communication facilities needing to be developed, with high-speed internet accessible throughout the country.

7.5 Summary of Conclusions

In conclusion, Saudi Arabia is strongly placed as a favourite FDI destination for strategic location of export units. This strength needs to be exploited in full; in particular, by building more export zones in which the presence of foreign export units is maximised. Separate business-friendly laws should be applied, free from restrictive labour laws. It may be a good idea to duplicate the concepts of NEOM into such export zones. These export zones can target sectors for which FDI is desired.

7.6 Recommendations

The following recommendations emerge from the findings of this study to enhance FDI to Saudi Arabia:

1) The Saudisation requirement should be limited to where skills are available. Firms should be free to recruit non-Saudis if the required skills are not available in the desired

numbers. If some numbers are available, the recruitment of non-Saudis could be restricted to the deficit. This is a temporary change in policy until the country builds a sufficient number of the required skills. After this, full Saudisation can be enforced.

2) Foreign firms need to have freedom to recruit women without gender discrimination. Women could be employed for jobs that are suitable, rather than any job. A separate workplace should not be insisted on.
3) The condition that foreign firms should make specific contributions to the economic development of the country should be modified as a preference clause. In core sectors, where FDI is essential, this clause should not be employed, even as a preference. New regulations for IPR protection and ownership rights need to be enacted.
4) Administrative machinery needs to be made more efficient to avoid delays in sanctioning projects of foreign firms. All restrictions on their participation in the stock exchange need to be removed. SAGIA should be empowered to a greater extent to increase its effectiveness.
5) Specific efforts need to be made to improve the brand image of Saudi Arabia. International collaborations for large-scale export units of global firms need to be established.
6) The government should allow the required religious freedom to non-Muslim employees of foreign firms. Restrictions could be imposed on using only space allotted for this purpose.
7) The government needs to seriously address political reform if it is to achieve economic and social liberalisation.

7.7 Limitations of this Study

No study is perfect. This study had its share of limitations:

1) There was an element of convenience sampling when firms were requested to nominate managers who knew about FDI factors. This might have introduced some bias in response results.
2) No companies that exited KSA were included in the analysis; including them would have facilitated understanding exactly what caused their exit.
3) The research relied on collecting data from investors and senior officials. The sample was found to be time poor and cautious in responding to some questions relating to

potentially controversial topics (e.g., political and economic conditions). This may have introduced bias into the study.

7.8 Scope for Future Research

7.8.1 FDI in Saudi Arabia

a) There are many uncertainties regarding what combination of factors will attract FDI to its potential level; especially, to implement Vision 2030. A scenario analysis using different combinations of factors could be useful. Useful inputs may be obtained from this and other Saudi studies and even studies from other countries, along with data from the NEOM project.
b) Research using more specific frameworks, for example, the exact impact of Saudisation, as variables are required. Apart from self-reported data from surveys or interviews, actual data from reliable sources need to be collected for improving the applicability of findings. This research may be done as university research projects, so that resources and time are not limitations, unlike in thesis work.

7.8.2 FDI in general

a) Although there are many theories, there is a total lack of a good theory that can integrate both firm and country aspects of FDI. More research is needed to achieve this.
b) The historical effects of changing policies and reforms on FDI for different countries, including Saudi Arabia, need to be mapped to understand the exact impact of each policy change or reform on FDI.
c) How exactly variables associated with competitiveness affect FDI remains unclear. Good research on this is a priority area.

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Appendix 1: Quantitative Survey

Part One: General Information

Part One A: Personal Information

What is your nationality?

(Please tick where appropriate)

Nationality	Mark	Nationality	Mark
Saudi		Indian	
Canadian		Pakistani	
American		Egyptian	
British		Sudanese	
Other, Please specify (……)			

What is your education degree?

- Elementary school Intermediate school
- Diploma
- BSc level
- Postgraduate
- Other (Please specify) (…….)

For how long have you been working overseas?

- Less than 5 years
- 5-10 years
- 11-15 years
- 16-20 years
- More than 20 years

In how many countries have you worked?

- None
- One country
- Two countries
- Three countries

- More than three countries

For how long have you been working in the Kingdom of Saudi Arabia?

- Less than 5 years
- 5-10 years
- 11-15 years
- 16-20 years
- More than 20 years

What is your current position?

- Board chairman
- General Director
- Manager
- Head of department
- Other (Please specify) (…….)

Part One B: Company Information

7. What is the nationality of your company?

(Please tick where appropriate)

Nationality	Mark	Nationality	Mark
Saudi		Indian	
Canadian		Pakistani	
American		Egyptian	
British		Sudanese	
Other, Please specify (……)			

8. In what business industry/ service is your company involved?

(Please tick where appropriate)

Field	Mark	Field	Mark
Engineering industry		Education services	
Food industry		Tourist services	

Building materials Industry		Marine services	
Agricultural Industry		Medical services	
Other, Please specify (……)			

9. What is the status of your company in current situation?

- ☐ Under Implementation
- ☐ In Operation

10. In which city is your company working?

(Please tick where appropriate)

City	Mark	City	Mark
Riyadh		Jobil	
Jeddah		Maddenah	
Dammam		Qasim	
Tabouk		Jazzan	
Other, Please specify (……)			

11. Since when your firm was involved in overseas business?

- ☐ Less than 5 years
- ☐ 5-10 years
- ☐ 11-15 years
- ☐ 16-20 years
- ☐ More than 20 years

12. In how many countries has your firm operated?

- ☐ None
- ☐ 1-5 countries
- ☐ 6-10 Countries
- ☐ More than 10 countries
- ☐ I am not sure

13. How long has your firm been in the Kingdom of Saudi Arabia for?

- ☐ Less than 2 years
- ☐ 2-4 years

☐ More than 4 years

Part Two: Economic Resources

Part Two A: Human Resources

14. To what extend do you feel satisfied with the quality of local human resources?

(Please tick where appropriate)

Field	Satisfied	Not sure	Dissatisfied
Language			
Technical Knowledge			
Team Work			

15. What difficulties or problems has your firm faced in regard to the human resources in the Kingdom of Saudi Arabia?

(Please tick where appropriate)

Area of difficulties	Mark
None	
Importing foreign labour	
Laws that specify the number of local employment	
Scarcity of skilled labour	
Other, Please specify (…… ……...)	

Part Two B: Natural Resources

16. Do you rely on local natural resources in the production process?
☐ Yes
☐ No

17. What are the difficulties or problems that your firm has faced regarding to the accessibility of the local natural resources?

(Please tick where appropriate)

Difficulty or problem	Mark
None	
Low quality materials	
A limited supply of materials	
High prices	
Other, Please specify (…… ……...)	

Part Two C: Infrastructure Services

18. What is the satisfaction rate of the following services?

(Please tick where appropriate)

Services	Satisfied	Not sure	Dissatisfied
Banking			
Insurance			
Electric power			
Water and sewage			
Telecommunication			
Postal services			
Land transport			
Maritime transport			
Air transport			
Disposal of solid waste			

Part Three: Investment Climate

19. What is the satisfaction rate of following political and social variables?

(Please tick where appropriate)

Aspect	Satisfied	Not sure	Dissatisfied

Institutional stability			
Stability of rules			
Crime rate			
Entry and exit visas			

20. What is the satisfaction rate of the following economic and financial issues in the Kingdom of Saudi Arabia in relation to your firm?

(Please tick where appropriate)

Issue	Satisfied	Not sure	Dissatisfied
Importing capital			
Exporting funds			
Accounting procedure			
Audit system			

21. What is the satisfaction rate of the registration procedures for your firm at the Kingdom of Saudi Arabia Board for Investment?

(Please tick where appropriate)

Statement	Satisfied	Not sure	Dissatisfied
Initial application			
Procedures			

22. How long it takes for your firm to obtain the official approval?
- ☐ Less than a month
- ☐ Less than 2 months
- ☐ Less than 3 months
- ☐ Less than 4 months
- ☐ 4 months or more

Part Four: Guarantees and Polices

23. What is the satisfaction rate of the legal guarantees given to investors in the Kingdom of Saudi Arabia?

(Please tick where appropriate)

Offer	Satisfied	Not sure	Dissatisfied
Land ownership			

Nationalisation			
Tax exemption			
Transfer of profits			

24. How do you explain the business obstacles that firms faced in the Kingdom of Saudi Arabia?

(Please tick where appropriate)

Obstacles	Mark
None	
Legal problems	
Financial difficulties	
Bureaucratic procedures	
Other, Please specify (…… ……...)	

25. Which one of these variables do you think the following policy guidelines are supportive in making the country more to foreign direct investment?

(Please tick where appropriate)

Policy	Not helpful	Fairly helpful	Helpful
Industry free zones			
Reducing capital required			
Simplifying Administrative			
Procedures			
Allocation of land			
Improving the infrastructure			
Providing business maps			
Improving human resources			

Your cooperation is appreciated and please returns the questionnaire as soon as you finish answering all questions.

Appendix 2: Semi-structured Interview Questions

1. What is your position and responsibilities within Saudi Arabian General Investment Authority (SAGIA)?
2. How many years have been in your current role, and how many years have you worked at the SAGIA?
3. What is your understanding of the current Economic Reform that is taking place?
4. How would you describe this reform?
5. Can you talk about the Vision 2030 and its impact on Saudi economy this far?
6. What implementation phase do you think the Vision 2030 is in now?
7. Is this vision achievable in your opinion?
8. Wouldn't the culture of those organizations play a part as well?
9. In your opinion, do think that the vision 2030 is achievable?
10. What is SAGIA's strategy for attracting FDI in non-oil sector?
11. Keeping in mind that the sustainable aspect of the strategy requires the satisfaction of the customer. How will making your customers satisfied for a long time, it will be a challenge would it not?
12. In your opinion, within the high level of competition in the MENA countries for attracting FDI do you expect the Saudi market will be the top of the list for FDI? why?
13. As you know, there are many shortcomings of economic development in KSA and one of them is with FDI, how have you been addressing these shortcomings?
14. What specific role do you play towards implementing the strategy for attracting FDI in non-oil sectors?
15. In your opinion, what improvement are needed for (SAGIA) to attract FDI in non-oil sector?
16. How has the current Economic Reform and Vision 2030 impacted on FDI in non-oil sectors?

17. What has been your role in the changes to the FDI policies?
18. In your opinion, why the previous FDI company left the Saudi market?
19. What are the requirements of entering the Saudi Market by the new FDI companies in non-oil sector?
20. Do you think the requirements for the new FDI in non-oil sector are reasonable (20M)?
21. As you know, the new government aim is toward privatize the public sector, Did SAGIA prepare a plan to utilize this major economic change to attract new FDI inflow?
22. Do you think the current business infrastructure ready for this reform and satisfied to attracted FDI (For example education, health, internet, financial institutions …etc.)?
23. In your opinion does the current business regulations (Example labour law) aligned with SAGIA strategy for attracting FDI?
24. Is there anything else that you would like to add or shed light on?

VISION 2030
KINGDOM OF SAUDI ARABIA

Saudi Arabian General Investment Authority
SAGIA

Ref. No.:
Date: 26 / 7 / 2017
Attachments:
7000 87 38 07

Mr. Fuaad A. Alshehri
Victoria University
Melbourne
Australia

Dear Mr. Alshehri

Thank you for your letter dated 10 July 2017 inviting SAGIA to participate in a research study into the Foreign Direct Investment in Saudi Arabia.

We accept your request to conduct interviews within our organization. We look forward to contributing to your research and receiving a copy of your findings once your research is completed. In order to arrange interviews kindly contact me directly on my email: (aho@sagia.gov.sa) so that we can arrange a mutually suitable time.

Yours sincerely

[redacted]

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