

## Impact of Foreign Direct Investment on the Economic Growth of Saudi Arabia



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### ABSTRACT

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#### ABSTRACT

This study examines the integration of foreign direct investment (FDI) inflows into the Saudi Arabian economy and evaluates their effects on the nation's economic development. It is based on the premise that FDI is a crucial driver of economic growth, particularly through its impact on gross domestic product (GDP). The results support the hypothesis that FDI significantly fosters sustainable economic growth. The research also identifies the main factors influencing FDI inflows, employing regression analysis via Minitab software as the primary empirical tool. Furthermore, the study investigates the long-term effects of FDI across various sectors, highlighting its essential role in diversifying the economy beyond oil. It explores the socio-economic impacts of FDI, such as job creation, technology transfer, and the development of local skills. To deepen the analysis, qualitative interviews with policymakers and industry leaders were conducted to capture their perspectives on FDI's future role in Saudi Arabia. The research also analyzes how regulatory frameworks affect FDI attractiveness, emphasizing the importance of effective policies to create a favorable environment for foreign investors. The findings highlight the need for continuous monitoring of FDI trends to maximize benefits. This research offers a comprehensive overview of FDI dynamics in Saudi Arabia and provides actionable recommendations to enhance its positive impact on economic development.

**Keywords:** FID, Economic Growth, GDP, Regression Analysis.

## اثر الاستثمار الاجنبي المباشر على النمو الاقتصادي في المملكة العربية السعودية



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### المستخلص

تبحث هذه الدراسة في تكامل تدفقات الاستثمار الأجنبي المباشر (FDI) في الاقتصاد السعودي، وتقيم آثارها على التنمية الاقتصادية للبلاد. وتستند الدراسة إلى فرضية أن الاستثمار الأجنبي المباشر يُعدّ محركاً أساسياً للنمو الاقتصادي، لا سيما من خلال تأثيره على الناتج المحلي الإجمالي. وتدعم النتائج فرضية أن الاستثمار الأجنبي المباشر يُعزز بشكل كبير النمو الاقتصادي المستدام. كما تُحدد الدراسة العوامل الرئيسية المؤثرة على تدفقات الاستثمار الأجنبي المباشر، مستخدمةً تحليل الانحدار عبر برنامج Minitab كأداة تجريبية رئيسية. علاوة على ذلك، تبحث الدراسة في الآثار طويلة المدى للاستثمار الأجنبي المباشر عبر مختلف القطاعات، مُسلطةً الضوء على دوره الأساسي في تنويع الاقتصاد بعيداً عن النفط. كما تستكشف الدراسة الآثار الاجتماعية والاقتصادية للاستثمار الأجنبي المباشر، مثل خلق فرص العمل، ونقل التكنولوجيا، وتنمية المهارات المحلية. ولتعميق التحليل، أُجريت مقابلات نوعية مع صانعي السياسات وقادة القطاع لاستطلاع آرائهم حول الدور المستقبلي للاستثمار الأجنبي المباشر في المملكة العربية السعودية. يُحلل البحث أيضاً كيفية تأثير الأطر التنظيمية على جاذبية الاستثمار الأجنبي المباشر، مُشدداً على أهمية السياسات الفعالة لتهيئة بيئة مواتية للمستثمرين الأجانب. تُبرز النتائج ضرورة الرصد المستمر لاتجاهات الاستثمار الأجنبي المباشر لتحقيق أقصى استفادة. وفي نهاية المطاف، يُقدم هذا البحث نظرة شاملة على ديناميكيات الاستثمار الأجنبي المباشر في المملكة العربية السعودية، ويُقدم توصيات عملية لتعزيز أثره الإيجابي على التنمية الاقتصادية.

الكلمات المفتاحية: الاستثمار الأجنبي المباشر، النمو الاقتصادي، الناتج المحلي الإجمالي، تحليل الانحدار

### 1. Introduction:

Foreign direct investment (FDI) serves as a crucial driver of economic growth, not only by providing essential capital but also by fostering innovation. Beyond its financial impact, FDI

brings positive externalities such as the transfer of knowledge and technology, which boost productivity and support sustainable economic development in host countries. The impact of FDI on economic growth depends greatly on the institutional and policy environment of the recipient country. In Saudi Arabia, where oil revenues account for about 85% of national income, FDI holds strategic significance. As a leading oil producer and exporter of petrochemicals, Saudi Arabia has recently introduced structural reforms to diversify its economy and strengthen the private sector's role. These reforms have helped the country better integrate into global trade and investment networks. Foreign investors have played a key role in accelerating private sector

development and aligning it with international standards, making Saudi Arabia a top destination for FDI. This study aims to analyze the empirical relationship between FDI inflows and economic growth in Saudi Arabia from 1990 to 2020. Using co-integration techniques and the error correction model (ECM), the research examines both short-term and long-term links between FDI and GDP growth. The goal is to clarify the complex relationship between FDI and economic expansion by exploring possible causal connections and underlying mechanisms. By applying advanced econometric methods, the study seeks to provide a comprehensive understanding of how FDI can drive growth in Saudi Arabia, especially in light of the Vision 2030 initiative, which emphasizes economic diversification and sustainability. Additionally, the analysis will consider various economic indicators to thoroughly investigate the relationship between FDI and GDP growth amid changing global economic conditions. This comprehensive approach will offer valuable insights for policymakers and investors, supporting informed decisions to create a favorable environment for foreign investment. Ultimately, this research aims to address gaps in the literature on Saudi Arabia, offering empirical evidence to strengthen theoretical frameworks and guide practical economic policy and development.

### **1.1. Investment**

Investment refers to the time, energy, or material spent to achieve future benefits within a specific date or time range. It has various implications in finance and economics. In finance, investment is the buying or making of a resource that anticipates capital appreciation,

profits (benefits), interest payments, rents, or a mix of these profits. This could conceivably be upheld by exploration and examination [ De Mellow, Luiz R.,1997:1-34].Most, if not all, forms of speculation inherently entail a degree of risk, such as investing in equities, real estate, and even fixed-rate securities, all of which are susceptible to inflationary pressures, among other factors. Investors in capital markets must adeptly identify and manage the myriad risks associated with their investment endeavors. Furthermore, it is imperative for investors to cultivate a comprehensive understanding of market dynamics and economic indicators that can influence their portfolios. This entails not only scrutinizing historical trends but also anticipating

potential fluctuations in market sentiment. By employing strategic risk management techniques, such as diversification and hedging, investors can mitigate adverse effects and enhance the resilience of their investment strategies. Moreover, staying informed about global economic developments and regulatory changes is essential, as these factors can significantly impact asset valuations. Engaging with financial advisors and market analysts can provide invaluable insights and guidance, enabling investors to make informed decisions that align with their financial objectives and risk tolerance. Ultimately, successful investing is as much about navigating unforeseen challenges as it is about capitalizing on opportunities. By adopting a proactive and informed approach, investors can better position themselves to achieve sustainable growth and protect their wealth in the face of uncertainty. In macroeconomics, investment alludes to the measure of merchandise bought per unit time that is not burned through as of now . The categories of investment encompass private investments in long-term residential services, non-private fixed capital in new machinery or manufacturing facilities, human capital investment in workforce training, and equity investments (whether deliberate or incidental accumulation, as well as inventory of goods).

## **1.2. Foreign Direct Investment (FDI)**

Foreign Direct Investment (FDI) is the control responsibility of companies in one country by an entity situated in another country. Foreign direct investment is not quite the same as foreign investment in securities (FIS), which is a passive interest in another nation's securities (like public stocks and bonds), and its component is "control." Furthermore, the control of technology, management, and even key sources of information can also be controlled [ Kornecki, L., Borodulin, V. 2010].The nature of investment does not alter the essence of foreign

direct investment; that is to say, investment can be executed "disorderly" through the acquisition of enterprises in the host nation, or "coordinated" by augmenting the operations of existing ventures within that territory.

## **2. Statement of the Problem**

An Examination of the Impact of Foreign Direct Investment on the Economic Growth of Saudi Arabia

### **2.1 Research Questions**

This study endeavors to address the following research inquiries:

2.1.1 What is the nature of the relationship between Foreign Direct Investment (FDI) and economic growth?

2.1.2 What metrics can be employed to effectively address the issue?

### **2.2. Research Significance**

The primary objective of this paper is to elucidate the complex interplay between foreign direct investment (FDI) inflows and economic growth in Saudi Arabia from 1990 to 2020. This analysis employs Minitab software to undertake a thorough regression analysis. The research aims to provide a nuanced understanding of how FDI has influenced the economic landscape of Saudi Arabia over the three-decade period, characterized by notable transformations and developmental milestones. By systematically examining statistical correlations, the study seeks to unravel the complexities of investment dynamics and their implications for sustainable economic progress.

In pursuing this objective, the paper will first outline the theoretical underpinnings of foreign direct investment, followed by a detailed methodology that explicates the analytical framework employed. Subsequently, the findings will be discussed in the context of existing literature, highlighting discrepancies and similarities with previous studies on FDI and economic growth both within the region and globally.

The conclusion will synthesize key insights derived from the analysis while offering actionable recommendations for policymakers aiming to enhance the effectiveness of FDI as a catalyst for economic advancement. This comprehensive exploration will contribute to the broader discourse on economic diversification strategies in Saudi Arabia, ultimately fostering a better

understanding of the roles played by foreign investments in shaping the nation's economic trajectory.

### **3. Literature Review:**

The inflow of foreign direct investment (FDI) into a country is influenced by a broad spectrum of economic and political conditions. Key determinants include macroeconomic stability, the potential for market expansion, the availability and quality of infrastructure, regulatory frameworks related to investment, tax policies, trade openness, labor costs, the performance of financial markets, levels of public spending, industrial policies, and the presence of a well-trained and educated labor force. Extensive scholarly research has explored the impact of these variables

on FDI, highlighting its critical role as a catalyst for economic growth and sustainable development. Business analysts, by and large, accept that FDI ought to be viewed as an enhancement to domestic capital and a method for acquiring appropriate technology.

#### **3.1 Factors Affecting FDI Inflow**

There are numerous factors that may affect or shape the trajectory of foreign direct investment. Ramady and Saeed (2007) contemplated the pivotal role of fostering FDI within the context of Saudi Arabia. The authors conducted a comprehensive survey of executives and enterprises in Saudi Arabia to gain insights into the current landscape of foreign direct investment. The outcomes of the investigation revealed that Saudi leaders, while generally welcoming foreign direct investment (FDI) into the nation, exhibit ambivalent attitudes toward its perceived advantages [Saeed, j., 2007]. Alkhatlan (2013) conducted a thorough examination of the dynamics of foreign direct investment (FDI) and the evolution of economic development within Saudi Arabia, employing co-integration analysis. The author meticulously scrutinized data spanning from 1980 to 2010, revealing that the trajectory of Foreign Direct Investment (FDI) is predominantly influenced by political determinants [Alkhatlan (2013); Phuong, N. L., (2021)]. Moreover, additional factors impacting the magnitude of domestic FDI encompass anticipated economic fluctuations, political stability, democratic governance, economic agreements, and the level of financial sophistication. These variables exhibit a significant correlation with the extent of internal FDI [ Phuong, N. L. (2021)]. According to Romer (2012), technology, which can serve as a proxy for human skills and knowledge, constitutes a significant factor contributing to the beneficial impacts of foreign direct investments [Romer, D. (2012)]. Furthermore, Binsaeed

(2009) discovered in his examination of the determinants influencing foreign direct investment within the petrochemical sector that FDI is attracted by location-specific variables, encompassing cost considerations, market dynamics, infrastructural and technological factors, as well as political and socio-cultural elements [7].

### **3.2 The Impact of FDI on Economic Growth**

Said Jaouadi (2014) discovered that Foreign Direct Investment (FDI) significantly influences agricultural nations that facilitate such investments [Said, Jaouadi (2014) ]. In 2013, Samuel and Xi Cang Zhao conducted an analysis of the impact of foreign direct investment on economic

growth in Ghana from 1980 to 2010, revealing a long-run equilibrium and a causal relationship between the dependent variable [ Samuel, Antwi& Xi Cang Zhao (2013)]. Sarbapriya Ray (2012) elucidated the causal connection between Foreign Direct Investment (FDI) and economic growth in India, affirming a causal relationship between foreign direct investment and growth during the

period from 1991 to 2011 [Sarbapriya Ray (2012),].In 1996, Caves noticed the expanding interest in FDI in numerous nations, as its overflow effects impacted amplifying yield, technology transfer, skill, staff training, and access to worldwide markets. Moreover, Borensztein (1998) pointed out that FDI is a significant way to boost development [Borensztein E., De Gregorio, J.& Lee Jong-Wha (1998):p115-135].De Mellow (1997) elucidated a favorable correlation between foreign direct investment (FDI) and economic development. Furthermore, Dees (1998) emphasized that FDI constitutes a pivotal component in catalyzing China's economic progress. According to the neoclassical theory of economic growth, by enhancing the capital stock, a nation can optimize its growth trajectory, propelled by foreign direct investment [De Mellow, Luiz R. (1997), Dees S. (1998)].Bengoa and Sanchez Robles (2003) posited that although FDI is unequivocally associated with monetary growth, its benefits can be significantly enhanced through the availability of human capital, thereby ensuring economic stability and market openness [Bengoa, M., Sanchez-Robles, B. (2003),].On this issue, Borensztein (1998) brought up that the development possibilities of an economy rely upon the level of communication between FDI and human resources. He believes that an economy's mechanical retention capacity can expand its development possibilities and

FDI inflows [Borensztein E., De Gregorio, J., Lee Jong-Wha (1998),]. Likewise, Balasubramanyam (1999) found that there are optimistic collaborations between FDI and human resources, which lead to monetary development [Balasubramanyam V.N., Salisu M. Sapsford (1999)].De Gregorio (1998) elucidated that a nation's access to foreign direct investment (FDI) can substantially amplify its economic growth through the transfer of technology and expertise [ Borensztein, E.,et al.,(1998)]. These ramifications render FDI up to four times more efficacious than domestic investment. Moreover, Borensztein et al. (1998) and Driffield (2004) illustrated that FDI exerts a direct and profound influence on a nation's economic progression [ Borensztein E.,et al.,(1998); Nigel (2004).].

### **3.3 How to Boost FDI**

Phuong Nam Le (2021) noted that Wang and Wong (2011) argued that governments often offer incentives—such as tax breaks and low-interest loans—to attract greater Foreign Direct Investment (FDI). The level of a country's economic development significantly affects how much FDI it can draw [Phuong, N. L. (2021) ].Holger G. et al. (2017) emphasized the importance of establishing Investment Promotion Agencies (IPAs) to boost FDI. They suggested that external partners can help set up these agencies by providing competitive salaries to skilled professionals, which is crucial for targeting major investors [Phuong, N. L. (2021) ].Donciu, E. C. (2014) proposed that to strengthen the domestic economy, programs could offer financing opportunities to local suppliers based on contracts with foreign buyers. Creating a merchant development program would help connect foreign clients with local providers [ Donciu, E. C. (2014)]. Both Donciu (2014) and Holger G. et al. (2017) stressed that developing countries should empower themselves to make the most of FDI. For example, improving financial market infrastructure—even in FDI source countries—can help address weaknesses in host countries' financial systems, thereby increasing FDI inflows and revitalizing economic activity [ Donciu E. C. (2014), Phuong, N. L. (2021)].A thorough review of the literature reveals that one key factor influencing FDI inflows into Saudi Arabia is the attitude of executives and businesses toward FDI. Additionally, government spending is a significant driver of FDI in the Kingdom, with

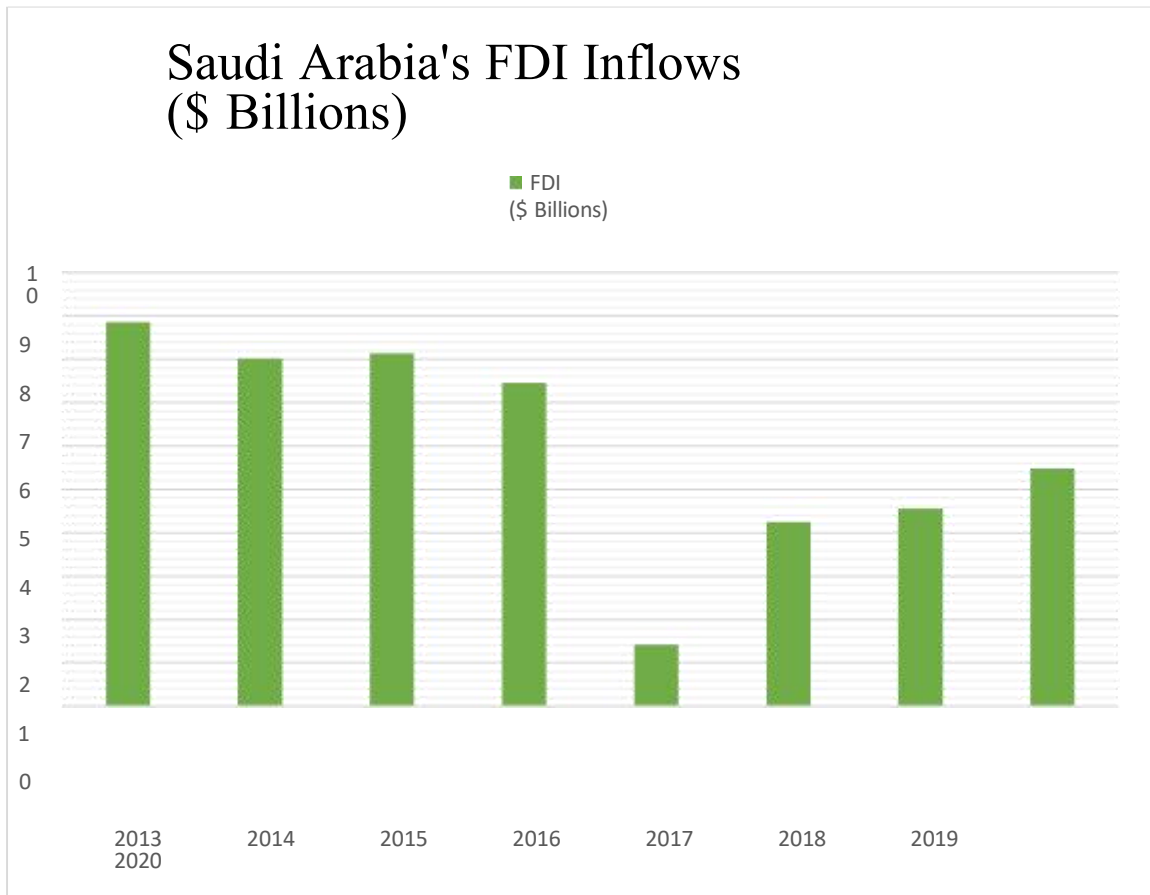
higher government expenditure likely leading to increased FDI. Saudi Arabia can also strategically target specific countries to further boost FDI inflows. The purpose of this literature review is to examine how FDI impacts Saudi Arabia's economic growth and to identify the factors that shape FDI. The paper also explores FDI's vital role in raising gross domestic product (GDP), especially in developing countries with agriculture-based economies. Empirical analysis shows a clear linear relationship between the variables studied. While this relationship is less problematic in cross-sectional data, it becomes more significant in time-series analysis. Overall, the findings show a positive correlation between FDI, GDP, and economic development in Saudi Arabia from 1990 to 2020.

#### **4. Current Situation of FDI Inflow of Saudi Arabia:**

Foreign direct investment (FDI) plays a crucial role in promoting economic growth. The data for this study were primarily obtained from the World Bank and OECD databases, which include information on global financial resources and balance of payments. These data sources were further supplemented by the United Nations Conference on Trade and Development and other official public records. This section explains how the research team gathered and utilized these essential data sources. Next, the section reviews both foreign and domestic investments across various projects before focusing specifically on foreign investment. It examines trends based on project types, individual investors, and the number of investors from different countries, highlighting that FDI is significantly shaped by a wide range of factors.

##### **4.1 Development Scale of FDI in Saudi Arabia**

In recent years, foreign direct investment (FDI) inflows into Saudi Arabia have experienced a significant decline. According to the 2014 World Investment Report by the United Nations Conference on Trade and Development (UNCTAD), Saudi Arabia is currently the third-largest recipient of FDI in Western Asia, following Turkey and the United Arab Emirates. Several factors—such as political and social tensions, limited access to credit, and the "sand specialization" policy introduced in 2011 to prioritize domestic labor—have created major obstacles to FDI. Despite these challenges, the Saudi government has invested heavily in infrastructure to attract investment, viewing this as a key strategy for economic diversification and for creating jobs for the growing youth population.



**Graph 3.1** Saudi Arabia's FDI Inflows from 2013- 2020

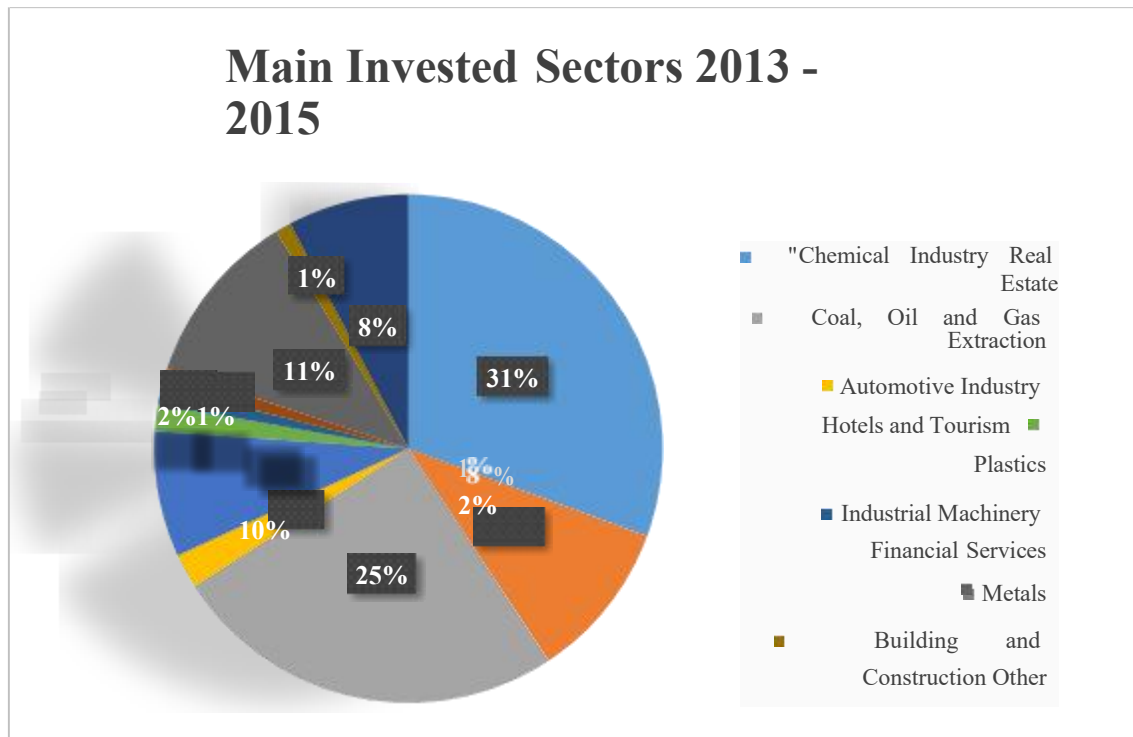
**Source: Data World Bank,** "Foreign Direct Investment, Net Inflows (BoP, Current US\$)- Saudi Arabia"

Saudi Arabia has experienced fluctuations in both economic growth and inflation. In 2013, it emerged as one of the principal destinations for foreign direct investment (FDI), accounting for a remarkable 20% of total inflows. It continued to be a preferred FDI locale, attributed to a more conducive business and regulatory environment. The nation has secured access to premier physical infrastructure and logistical facilities, affluent consumer markets, a sophisticated financial sector, high-quality enterprises, and enhanced political stability. In 2014, foreign direct investment (FDI) witnessed a decline of 9.62%, attributed to the precipitous fall in oil prices that began in 2010. However, in 2015, Saudi Arabia experienced a modest increase in FDI, rising by 1.62%. This uptick can be ascribed to the government's concerted efforts to stimulate foreign investment. The administration shifted its focus from the repercussions of declining oil prices to initiatives aimed at enhancing the engagement of nationals within the private sector and

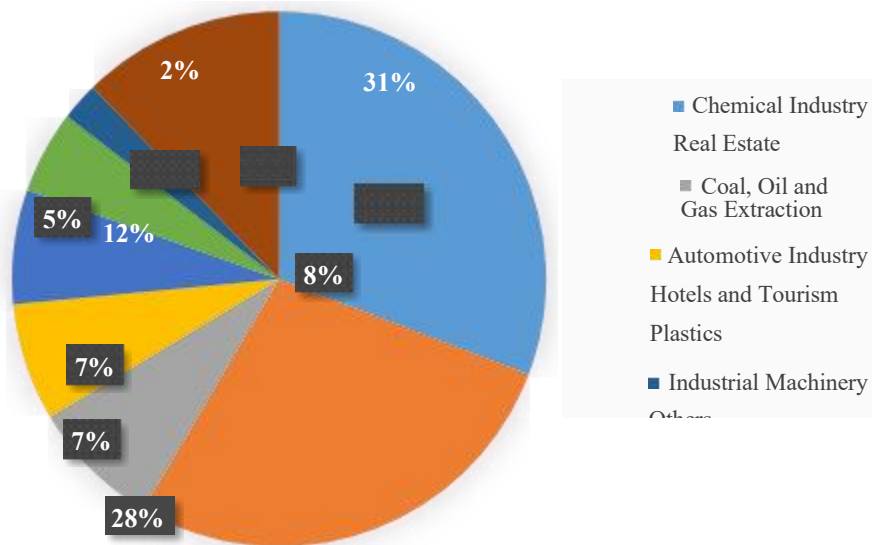
diversifying the economy to reduce its reliance on oil. In 2016, the ramifications of diminished item costs persisted in West Asia, with foreign direct investment (FDI) contracting by 2% to a total of \$28 billion. Notably, Saudi Arabia experienced a significant downturn, with FDI plummeting by 8.46%. In 2017, Saudi Arabia's FDI further deteriorated by an alarming 80.97%, attributable to divestments and withdrawals by foreign enterprises with a foothold in the kingdom. From 2017 to 2020, Saudi Arabia's foreign direct investment (FDI) surged by an impressive 228.7%, largely driven by advancements in the kingdom's aviation sector. The nation was undergoing a transformation, striving to establish an entirely contactless ecosystem through innovative technological solutions. Between 2017 and 2018, FDI experienced a remarkable increase of 199.50%, followed by a further expansion of 29.17% from 2018 to 2020.

### 3.2 The Structure of FDI in Saudi Arabia

**Source:** “Statista Research Department. (2016) Share of Foreign Direct Investment in Saudi Arabia by Sector 2013 – 2015 [18]

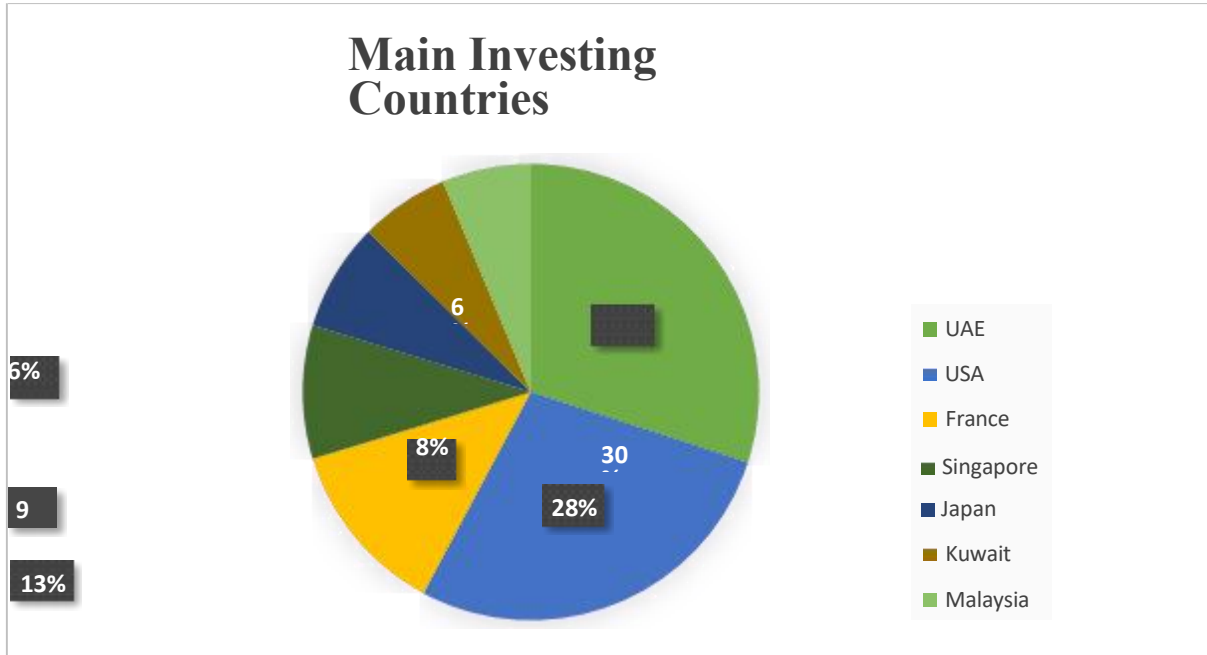


## Main Invested Sectors 2016 - 2020



Source: [https://santandertrade.com/en/portal/establish-overseas/saudi-arabia/foreign-investment?url\\_de\\_la\\_page=%2Fen%2Fportal%2Festablish-overseas%2Fsaudi-arabia%2Fforeign-investment&&actualiser\\_id\\_banque=oui&id\\_banque=0&memoriser\\_choix=memoriser](https://santandertrade.com/en/portal/establish-overseas/saudi-arabia/foreign-investment?url_de_la_page=%2Fen%2Fportal%2Festablish-overseas%2Fsaudi-arabia%2Fforeign-investment&&actualiser_id_banque=oui&id_banque=0&memoriser_choix=memoriser)

### 3.3 The Source of FDI Inflow for Saudi Arabia



Source:  
[19]

#### 4. Empirical Analysis of the Impact of FDI to Economic Growth:

The purpose of this paper is to empirically analyze the effect of FDI on Saudi Arabia's economic growth from 1990 to 2020. It is assumed that economic growth depends on the inflow of FDI, the increase of domestic capital, government expenditure, and domestic labor. Using Minitab Software to calculate the collected statistical data from the World Bank and OECD Data for Saudi Arabia's FDI and gross domestic product, we determine the regression analysis.

##### 4.1 Model Specification and Variables

The simple regression model is characterized through a numerical connection developed with regard to monetary hypothesis, which infers that the financial phenomenon as impact is the

aftereffect of the cumulated activity of two classifications of components:

- ✓ A primary factor that is fundamental.
- ✓ The wide range of various variables can be viewed as insignificant, with arbitrarily happened activity or consistent activity, perpetual upon the monetary phenomenon as impact. These impacts are gathered in the outcome variable.

The impact regression model can be deciphered numerically as follows:

$$Y = f(x) + \epsilon$$

In a basic regression econometric model, the connection between the outcome variable (Y) and the causal variable (X) can be portrayed by a function as follows:

$$y_i = b + a \cdot X_i + \epsilon$$

$y_i$  – Outcome

$x_i$  – Factorial

$\epsilon_i$  – Residual

$b$  – Estimated Regression Coefficient

To estimate the boundaries of a linear regression model, one can employ the technique of least squares or the method of maximum likelihood estimation. According to the least squares approach, the evaluation of the boundaries hinges upon the stipulation that the sum of the squares of the deviations between the actual values and the values predicted by the regression model should be minimized.

n  
n

$$F(\hat{\alpha}, \hat{\beta}) = \min \sum_{t=1}^n (y_t - \hat{y}_t)^2 = \min \sum_t (y_t - \hat{\beta} - \hat{\alpha} \cdot x_t)^2$$

$$\hat{\alpha} = \frac{\begin{vmatrix} n & \sum y_t \\ \sum x_t & \sum (x_t \cdot y_t) \end{vmatrix}}{\begin{vmatrix} n & \sum x_t \\ \sum x_1 & \sum x_1^2 \end{vmatrix}}$$

$$= \bar{y}_t - \hat{\beta} \cdot \bar{x}_t^a$$

This part requires amazingly muddled computations, and time. To make the master's work

simpler, specific information technology (IT) applications have been developed that permit assessing the boundaries of the model and the validation of the outcomes acquired. One of the IT programs used to address econometric perspectives is Minitab, which I have utilized in this examination.

#### 4.2 Variable Measurement and Data Sources

**Table 4.2.1** Evolution of Saudi Arabia's **Foreign Direct Investment and GDP Growth Rate 1990- 2020**

Year Rate (%)	FDI (\$ Billions)	GDP Growth
1990	1.861	1.582
1991	0.16	0.121
1992	-0.078	-0.058
1993	1.367	1.028
1994	0.349	0.258
1995	-1.875	-1.308
1996	-1.127	-0.711
1997	3.039	1.831

<b>1998</b>	4.283	2.918
<b>1999</b>	-0.778	0.482
<b>2000</b>	-1.881	-0.993
<b>2001</b>	0.019	0.011
<b>2002</b>	-0.614	-0.324
<b>2003</b>	-0.586	-0.272
<b>2004</b>	-0.334	-0.129
<b>2005</b>	1.209	3.683
<b>2006</b>	1.829	4.854
<b>2007</b>	2.431	5.846
<b>2008</b>	3.945	7.591
<b>2009</b>	3.645	8.496
<b>2010</b>	2.923	5.543
<b>2011</b>	1.63	2.43
<b>2012</b>	1.218	1.655
<b>2013</b>	8.864	1.187
<b>2014</b>	8.011	1.059
<b>2015</b>	8.141	1.244
<b>2016</b>	7.452	1.155

2017	1.418	0.206
2018	4.247	0.539
2019	4.562	0.575
2020	5.486	0.783

Source: Data World Bank, Foreign Direct Investment, Net Inflows (BoP, Current US\$)-Saudi Arabia [20]

<https://data.oecd.org/fdi/fdi-flows.htm> Source: Data OECD FDI Flows, “[21]flows.htm

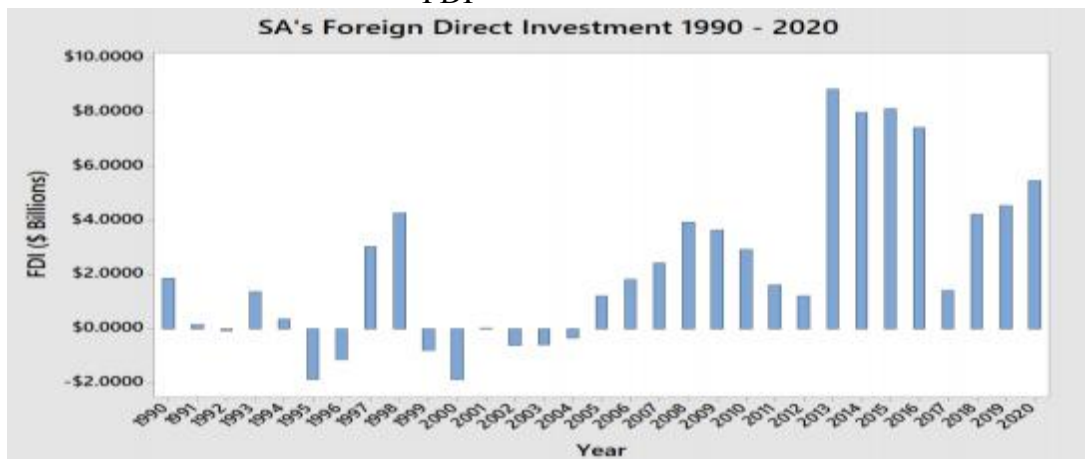
Source: Data World Bank, Foreign Direct Investment, Net Inflows (% of GDP)-Saudi Arabia

[Data WorldBank, ]

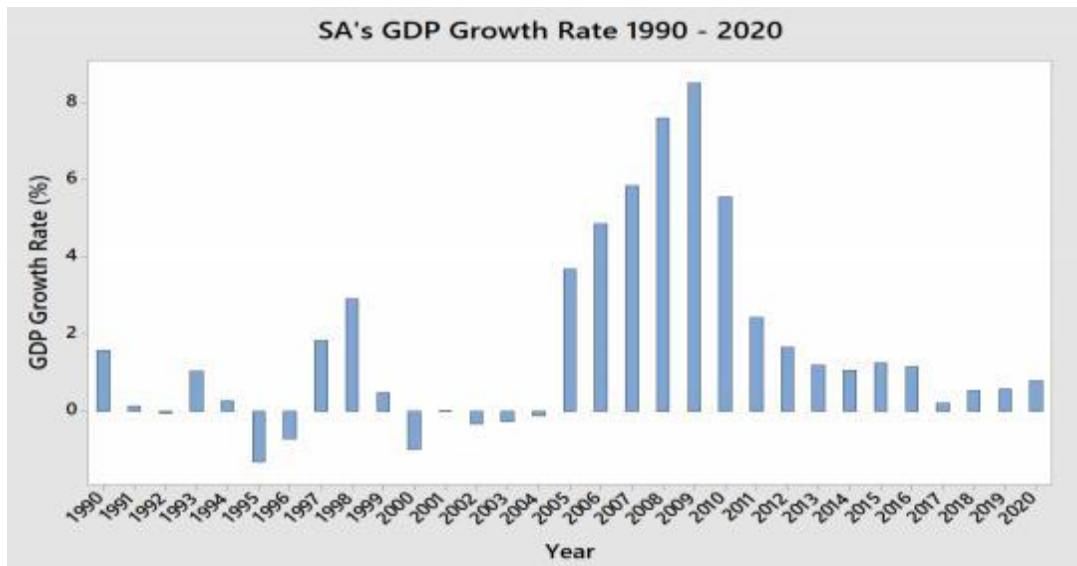
The impact of foreign direct investment on gross domestic product can be elucidated through a straightforward regression model, wherein gross domestic product constitutes the dependent variable, while foreign direct investment functions as the independent variable. Presented below is a specific model:

$$GDP = a + b \text{ FDI}$$

Graph 4.2.2 Saudi Arabia’s FDI



Graph 4.2.3 Saudi Arabia’s Gross Domestic Product Growth Rate (GDP Growth Rate)



During the early 1990s, the primary reason for the significant decline in Foreign Direct Investment (FDI) was that the concept of FDI remained largely foreign and difficult to comprehend within the economic framework of the Kingdom of Saudi Arabia. Consequently, this lack of understanding contributed to a contraction in the nation's GDP. From 1996 to 1998, however, FDI positively impacted the country's GDP, contributing to an increase of 4.2%. This improvement was attributable to the concerted efforts undertaken by the government to enhance the performance of the private sector. Devaluation in oil prices has been instrumental in the declines observed in foreign direct investment (FDI) and gross domestic product (GDP) during the period from 1998 to 2004. The influx of foreign direct investment into Saudi Arabia progressively waned due to geopolitical considerations and the downturn in oil prices; however, economic diversification and the emergence of new enterprises beyond the oil and gas sector played a pivotal role in reversing this trend. In the period between 2004 and 2005, Foreign Direct Investment (FDI) and Gross Domestic Product (GDP) experienced remarkable growth of 3.8%. This increase can be attributed to the FDI regulations introduced by the government in 2005. Since the implementation of these guidelines, the correlation between FDI and GDP has consistently demonstrated a positive trajectory. Consequently, from 2004 to 2008, this relationship has shown a steady upward trend. From 2008 to 2009, the Gross Domestic Product (GDP) expanded from 7.591 to 8.496, indicating a growth of 11.92%. Conversely, Foreign Direct Investment (FDI) experienced a decline of 7.6% during the same period. This phenomenon elucidates the impact of the turmoil in the mortgage sector that was prevalent at the time on the global economy. However, due to Saudi Arabia's advantageous position in the oil market, the price of oil surged during this period, thereby attracting foreign investors. Consequently, this influx contributed to the

augmentation of both FDI and GDP. From 2010 to 2011, the Middle East experienced significant instability, a direct consequence of the Arab Spring events. These tumultuous occurrences adversely impacted Saudi Arabia's economy, resulting in a contraction of foreign direct investment (FDI). However, by 2012, as the disruptions stemming from the Arab Spring began to subside, the trajectory of FDI demonstrated considerable growth. As previously articulated in section 3.1, Saudi Arabia has encountered fluctuations and inflationary pressures. In 2013, the nation emerged as a primary destination for FDI, capturing 20% of total inflows. It sustained its status as a preferred destination for foreign direct investment (FDI), attributed to a more favorable business environment and a supportive regulatory framework. In 2014, foreign direct investment (FDI) witnessed a significant decline of 9.62%, attributable to the steep plummet in oil prices that commenced in 2010. However, Saudi Arabia's foreign direct investment rebounded modestly by 1.62% in 2015, owing to the government's concerted efforts to stimulate FDI. In 2016, the ramifications of persistently low commodity prices continued to reverberate throughout West Asia, with Saudi Arabia facing a further contraction in FDI of 8.46%. The situation deteriorated significantly in 2017, as FDI plummeted by an alarming 80.97%, primarily due to divestments and withdrawals by foreign entities operating within the kingdom. From 2017 to 2020, Saudi Arabia's FDI expanded by practically 228.7%, due to the aviation industry in the kingdom. Saudi Arabia was changing the cycle to make it completely

contactless through tech solutions. From 2017 to 2018, FDI increased by 199.50%, and from 2018 to 2020, it expanded by 29.17%. Then, foreign direct investment (FDI) streams surged by 7% between 2018 and 2019, reaching an impressive USD 4.6 billion. This remarkable growth can be primarily attributed to the nation's removal of restrictions on foreign strategic investors. Furthermore, the volume of FDI escalated in 2019, attaining a remarkable USD 236 billion, the highest figure among Arab nations by a significant margin. According to preliminary data from UNCTAD, inflows to Saudi Arabia during the first half of 2020 experienced a year-on-year increase of 12%, amounting to USD 2.6 billion. Notably, since the fourth quarter of 2017, Saudi Arabia's gross domestic product contracted a year prior to the first quarter of 2017 GDP; however, the private sector continued to experience contraction. Scaled-adapted gross domestic product experienced a contraction of 0.5% year-over-year in January and March, marking the first decline since 2009. This downturn can be attributed primarily to Saudi Arabia's global accord on cost-setting among producing nations. Furthermore, the non-oil government sector witnessed a slight decline of 0.1%, underscoring Riyadh's continued commitment to stringent control over public expenditure.

### 4.3 Regression Results

#### Analysis of Variance

Source	DF	Adj SS	Adj MS	F-Value	P-Value
Regression	1	17.41	17.410	3.08	0.090
FDI	1	17.41	17.410	3.08	0.090
Error	29	164.06	5.657		
Total	30	181.47			

#### Model Summary

S	R-sq	R-sq(adj)	R-sq(pred)
2.37851	9.59%	6.48%	0.00%

#### Coefficients

Term	Coef	SE Coef	T-Value	P-Value	VIF
Constant	1.073	0.541	1.98	0.057	
FDI	0.254	0.145	1.75	0.090	1.00

#### Regression Equation

$$\text{GDP} = 1.073 + 0.254 \text{ FDI}$$

### 4.4 Discussion and Conclusion

Empirical regression analysis indicates that the long-term relationship between economic growth and foreign direct investment (FDI) in Saudi Arabia from 1990 to 2020 can be expressed as

This result shows that for every unit increase in FDI, GDP rises by 0.254 units, underscoring the significant impact of FDI on economic growth. Saudi Arabia has emerged as a major recipient of FDI, especially relative to the size of its economy. FDI inflows grew from an annual average of \$251 million (1990–1999) to \$772 million (2000–2004) and then soared

to \$24 billion (2005–2011). The year 2005 marked a turning point, with inflows exceeding \$12 billion and continuing to grow until 2008. However, since 2009, FDI inflows have declined due to the global financial crisis and regional instability, stabilizing at \$16 billion in 2011. By the end of 2010, 70% of FDI stock was concentrated in the regulatory sector, 27% in manufacturing and processing, and only 3% in the primary sector. Key industries attracting FDI include business operations, construction, petrochemicals, finance, and refining. In terms of origin, West Asian countries account for 29% of FDI stock, the European Union for 27%, North America for 17%, and South, East, and Southeast Asia for 10%. The leading investing countries are the United States, Kuwait, France, Japan, and the United Arab Emirates. Analysis confirms that FDI is a crucial factor in Saudi Arabia's economic growth. The positive regression equation, derived from OECD and World Bank data, validates the hypothesis that FDI significantly influences GDP. By treating FDI as an explanatory variable, we demonstrate its substantial role in driving economic development.

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