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A Study on Foreign Investment Law in Saudi Arabia: Benefits and Guarantees

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Abstract

Foreign Direct Investment is an essential component of most economies, given its impact on both GDP and the industries in which it is employed. As a component of its Saudi Vision 2030 programme, Saudi Arabia is seeking to reinvigorate foreign investment by engaging in a number of different legal reforms. This article seeks to examine these reforms in three ways: by considering the current legal approach and that which has gone before, by identifying the privileges and guarantees afforded to foreign investors under the law, and by examining the ways in which foreign investment is likely to impact on Saudi Arabia's economic development in coming years. Particular emphasis is placed on the removal of joint venture requirements for foreign investors and the creation of new investment opportunities as industries are opened up to foreign investment. It is noted that ready transfer of capital in and out of the country is now permitted, that guarantees of legal parity between foreign and domestic businesses are provided, and that foreign investors now have access to a variety of dedicated investment openings, especially in novel Special Economic Zones. It is found that foreign investment is often associated with GDP benefits if paired with sufficient measures to capture incoming capital and that knowledge, skills and technology transfer is likely to be enabled by 'Saudization' requirements that a certain percentage of domestic workers be employed. Further, it is found that changes to the law will likely facilitate instances of commercial diplomacy and will aid in efforts to diversify the previously oil-centric economy of the Kingdom.

Keywords: *Foreign investment law, Saudi Arabia, benefits and guarantees.*

1. INTRODUCTION

Foreign direct investment (FDI) is no small matter. To the contrary, some three-quarters of a trillion dollars flow between countries each year (OECD, 2023a). With this amount of capital on offer, it is simple to see why FDI is the concern of most, if not all, nations. Besides the obvious economic impact on GDP and employment by investments totalling billions, the FDI phenomenon is associated with a plethora of other benefits: knowledge, skills and technology transfers, cultural exchange, and regional development (Denisa, 2010, p.104). However, these benefits give rise to stiff competition. There is only so much investment on offer, and therefore nations must find a way in which to attract foreign investors.

One such nation taking part in the FDI competition is Saudi Arabia. Whilst the Kingdom exhibits a substantially strong economy – it is a G20 member and the fastest growing one at that – its performance in terms of FDI is a little less certain (IMF, 2023). Although the

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country has been broadly successful in achieving substantial inflows of FDI, its performance has not been consistent. If FDI inflows are compared with GDP over the past 20 years (as a measure of FDI's size relative to the overall economy), highs of 8.5% can be seen versus lows of -0.3% (World Bank, 2023). In the past five years, inflows have hovered around 1.7% versus a 20-year average of 2.5% (ibid.), indicating that whilst investment is not absent, it is not booming either. It is likely for this reason that Saudi Arabia has recently embarked on new projects aimed at increasing FDI as part of the Saudi Vision 2030 programme (Tounesi, Hammad, 2022). Indeed, the stated goal of the government is to raise the FDI contribution to GDP to 5.7% by 2030, in addition to increasing economic diversity (Vision 2030, 2023). In order to achieve these goals, particular focus has been placed reforms of foreign investment law. Certain questions then naturally arise regarding the approach of the Kingdom towards FDI. This study aims to analyse the reforms related to foreign investment by studying the current legal approach and considering the historical context. It aims to identify the privileges and guarantees that the law provides to foreign investors and assess the potential impact of foreign investment on the economic development of Saudi Arabia in the years ahead.

1.1 RESEARCH QUESTIONS

1. What are the laws governing foreign investment in Saudi Arabia and how have they changed in recent years?

2. What are the likely effects of these laws on foreign investment in the country? What are the benefits of renewed foreign investment likely to be?

3. Are any challenges likely to arise in their implementation?

1.2 RESEARCH OBJECTIVES

The research objectives are as follows:

1. To analyze the reforms related to foreign investment by studying the current legal approach and considering the historical context. The article

2. To identify the privileges and guarantees the law affords foreign investors.

3. To examine the potential impact of foreign investment on Saudi Arabia's economic development in the upcoming years.

1.3 RESEARCH SIGNIFICANCE

Foreign Direct Investment is an essential component of most economies, given its impact on both GDP and the industries in which it is employed. As a component of its Saudi Vision 2030 programme, Saudi Arabia is seeking to reinvigorate foreign investment by engaging in a number of different legal reforms.

2. LITERATURE REVIEW

2.1 THE NATURE OF FOREIGN INVESMENR LAW IN SAUDI ARABIA

2.1.1 Development of the foreign investment law

Although Saudi Arabia has certainly redeveloped and liberalised its law on foreign investment in recent years, this process is not an entirely novel phenomenon. It is then worth placing the current legal regime in context. Indeed, it is evident that the Kingdom has had similar objectives for several decades: increasing foreign investment and diversifying the economy away from reliance on the oil and gas industry (Eissa, Elgammal, 2019, p.36). The first Foreign Investment Law can be seen in 1956, followed by an update in 1963 and a more comprehensive approach with the 1979 Foreign Capital Investment Code (Abdel-Rahman, 2002, p.6). This latter law sought to emphasise joint venture investment, incentivising outside parties to invest with companies already based in Saudi Arabia – often through the offer of generous tax exemptions for a period of time (Weber, 1990, p.824). A step away from the joint venture system and towards a more recognisable, contemporary approach then arose in the form of the 2000 Foreign Investment Law (FIL). This involved an increase in the variety of industries which were available to foreign investors and a relaxation of the rules on foreign ownership, and rules on dispute resolution, taxation and the protection of assets (Alhagas, Alhenaki, 2023, p.4).

Although the 2000 law remains the currently applicable legislation, it is apparent that the Kingdom has engaged in a number of legal reforms in recent years (known collectively as the National Investment Strategy) in order to facilitate FDI (Tounesi, Hammad, 2022). As well as liberalising the overall approach towards FDI (detailed more fully below), these reforms also include the creation of a Saudi Investment Promotion Authority (SIPA) to work alongside the existing Ministry for Investment in Saudi Arabia (MISA), an increase in efforts to comply with international commercial law, and the creation of Special Economic Zones (SEZ) in specific areas of Saudi Arabia, characterised by tax and custom incentives (often different across different SEZs) in order to motivate investment in certain targeted industries (Dettoni, 2023). Similar changes can also be seen in FDI adjacent institutions, laws and procedures. For example, recent changes by the Saudi Capital Market Authority have liberalised the approach towards foreign investment in securities, allowing for easier purchase of Saudi securities and greater total ownership stakes (CMA, 2023). Further, the Kingdom has recently updated its approaches towards dispute resolution by introducing the Saudi Centre for Commercial Arbitration, bringing the country more into line with international practices (ESFCSO, 2023). To this list should also be added increased efforts to combat issues around intellectual property rights with the creation of the Saudi Authority for Intellectual Property.

It is therefore apparent that whilst the Kingdom is undergoing substantial changes in the way in which it regulates FDI, alongside other aspects of its regulations, in order to maximise incoming investment. In terms of the law itself, the country has broadly maintained the approach taken from the year 2000 onwards, although this has been updated several times in recent years. With the context of the current approach described, specific characteristics of the law can now be drawn out.

2.1.2 THE 2000 FOREIGN INVESTMENT LAW (AS AMENDED)

The foremost characteristic of the FIL is that it is a license-based system. Under Article 2 FIL, a license must be granted by MISA before investment activity can occur. Additionally, these licenses will be constrained to a particular activity or industry, although Article 4 provides that multiple licenses can be granted to the same entity, subject to requirements. Whilst licensing requirements are not unique to Saudi Arabia, it should still be noted that the licensing requirement is still relatively onerous when compared to its peers. It is common to have licensing requirements or certain reserved or nationally important industries (Beighton, Adkins, 2023), but requiring a license for each investment activity remains restrictive. That said, it is MISA which has a duty to act on any application it receives within a month, else the license will be automatically granted, perhaps indicating a more liberal approach than it might first appear.

It should still be noted, however, that Article 3 provides for the creation of a ‘negative list’ – activities for which no license will be granted, or else that licenses will only be granted in very specific circumstances. Again, it is not unusual for investment to be restricted in certain areas, but certain eccentricities of the negative list in Saudi Arabia bear noting. Investments in fisheries and a variety of medical services are prohibited outside of certain exceptions, and investments in oil and gas production are tightly controlled (although this is hardly surprising, given the importance of the industry to the Kingdom’s economy and a desire to control production). Property investments in the two holy cities – Makkah and Medina – are also restricted, as are investments in religious tourism (ESFCSO, 2023).

As noted in the section above, there is no longer a requirement for a joint venture approach towards investment. Article 5 dictates that both joint and purely foreign-owned firms are acceptable, although the availability of pure foreign ownership varies depending on the industry in question (Antaki, 2023). Article 5 should also be read in the context of rules dictating that, depending on the size of the company in question, a certain level of Saudi participation in a firm's workforce is required (Halwani, Farsi, 2023). Importantly, Article 6 provides for parity between foreign and domestic projects, asserting that they will both enjoy the same privileges, incentives and guarantees under the law, although this should be read alongside the provisions described above for SEZs, indicating that foreign investors might be able to enjoy more favourable treatment in certain circumstances. Free flow of capital is also provided for under the law. Article 7 provides protection for the repatriation of equity and profits – that is, capital can be freely brought in and removed from the country. Article 11 indicates that confiscation without due process will not occur, and similarly, that expropriation cannot take place without fair compensation, protecting the assets of investors.

It is then evident that the 2000 FIL has moved away from the more protective and restrictive approaches which were preferred prior to its implementation. This is more so the case when the successive amendments to the FIL are taken into account, which have substantially liberalised the foreign investment environment, especially in the last decade or so. Of course, the FIL is not the limit of the laws which apply to potential investors. As in any other jurisdiction, investors must also keep abreast of a wide variety of laws, such as those which govern commercial operations, employment and those which regulate the industry in which the investor is operating. More atypical is the overarching application of sharia law to commercial activities undertaken in Saudi Arabia. As a result, certain peculiarities can emerge in the context of FDI which might not be expected by external investors. For instance, principles against the charging of interest and the award of consequential damages can impact recovery in the case of commercial dispute. At the same time, there have been moves to harmonise the law with international standards. Thus, in the case of international commercial arbitration (as opposed to domestic arbitration), the Saudi courts will now enforce settlement agreements in full, including awards which would not be made domestically (ESFCSO, 2023). Some level of hybridisation is therefore apparent, even if sharia remains applicable in a domestic context.

It can therefore be concluded, at this early venture, that Saudi Arabia has engaged in substantial modernisation of its laws in recent years. The 2000 FIL, as amended, facilitates FDI to a far greater extent than it did in the past. It is now possible to ask which aspects of the law are particularly beneficial.

3. METHODOLOGIES

This article seeks to examine the reforms related to foreign investment in three ways: by considering the current legal approach and that which has gone before, by identifying the privileges and guarantees afforded to foreign investors under the law, and by examining the ways in which foreign investment is likely to impact on Saudi Arabia's economic development in coming years. Particular emphasis is placed on the removal of joint venture requirements for foreign investors and the creation of new investment opportunities as industries are opened up to foreign investment.

4. RESULT AND DISUCCSION

4.1 PRIVILEGES AND GUARANTEES UNDER THE SAUDI ARABIAN FOREIGN INVESMENT LAW

With the basic nature of the law laid out, the privileges and guarantees afforded to firms engaging in FDI can now be considered. These can be placed into three categories: guarantees of an open investment environment, guarantees of equal treatment of foreign investments, and privileges provided to those engaging in FDI.

4.1.1 GUARANTEEN OF INVESMENT ACCESS

First, it is evident that the current approach is a substantial step forward from previous approaches towards FDI in the Kingdom. Previous systems have tended to prioritise economic and cultural control at the cost of limiting FDI and therefore growth. This was evidently the case before the 1950s given the lack of laws facilitating FDI, but the same can be said of the 1979 FIL, given the mandatory nature of joint venture investment. Indeed, a restrictive approach can even still be identified in the wake of the 2000 FIL: whilst the FIL certainly laid the groundwork for the modernised approach, it has only been in the last decade or so that the law has truly opened up to enable a freer flow of capital (Halwani, Farsi, 2023). In particular, the ability for organisations to invest without a domestic partner has brought the Saudi investment environment into line with that of many G20 nations (OECD, 2023b). As a result, potential investors no longer need to scout for an appropriate domestic partner, and nor do they need to concern themselves with the issues that can arise from not having a controlling stake in an organisation. Approaching the matter from the perspective of domestic parties, those who have investment opportunities in Saudi Arabia but cannot find a domestic investor can now more easily find capital abroad, and do not have to go to the effort of first establishing a domestic firm in order to partner with investors. Further, the shrinking of the negative list down to a select few areas opens up a number of previously unavailable industries to foreign investment. Indeed, the negative list is the shortest it has ever been, and prospective investors can now invest freely.

Both of these factors also help organisations to comply with the Kingdom's Anti-Concealment Law which have long prohibited the use of domestic shell companies as a means to hide foreign investment in the country. Because most investment activities are now permitted, organisations will not have to worry, knowingly or otherwise, that they are engaging in a prohibited activity – assuming that they are not interacting with a negative list industry.

4.1.2 GUARANTEES OF PARITY

Second, the guarantee of equal treatment between foreign businesses and domestic businesses under Article 6 of the law clearly facilitates FDI. Organisations seeking to invest can do so on the basis that they will be competing on an even playing field, and that they will be treated as any other organisation might be. This has long been expected of countries hoping to engage in multilateral trade, and is a feature which can be found across more than one international trade treaty (Yannaca-Small, 2004, p.3). In turn, such a provision is likely to facilitate the drafting of bilateral trade treaties – rather than having to guarantee equal treatment for each nation independently, it will now be a given that parity will exist.

In a similar vein, Articles 7 and 11 guarantee protection of investors from extrajudicial expropriation, and allow for capital to freely flow from the country as well as into it. One of the major obstacles facing potential foreign investors is the threat that once funds are introduced to a country, that they will be either locked in place or simply acquired wholesale by the state (Kawharu, 2011, p.341). Both occurrences are clearly bad for business: transnational organisations will, for obvious reasons, wish to draw profit from time to time, and no business would invest in a country should its assets simply be acquired without compensation. For this reason, organisations scouting investment opportunities will look for guarantees that their assets will remain their own, and such guarantees are now in place under the FIL. As with the guarantee of parity, guarantees against expropriation are also an expected standard under many international trade treaties (ibid.), and again, the provision of such guarantees also facilitates the drafting of bilateral trade agreements.

4.1.3 PRIVILEGES FOR FOREIGN INVESTORS

Third, it is apparent that beyond guarantees of an open investment environment and fair treatment, that certain privileges will now be afforded to investors, especially those who opt to operate within an SEZ. As noted above, the exact nature of these privileges will depend on the particular SEZ that investment occurs in, but broadly, offers include low corporation tax, low withholding tax, low custom duties, low utility prices and a relaxation of the need to employ a certain percentage of Saudi employees for a number of years (UNCTAD, 2023). To these SEZs should be added the Investment Law Business Regulations Zone created in Riyadh, which offers a 50-year exemption from both VAT and customs duties, and reductions on a variety of other taxes (Hammad, 2023). Furthermore, the state will provide a number of faculties to those engaging in FDI. These include employment support programmes when locals are employed (a clear benefit to those meeting the Saudi employment quotas), financing facilities, and other incentive programmes (ESFCSO, 2023).

Additionally, whilst not aimed directly at foreign investors and therefore not a privilege per se, it is also apparent that changes have been made to ease the introduction of foreign enterprises into the Kingdom. For instance, efforts have been made to bring Saudi data protection regulations into line with international practices, a new E-Commerce Law has been introduced, as has a cloud computing regulatory framework (ibid.). Existing regulatory authorities have been combined and streamlined so as to minimise the bureaucratic burden placed on those interacting with the perhaps unfamiliar Saudi environment (World Trade Organisation, 2021, p.7). Alongside renovated regulatory approaches, a variety of privatisation opportunities have been offered in recent years, meaning that prospective investors not only enjoy the benefits of a smaller negative list, but also access to industries which were previously off limits to any investor, whether foreign or domestic. Further, alongside the SEZs which directly target foreign investment, a variety of development projects are currently occurring, including the building of new commercial centres, transportation infrastructure, mining hubs and science parks (ESFCSO, 2023.). Other efforts have also been made to provide a more amenable environment for foreigners seeking to conduct business in the Kingdom. New tourism visas have been introduced, as have easily obtainable 96-hour stopover visas, and previous religious requirements – like the need for proof of marriage or familial relationship before hotel rooms can be shared (ibid.).

A multifaceted approach towards the promotion of investment is then apparent. Changes made to the FIL provide a guarantee of access to investment opportunities which were previously not available. Guarantees of equal treatment allow foreign investors to interact with the economy without fearing that they will be subject to discriminatory legal practices, which has the further effect of facilitating the creation of bilateral trade treaties. Finally, it is also evident that those looking to engage in FDI activities have open to them a number of novel opportunities, including the privileged ability to invest in SEZs and other areas which offer favourable terms to investors. Past this, changes to regulation can also be seen which make the Saudi environment more amendable to investors. With the nature of the law and its impacts described, the potential effects of FDI on development can now be considered.

4.2 FOREIGN INVESTMENT AND THE ADVANCEMENT OF DEVELOPMENT AND INTEGRATION

It has long been clear that foreign investment has been associated with the advancement of development. Less clear, however, is the exact mechanism which enables this process to occur (Narula, Driffield, 2012, p.1). Care should also be taken to not assume that correlation implies causation – that is, that FDI is always a driver of development rather than simply being something which often occurs at the same time as development as the result of emerging opportunities (ibid., p.2.). This said, Saudi Arabia provides a particular interesting context in which to examine the potential impact of FDI on development. It is in many ways already well-developed as the result of its large economy, clearly driven largely by a strong and historically important oil and gas industry. At the same time, it has long been semi-isolationist in its practices and so might be considered behind-the-curve in certain ways, and has an ever-increasing need to engage in economic diversification given challenges facing the aforementioned oil and gas industry.

4.2.1 THE FINANCIAL IMPACT OF FDI

Before discussing more nuanced aspects of FDI and development, its headline impact must first be considered: the fact that it involves the transfer of substantial sums of money into the domestic economy. This is then an obvious driver of development. Businesses are created and their profits might then be taxed. Those businesses will have need of local resources – they will need real estate, equipment, services and utilities. Jobs are created which generate income, which can be taxed at its source and then once again when that money is spent, and so on and so forth. Broadly, this can be described as a 'spillover' effect – capital is not just directed precisely into the target of FDI, but instead is applied more widely to the target economy (Alfaro, Kalemli-Ozcan, Sayek, 2009, p.111).

At the same time, it should be kept in mind that economic inflows will also be associated with a certain level of outflow, especially in the long term. This has often been the case in countries which exhibit substantial primary resources, but which lack the developed economies needed to capitalise upon them. In other words, FDI occurs, but profits are largely externalised and removed back to the country in which the investor's headquarters are located (Clausing, 2018, p.43). The factor which prevents this from occurring can be described as the 'absorption rate' of the target economy – its ability to hold both investment capital and then the profits generated by the investment (Alfaro, Kalemli-Ozcan, Sayek, 2009, p.117).

The key question is then whether Saudi Arabia is likely to showcase a favourably high absorption rate in relation to FDI, especially given recent changes to its laws and regulations. Although it is relatively early to draw definitive conclusions, it can still be asserted that Saudi Arabia does not exhibit the characteristics associated with a low absorption rate. It has already made great efforts to individually capitalise on its main resource - oil reserves - and indeed, this is one of the few industries to which the Kingdom still applies protectionist approaches, given the prohibition on FDI in much of the industry. It is then arguably at a low risk of being directly exploited by foreign investors. With regard to other industries, policies exist which will likely aid in absorption. The need to employ a certain proportion of Saudi staff – known as 'Saudization' – is designed to ensure that spillover will occur both in terms of employment and wages, which will be both held and spent domestically (Al-Dosary, Rahman, 2005, p.496). Additionally, corporation taxes exist which design to capture FDI – sitting at around 20% for most industries (Elbakheit, 2023). That said, this remains below the global average (Enache, 2022), and should be read in the context of the variety of tax breaks which are available to those investing in certain industries and areas, such as the SEZs.

Thus, whilst there are measures in place to provide for absorption, these are not particularly heavy-handed. However, it might be asserted that the Kingdom is, at present, currently concerned with maximising new investment rather than maximising capture and absorption, with mind to potentially taking a more proactive approach towards taxation in coming decades, as indicated by broader economic conditions.

4.2.2 KNOWLEDGE, SKILLS, AND TECHNOLOGY TRANSFER

In addition to directly transferring funds from one jurisdiction to another, it can also be posited that FDI aids in the transfer of knowledge, skills and technology between countries (Duarte et al., 2014, p.14). It is simple to see how this occurs. It is rare that organisations will engage in FDI in a 'pure' sense: they will not just purchase a local business and leave it to operate as is. Instead, they will either set up a new business and import their own employees and experts to help it succeed, or else will take an existing organisation and seek to improve and modernise it, again by importing staff and with them, new approaches towards business. The same can be said of technology: there is an obvious incentive for an entity engaging in FDI to bring in new technology in order to improve existing processes and make them more efficient. This then bleeds over in a number of different ways. First, employees can and do move between organisations, and bring with them the things that they have learned (Burinskas, 2021, p.34). Therefore, even if an organisation engages in FDI and then leaves in short order for whatever reason, it is likely to leave behind employees who can bring new practices other businesses. Second, the competition which arises from FDI can also help drive transfer. Domestic organisations will find themselves competing with FDI-driven organisations, and will therefore have to update their own practices and technology in order to remain competitive (Sinani, Meyer, 2004, p.445). This process will itself be driven by the first transfer process described above: domestic firms will either directly headhunt employees from leading organisations, or else will incidentally employ them as times go on. Such employees will bring with them knowledge which allows domestic firms to remain competitive (ibid.).

In the case of Saudi Arabia, questions must also be asked of its ability to capitalise on these types of transfer. The concept of Saudization is clearly a positive when it comes to the retention of knowledge, skills and technology from FDI-driven firms – an organisation which is mandated to employ locals is one which will leave behind its advancements if or when it leaves. Further, employees drawn from local pools will likely exhibit a higher level of organisational mobility than those who have been parachuted in, further aiding in transfer (Fosfuri, Motta, Ronde, 1998, p.4). At the same time, knowledge and skills absorption is driven, to a certain extent, by the nature of the workforce that is present. In an ideal situation, a highly educated, highly employed workforce will find itself more readily employed by FDI-driven firms and will also be best placed to engage in transfer when employed elsewhere (ibid.). Although there has certainly been progress in this area in recent years, it is still evident that educational enrolment, especially at higher levels, is relatively low (OECD, 2023c). This might then form an obstacle to maximising transferral of knowledge and skills, especially if a lack of technically skilled workers means that Saudization is limited to non-technical roles within FDI-led organisations.

4.3 COMMERCIAL DIPLOMACY AND GLOBAL INTEGRATION

FDI also provides a rich opportunity for forms of commercial diplomacy – the idea that beside being a matter of mere financial exchange, that trade can provide an opportunity for different territories to interact and engage in cultural exchange (Okano-Heijmans, 2011, p.8.). This can arise in more than one different way. First, it is obvious to state that countries which interact in mutually beneficial ways – as with trade – have an incentive to foster good relations with one another. Informally, nations which consistently interact with each other are simply less likely to become mutually antagonistic, and formally, agreements like bilateral trade treaties provide an incentive to maintain an amicable trading environment (Saner, Yiu, 2003, p.10). Even indirectly, nations which engage heavily in international trade have an incentive to ensure that peaceful relations occur on a worldwide basis – war in a neighbouring region is rarely good for business.

Second, as with the processes of knowledge, skills and technological exchange described above, trade provides an opportunity for cultural and social exchange. It has long been accepted that trade provides a key means of exchange between two differing societies (Berridge, 2015, p.210). This was the case during the era of the Silk Road, and it is arguably just as much the case today. Individuals rarely have an immediate incentive to interact with others outside of their own territory, but trade can often provide that incentive. Those who directly take part in international trade will obviously be interacting with those outside of their usual sphere and therefore engaging in acts of social and cultural exchange, and even indirectly, products which move across borders will often give rise to subtler forms of exchange (Pigman, 2016, p.18). FDI then feeds into this phenomenon. By definition, it involves some level of cross-border integration, since funds are moved from one territory to another, and further, FDI rarely occurs without the presence of other sorts of exchange. Instead, as discussed above, it is often paired with the movement of personnel across borders to work within the target of investment.

In the context of Saudi Arabia itself, the phenomenon of economic diplomacy is certainly not alien – its current geopolitical position is the result of decades of trade largely driven by the oil industry. However, this is largely an export-heavy industry and so opportunities for exchange have perhaps been limited. Increasing inflows of FDI then provides a clear opportunity for higher levels of commercial integration to occur between the Kingdom and other nations. It should also be remembered that the current goal is not just to promote FDI in general, but also to promote a diversification in the types of FDI which occur by removing obstacles and providing new opportunities. This then indicates that opportunities for exchange and integration will also be diverse – limited not just to a few industries, but many. Indeed, steps have arguably already been taken to enable cultural exchange, through the creation of more outsider-friendly policies and the creation of resorts aimed at those investing in SEZs and beyond (Hulak et al., 2023).

5. DIVERSIFICATION

Finally, it can be posited that inflows of FDI will help the Kingdom deal with one of its main economic vulnerabilities: a lack of diversification. As has been noted several times above, the Saudi Arabian economy has long been dominated by the oil industry. Whilst this has been a boon for development in the past, it is clear that the industry is facing significant headwinds. Efforts to minimise fossil fuel use and move to green energy technologies will likely diminish demand in coming decades, and it is a simple fact that oil reserves are not infinite. As a result, Saudi Arabia has a clear motivation to direct income from its oil industries into other areas of the economy – sooner rather than later.

FDI then provides an important means of diversifying the Saudi economy in more than one way. First, FDI-led development has the advantage that it does not rely on domestic resources, whether from the state or domestic investors. Whilst there will be benefits to using local resources to fund local development, especially from an income-capture perspective (as discussed at the top of this section), such resources are not infinite. FDI can then accelerate economic diversification and growth beyond that which might ordinarily be achieved (Mickiewicz, Radosevic, Varblane, 2000, p.13). Second, it allows for diversification to occur in an ‘inorganic’ manner. Expertise which has been cultivated over decades elsewhere might be imported on a far shorter timeline and put to work, bringing rapid development (ibid.). This will especially be the case where the Saudi government has just recently opened up industries to FDI. These new opportunities will likely attract a rush of FDI as investors seek to be the first to break ground on new projects, especially in industries which are associated with attractive investment incentives, like the SEZs.

It can then be asserted that attracting new FDI will be key to advancing Saudi Arabia's development in the near future. FDI will clearly have a beneficial impact on economic growth, assuming economic capture mechanisms are sufficiently well-tuned. Knowledge, skills and technology transfers will occur, aided by Saudization policies. With FDI will come cultural and social exchanges in both directions, as has long been the case. Finally, FDI will bring sorely needed diversification to the Saudi economy, providing greater stability in coming decades.

6. CONCLUSION

The findings have provided insight into investment and its benefits to GDP if paired with sufficient measures to capture incoming capital. In final summary, this article has examined Saudi Arabian FDI policy in three main ways. First, the nature of the FDI law in Saudi Arabia has been outlined. It has been found that the current step has been the latest in a line of policies which have slowly opened up the Kingdom to international investment. Although a licensing system remains in place, there have been changes to the rules requiring that FDI involves a joint venture, substantially easing the investment process. Further, rules dictating parity of treatment and protecting the ability to freely repatriate profits can be identified. Additionally, a variety of other measures have been provided to ease the FDI process, such as changes to the way in which international arbitration awards are enforced.

Second, a number of specific privileges and guarantees under the Saudi Arabian law on FDI are apparent. The opening up of FDI processes is itself a benefit which was previously unavailable to outside investors, especially through the relaxation of the rules on the joint venture requirement. A further guarantee of parity can be identified within the current law, providing FDI-led firms with the assurance that they will be treated equally under the broader law. The ability to freely move capital also ensures that investments can be withdrawn as easily as they might be made. Additional privileges can also be seen through the creation of the SEZs and similar investment projects in places like Riyadh, the removal of much of the negative list in recent years, and wider efforts to render the Kingdom more investor-friendly than it has been in previous decades.

Third, the impact of investment on the development of Saudi Arabia and its integration into the wider world has been charted. The financial impact of FDI is clearly beneficial. Not only does it provide for direct growth in the firms which are the targets of investment, but a further 'spillover' effect can be seen when capital filters into the wider economy. Further revenue capture is also apparent via the Kingdom's tax system. Another benefit of knowledge, skills and technology transfer. As employees move between FDI-led organisations and domestically-led organisations, they bring with them new experience. A similar effect can be seen due to the impact of renewed competition between organisations. Saudization policies will help to augment this effect. Yet another benefit to FDI can be seen in the form of commercial diplomacy. With greater economic interaction comes greater social and cultural exchange.

The Kingdom of Saudi Arabia aims to achieve much-needed diversification in its economy through foreign investment and to increase its global integration. This, in turn, allows the country's economy to become more resilient and adaptable to the challenges of the 21st century. Finally, the benefits of economic diversification will surely aid in the Kingdom's development in coming years as it seeks to move away from an oil-based economy towards on typified by a wide range of industries. In final conclusion, Saudi Arabia has a clear objective: the maximisation of FDI inflow, as declared as part of the Saudi Vision 2030 programme. Whether it will meet its exact targets is a matter for the future, but it can be stated at this early venture that it has reformed its laws and policies so that they are more welcoming to foreign investors, who will then enjoy a variety of benefits as a result - both tangible and intangible in nature. It is through this investment that the Kingdom will see much desired diversification within its economy and open itself up to greater global integration. In turn, this will help render its economy to be more robust and adaptable to the challenges of the 21st Century, as it unfolds.

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