

The Implementation of Foreign Investment Law in Saudi Arabia

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Abstract

This research paper explores the implementation of Saudi Arabia's Foreign Investment Law and its impact on businesses and individuals. It examines the country's efforts to develop its economy through domestic and foreign investment in line with Vision 2030 and analyzes the law's effects on the Saudi Arabian market. The paper also considers the impact of foreign investment on individuals and the implementation of corporate income tax laws. Finally, the government's investment, particularly the Public Investment Fund (PIF), is discussed. The research shows that the Foreign Investment Law has facilitated foreign investment in the country, creating new opportunities for businesses and individuals. Although there are still challenges to be addressed, the study concludes that the law and the government's commitment to economic development provide a favorable environment for foreign investment, benefiting both businesses and individuals. The PIF is key in driving the country's economic development and diversification efforts.

Key Words: *Foreign investment, Vision 2030, Saudi Arabia, Business, Economy*

1. Introduction

Foreign investment has become a significant economic growth and development driver in many countries worldwide. As a result, many governments have introduced policies and regulations to attract foreign investment and improve their countries' investment climate. Saudi Arabia, the largest economy in the Middle East and North Africa (MENA) region, has recognized the importance of foreign investment in achieving its economic goals.¹ Recently, the country has

¹ Allmnakrah, A., & Evers, C. (2020). The need for a fundamental shift in the Saudi education system: Implementing the Saudi Arabian economic vision 2030. *Research in Education*, 106(1), 22-40.

launched several initiatives to diversify its economy and reduce its dependence on oil revenues, including the ambitious Vision 2030 plan.² This plan sets out a comprehensive roadmap for the country's economic development, which includes increasing foreign investment in key sectors such as tourism, infrastructure, and technology. The government of Saudi Arabia has implemented various measures to attract foreign investment, including streamlining the process of setting up businesses in the country and providing tax incentives and subsidies to foreign investors. In 2000, the government introduced the Foreign Investment Law which has since been revised to provide more incentives and protections for foreign investors.³ The law aims to create a more transparent and predictable legal framework for foreign investment in the country and remove entry barriers for foreign investors.⁴ The implementation of the Foreign Investment Law in Saudi Arabia has had a significant impact on businesses and individuals in the country. This paper explores the law's effects on the Saudi market, including its impact on local businesses, the benefits and challenges of foreign investment for individuals, and the impact of government investment on foreign investment. By examining these issues, we hope to shed light on the broader economic and social implications of the Foreign Investment Law for Saudi Arabia and to provide insights into how the law can be further improved to promote greater investment and economic growth in the country.

https://scholar.google.com/scholar?output=instlink&q=info:QKGkY-H6TpQJ:scholar.google.com/&hl=en&as_sdt=0,5&as_ylo=2019&scillfp=15905587687469416015&oi=lle

² Grand, S., & Wolff, K. (2020). Assessing Saudi Vision 2030: A 2020 Review. *Atlantic Council*, p. 17. <https://d8-engineering.kku.edu.sa/sites/d8-engineering.kku.edu.sa/files/2021-06/Assessing-Saudi-Vision-2030-A-2020-review.pdf>

³ Ali, H. M. (2019). Saudi Arabia regulations on corporate governance. *International Journal of Asian Social Science*, 9(2), 229–239. <https://archive.aessweb.com/index.php/5007/article/download/3112/4830>

⁴ Al-Adeem, K. R., & Al-Khonain, S. (2020). Corporate Governance and Financial Reporting Quality Preliminary Evidence from Saudi Arabia. *Financial Markets, Institutions and Risks*, 4(1). https://essuir.sumdu.edu.ua/bitstream/123456789/77492/1/Al-Khonain_Corporate_Governance.pdf

2. General Definitions of Terms:

The Saudi Arabian economy is becoming more and more dependent on foreign investment. The Saudi Arabian government has been aggressively promoting foreign investment in recent years to diversify the nation's economy and reduce its dependency on oil. The nation's legal and regulatory system has undergone major modifications that have made it more appealing to international investors. Given the nation's distinct legal system and cultural traditions, investing in Saudi Arabia still poses difficulties for outsiders. Any foreign investor wishing to invest in Saudi Arabia and navigate the legal system must be familiar with the country's legal system.

2.1.Foreign Investment

Foreign investment is any investment made by a foreign entity or individual in another country's economy.⁵ This can include investment in stocks, bonds, real estate, or businesses. Foreign investment aims to gain access to new markets, technologies, and resources and achieve greater profits and returns on investment.⁶ Foreign investment can take many forms, including direct investment, portfolio investment, and cross-border mergers and acquisitions. Direct investment involves a foreign investor acquiring a controlling interest in a local company or setting up a new business in the host country.⁷ Portfolio investment involves the purchase of shares or

⁵ Fons-Rosen, C., Kalemli-Ozcan, S., Sørensen, B. E., Villegas-Sanchez, C., & Volosovych, V. (2021). Quantifying productivity gains from foreign investment. *Journal of International Economics*, 131, 103456. https://www.nber.org/system/files/working_papers/w18920/w18920.pdf

⁶ Ibid

⁷ Haudi, H., Wijoyo, H., & Cahyono, Y. (2020). Analysis of Most Influential Factors to Attract Foreign Direct Investment. *Journal of Critical Reviews*, 7(13). https://www.researchgate.net/profile/Hadion-Wijoyo/publication/344327360_ANALYSIS_OF_MOST_INFLUENTIAL_FACTORS_TO_ATTRACT_FOREIGN_DIRECT_INVESTMENT/links/5f68658d92851c14bc8bd6f2/ANALYSIS-OF-MOST-INFLUENTIAL-FACTORS-TO-ATTRACT-FOREIGN-DIRECT-INVESTMENT.pdf

other securities in local companies or government bonds.⁸ Cross-border mergers and acquisitions involve acquiring one or more companies in the host country by a foreign investor.

2.2.Saudi Arabia Law

Saudi Arabia has a civil law system based on Islamic law, known as Shariah law. The country's legal system combines Islamic law, customary law, and modern legal codes.⁹ The country's legal framework is overseen by the Ministry of Justice, which is responsible for drafting and implementing laws and regulations. The legal system in Saudi Arabia is divided into two main categories: Islamic law and secular law. Islamic law governs personal matters such as marriage, divorce, and inheritance, while secular law governs commercial and criminal matters. The legal system in Saudi Arabia is also heavily influenced by the country's cultural and religious traditions, which can make it challenging for foreign investors to navigate the legal landscape.

2.3.The Foreign Investment Law

The Foreign Investment Law in Saudi Arabia was first introduced in 2000 to attract foreign investment into the country. The law aims to create a more transparent and predictable legal framework for foreign investment in the country and remove entry barriers for foreign investors. Since its introduction, the law has been revised several times to provide more incentives and protections for foreign investors.¹⁰ The law includes provisions for establishing foreign-owned companies, protecting foreign investors' rights and assets, and resolving disputes between foreign investors and local businesses. The law also includes provisions for the taxation of foreign investors, including exemptions and reduced tax rates in certain circumstances. The Foreign

⁸ Nwafor, P. K. (2020). Foreign Portfolio Investment and Human Capital Development Evidence from Nigeria 1987-2019. *International Journal of Business & Law Research*, 8(3), 1-11. <http://seahipaj.org/journals-ci/sept-2020/IJBLR/full/IJBLR-S-1-2020.pdf>

⁹ Naushad, M. (2019). Intellectual capital and financial performance of Sharia-compliant banks in Saudi Arabia. *Banks and Bank Systems*, 14(4), 1. <https://pdfs.semanticscholar.org/1fd4/110b1a399bbce18549bd0e8bb8c0e4bcef26.pdf>

¹⁰ See supra note 3.

Investment Law has been instrumental in attracting foreign investment into the country and has helped to promote economic growth and development in Saudi Arabia.

3. Saudi Arabia's Effort in Developing Its Economy

Saudi Arabia is the largest economy in the Middle East, and the North African region is home to one of the world's largest oil reserves.¹¹ The country's economy has historically been heavily reliant on oil exports, which has led to significant fluctuations due to oil price changes. In recent years, however, the Saudi Arabian government has undertaken significant efforts to diversify the economy and reduce its dependence on oil exports¹². These efforts are part of the country's Vision 2030 plan, which aims to transform the country's economy and society by 2030. Vision 2030 was first introduced in 2016 by Crown Prince Mohammad bin Salman and is a comprehensive plan outlining the country's economic and social development goals over the next decade.¹³ The plan aims to diversify the economy, increase private sector investment, and create jobs for Saudi Arabian citizens.¹⁴ The plan is built around three pillars: a vibrant society, a thriving economy, and an ambitious nation.

4. Vibrant Society

The first pillar of Vision 2030 is a vibrant society, which aims to promote social cohesion and cultural development in Saudi Arabia.¹⁵ This pillar includes initiatives to improve the country's

¹¹ Kosach, G. G. (2019). Saudi Arabia: transformation of power and policy. *Mirovaia ekonomika i mezhdunarodnye otnosheniia*, 63(4), 59-67. <https://ras.jes.su/meimo/s013122270004762-9-1-en>

¹² Memish, Z. A., Altuwaijri, M. M., Almoeen, A. H., & Enani, S. M. (2021). The Saudi Data & Artificial Intelligence Authority (SDAIA) Vision: Leading the Kingdom's Journey toward Global Leadership. *Journal of Epidemiology and Global Health*, 11(2), 140. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8242113/>

¹³ Khashan, H. (2017). Saudi Arabia's Flawed" Vision 2030". *Middle East Quarterly*. <https://www.meforum.org/6397/saudi-arabia-flawed-vision-2030>

¹⁴ Habibi, N. (2019). Implementing saudi arabia's vision 2030: An interim balance sheet. *Middle East Brief*, 127, 1-9. <https://www.brandeis.edu/crown/publications/middle-east-briefs/pdfs/101-200/meb127.pdf>

¹⁵ Alshuwaikhat, H. M., & Mohammed, I. (2017). Sustainability matters in national development visions—Evidence from Saudi Arabia's Vision for 2030: *Sustainability*, 9(3), 408. <https://www.mdpi.com/2071-1050/9/3/408/pdf>

healthcare, education, and social services. One of the key initiatives under this pillar is the National Transformation Program (NTP), which aims to improve the quality of life for Saudi Arabian citizens by improving healthcare and education, creating jobs, and promoting social cohesion¹⁶.

4.1. Thriving Economy

The second pillar of Vision 2030 is a thriving economy, which aims to diversify the country's economy and increase private sector investment. The plan includes initiatives to attract foreign investment, develop the country's non-oil sectors, and improve the business environment in the country.¹⁷ One of the key initiatives under this pillar is the Saudi Arabian General Investment Authority (SAGIA), which promotes foreign investment in the country and supports foreign investors.¹⁸ The Saudi Arabian government has also launched several initiatives to support the development of non-oil sectors in the country. These include the National Industrial Development and Logistics Program (NIDLP), which aims to develop the country's manufacturing and logistics sectors, and the National Renewable Energy Program (NREP), which aims to develop the country's renewable energy sector.¹⁹

4.2. Ambitious Nation

The third pillar of Vision 2030 is an ambitious nation that aims to position Saudi Arabia as a leader in the region and the world. This pillar includes initiatives to promote innovation and

¹⁶ Muzafar, S., & Jhanjhi, N. Z. (2020). Success stories of ICT implementation in Saudi Arabia. In *Employing Recent Technologies for Improved Digital Governance* (pp. 151-163). IGI Global. https://expert.taylors.edu.my/file/remis/publication/109566_6554_1.pdf

¹⁷ Ożarowski, R. (2022). Mohammed Bin Salman's Rising to Power. Chances for Transition in Saudi Arabia?. *Przegląd Strategiczny*, 12(15), 157-168. <https://repozytorium.amu.edu.pl/bitstream/10593/27160/1/09-OZAROWSKI.pdf>

¹⁸ Foley, S. (2017). When oil is not enough: Sino-Saudi relations and Vision 2030. *Asian Journal of Middle Eastern and Islamic Studies*, 11(1), 107-120. <https://www.tandfonline.com/doi/pdf/10.1080/25765949.2017.12023296>

¹⁹ Tawfik, E. A., Tawfik, A. F., Alajmi, A. M., Badr, M. Y., Al-Jedai, A., Almozain, N. H., ... & Almalik, A. M. (2022). Localizing pharmaceuticals manufacturing and its impact on drug security in Saudi Arabia. *Saudi Pharmaceutical Journal*, 30(1), 28-38. <https://www.sciencedirect.com/science/article/pii/S1319016421002498>

entrepreneurship in the country and improve the country's infrastructure and tourism industry.²⁰ One of the key initiatives under this pillar is the Quality of Life Program, which aims to improve the country's cultural and entertainment offerings.

Attracting Foreign Investment

One of the key initiatives under the thriving economy pillar of Vision 2030 is to attract foreign investment into the country.²¹ The Saudi Arabian government has taken several steps to make the country more attractive to foreign investors.²² One of the most significant steps was the introduction of the Foreign Investment Law, which provides a more transparent and predictable legal framework for foreign investment in the country. The Foreign Investment Law allows foreign investors to own 100% of companies in certain sectors and protects foreign investors' rights and assets. The law also includes provisions for resolving disputes between foreign investors and local businesses and for the taxation of foreign investors.

In addition to the Foreign Investment Law, the Saudi Arabian government has launched several initiatives to support foreign investment. These include establishing the Saudi Arabian General Investment Authority (SAGIA), which provides support and guidance to foreign investors, and introducing the e-visa system, which makes it easier for foreigners to obtain visas to enter the country for business and tourism purposes. The e-visa system allows eligible citizens from over 80 countries to apply for visas online and receive them within minutes, eliminating the need for

²⁰ See supra note 15

²¹ Alshamrani, A. S. (2018). The merger of commercial companies in the Saudi Arabian Stock Exchange (Tadawul) and its impact on the rights of Foreign Direct Investment (FDI) in the Saudi system. *Academic Journal of Business*, 4(1). [https://www.tu.edu.sa/Attachments/577e1b6d-dd12-4579-8186-d727a477a969 .pdf](https://www.tu.edu.sa/Attachments/577e1b6d-dd12-4579-8186-d727a477a969.pdf)

²² Abuhjeeleh, M. (2019). Rethinking tourism in Saudi Arabia: Royal vision 2030 perspective. *African Journal of Hospitality, Tourism and Leisure*, 8(5), 1-16. https://www.ajhtl.com/uploads/7/1/6/3/7163688/article_37_vol_8_5_2019_jordan.pdf

physical paperwork and reducing the time and cost of obtaining a visa.²³ Moreover, the Saudi Arabian government has also launched several mega-projects to attract foreign investment and support the development of non-oil sectors in the country. One of the most significant projects is NEOM, a \$500 billion project to build a futuristic city northwest of the country.²⁴ The project aims to attract international businesses and investors to develop cutting-edge technologies and industries.

Another major project is the Red Sea Project, a \$10 billion project to develop a luxury tourism destination on the Red Sea coast.²⁵ The project aims to attract international tourists to the country and create jobs for Saudi Arabian citizens in the tourism and hospitality industries.²⁶ The Saudi Arabian government has also launched several initiatives to improve the business environment in the country and make it easier for foreign investors to do business. One of the key initiatives is the launch of the National Entrepreneurship Program, which provides support and funding for entrepreneurs and small businesses in the country.²⁷ The program aims to promote entrepreneurship and innovation and create jobs for Saudi Arabian citizens. Furthermore, the government has also introduced several reforms to improve the country's ranking in the World

²³ Amin, S. F., Saad, A. B., & Lajis, A. (2022). Technology Acceptance Factors for Implementing the E-Government Systems in Saudi Arabia. *Advances in Internet of Things*, 12(4), 125-141. <https://www.scirp.org/journal/paperinformation.aspx?paperid=120885>

²⁴ Farag, A. A. (2019). The story of NEOM city: Opportunities and challenges. *New Cities and Community Extensions in Egypt and the Middle East: Visions and Challenges*, pp. 35-49. https://www.academia.edu/download/65090853/Chapter_3_The_Story_of_NEOM_City.pdf

²⁵ Todman, W. (2018). The Gulf Scramble for Africa. *GCC states' foreign policy laboratory*. http://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/181120_Todman_Africa_layout_v3_0.pdf

²⁶ Chalastani, V. I., Manetos, P., Al-Suwailem, A. M., Hale, J. A., Vijayan, A. P., Pagano, J., ... & Duarte, C. M. (2020). Reconciling tourism development and conservation outcomes through marine spatial planning for a Saudi Giga-Project in the Red Sea (The Red Sea Project, Vision 2030). *Frontiers in Marine Science*, 7, 168. <https://www.frontiersin.org/articles/10.3389/fmars.2020.00168/full>

²⁷ Alwakid, W., Aparicio, S., & Urbano, D. (2020). Cultural antecedents of green entrepreneurship in Saudi Arabia: An institutional approach. *Sustainability*, 12(9), 3673. <https://www.mdpi.com/2071-1050/12/9/3673/pdf>

Bank's Ease of Doing Business report.²⁸ These include establishing a commercial court system to handle commercial disputes, simplifying procedures for registering property, and introducing online systems for paying taxes and obtaining permits.

5. Foreign Investment

Foreign investment has played a significant role in developing the Saudi Arabian economy. The country has been actively seeking foreign investment to help diversify its economy and reduce its dependence on oil revenues. The Foreign Investment Law has made it easier for foreign investors to invest in the country and created a favorable investment climate.

5.1.Foreign Investment Licensing Regulations

Foreign investment in Saudi Arabia is regulated by the Foreign Investment Law (FIL), which was first introduced in 2000 and has since undergone several amendments to encourage more foreign investment.²⁹ The FIL provides a legal framework for foreign investors to conduct business in the country, outlining the requirements for obtaining a license to invest in Saudi Arabia. To obtain a foreign investment license in Saudi Arabia, foreign investors must apply to the Saudi Arabian General Investment Authority (SAGIA), which promotes and regulates foreign investment. The application must include details about the proposed investment, the investor's financial status, and the expected impact on the Saudi Arabian economy. SAGIA assesses the application based on several criteria, including the investor's financial stability, the investor's experience and qualifications, the economic impact of the investment, and the potential to create jobs for Saudi

²⁸ Azolibe, C. B. (2021). Does foreign direct investment influence manufacturing sector growth in Middle East and North African region?. *International Trade, Politics and Development*, 5(1), 71-85. <https://www.emerald.com/insight/content/doi/10.1108/ITPD-04-2020-0010/full/html>

²⁹ Almutiri, A. F. H. (2020). Capital market liberalization: Effect of foreign investors on Saudi stock market performance. *Journal of Mathematical Finance*, 10(2), 267-286. <https://www.scirp.org/journal/paperinformation.aspx?paperid=100257>

Arabian citizens. Once SAGIA approves the application, the investor can establish a business in Saudi Arabia.³⁰ Foreign investors are also subject to other regulations, such as commercial and labor laws, which govern how businesses operate in the country. In addition, foreign investors must comply with the Saudi Arabian tax laws, which include corporate income tax, value-added tax, and withholding tax.³¹ It is worth noting that certain sectors, such as oil and gas, are subject to specific laws and regulations that may differ from the regulations governing other sectors. For example, foreign investors in the oil and gas sector must obtain a concession from the Saudi Arabian government to operate in the country.³² Overall, the foreign investment licensing regulations in Saudi Arabia aim to provide a clear and transparent process for foreign investors to establish and operate their businesses in the country while ensuring that these businesses contribute positively to the Saudi Arabian economy.

5.2. Effect on Individuals

Foreign investment in Saudi Arabia has significant implications for individuals, both Saudi Arabian citizens and foreign nationals. One of the key impacts of foreign investment is the potential to create jobs and improve the overall economic outlook of the country, which can lead to better employment opportunities for individuals.³³ Foreign investment can also transfer skills

³⁰ Albarrak, M. S., & Alokley, S. A. (2021). FinTech: Ecosystem, opportunities and challenges in Saudi Arabia. *Journal of Risk and Financial Management*, 14(10), 460. <https://www.mdpi.com/1911-8074/14/10/460/pdf>

³¹ Al-Faryan, M. A. S. (2019). Corporate governance in Saudi Arabia: An overview of its evolution and recent trends. *Al-Faryan, MAS (2020). Corporate governance in Saudi Arabia: An overview of its evolution and recent trends. Risk Governance and Control: Financial Markets & Institutions*, 10(1), 23-36. <https://www.econstor.eu/bitstream/10419/225997/1/Corporate-governance-in-Saudi-Arabia-An-overview-of-its-evolution-and-recent-trends.pdf>

³² Orlando, G., & Bace, E. (2021). Challenging times for insurance, banking and financial supervision in Saudi Arabia (KSA). *Administrative Sciences*, 11(3), 62. <https://www.mdpi.com/2076-3387/11/3/62/pdf>

³³ Bakr, S. A., & Napier, C. J. (2022). Adopting the international financial reporting standard for small and medium-sized entities in Saudi Arabia. *Journal of Economic and Administrative Sciences*, 38(1), 18-40. https://www.researchgate.net/profile/Sara-Bakr/publication/342297211_Adopting_the_international_financial_reporting_standard_for_small_and_medium-sized_entities_in_Saudi_Arabia/links/604afdcca6fdcc4d3e597e54/Adopting-the-international-financial-reporting-standard-for-small-and-medium-sized-entities-in-Saudi-Arabia

and knowledge to Saudi Arabian citizens, as foreign investors bring in new technologies and expertise.³⁴ This can help develop local workers' skills and capabilities, improving their career prospects and earning potential. For foreign nationals, foreign investment can provide opportunities to work in Saudi Arabia, either as employees of foreign companies or by establishing their businesses in the country. The Saudi Arabian government has introduced several measures to attract and retain foreign talents, such as offering residency permits to foreign investors and their families. However, there are also challenges associated with foreign investment that can affect individuals.³⁵ For example, foreign investment can increase competition for jobs, as foreign companies may bring in their employees rather than hire local workers. This can lead to resentment among local workers and may exacerbate tensions between foreign nationals and Saudi Arabian citizens³⁶. In addition, foreign investment can also lead to cultural clashes between foreign investors and local communities. Foreign companies may bring their cultural practices and business norms, which may differ from those in Saudi Arabia. This can create friction and misunderstandings, and foreign investors must be sensitive to local customs and traditions.

6. Saudi Arabia's Market

Saudi Arabia's market is a key player in the Middle East region and continues to attract significant foreign investment.³⁷ With a rapidly growing population, a stable political environment, and a commitment to economic diversification, Saudi Arabia offers an attractive market for foreign businesses seeking growth opportunities.

³⁴ See supra note 17

³⁵ See supra note 11

³⁶ See supra note 14

³⁷ Bajaher, M., Habbash, M., & Alborr, A. (2022). Board governance, ownership structure, and foreign investment in the Saudi capital market. *Journal of Financial Reporting and Accounting*, 20(2), 261–278. https://refpress.org/wp-content/uploads/2021/01/Murya-Habbash_REF.pdf

6.1.Effect on Businesses

The Saudi Arabian market has been attracting many foreign investors to its economy, making it an ideal destination for businesses seeking to expand their operations in the Middle East. The government's pro-business policies and the country's favorable regulatory environment have significantly impacted the market, particularly concerning foreign investment.³⁸ The introduction of the Foreign Investment Law has made it easier for foreign investors to establish a presence in the Saudi Arabian market.³⁹ The law provides foreign investors with greater protection and a more favorable regulatory environment, making it easier for them to do business in the country. Foreign investors are now allowed to own 100% of their business in certain sectors, whereas previously, they were required to partner with a local Saudi company. The Saudi Arabian government has also made significant investments in infrastructure, such as transportation and communication networks, to support the growth of the private sector. The country has modern ports, airports, and highways, making it easier for businesses to import and export goods. In addition, the government has invested heavily in developing special economic zones (SEZs) to attract foreign investment.⁴⁰ SEZs are designated areas within the country where businesses can enjoy a range of incentives, including tax breaks, streamlined regulations, and reduced administrative requirements. Foreign businesses that operate in SEZs also benefit from access to the country's skilled workforce and state-of-the-art infrastructure. The Saudi Arabian market has also seen a significant increase in free zones.⁴¹ These zones provide businesses with an ideal environment for conducting international trade, as they are free from import/export duties and provide a range of other incentives to foreign investors. Free zones are typically located near ports and airports, making

³⁸ See supra note 21

³⁹ See supra note 30

⁴⁰ See supra note 25

⁴¹ See supra note 26

them ideal locations for businesses involved in import/export activities. The Saudi Arabian government has also taken steps to improve the country's ranking in the World Bank's Ease of Doing Business Index. The country has implemented several reforms to simplify business registration procedures, reduce the time and cost of obtaining construction permits, and streamline obtaining visas for foreign workers.

6.2.Direct Access to The Saudi Market for Foreign Investors

One of the significant benefits of the Foreign Investment Law is that it provides foreign investors with direct access to the Saudi market.⁴² The law creates a more open and welcoming business environment that encourages foreign investment in the country.⁴³ Foreign investors can enter the Saudi market through various channels, including joint ventures, wholly-owned subsidiaries, and partnerships with local businesses.⁴⁴ They can also participate in public-private partnerships and government procurement contracts. The Saudi government has tried to streamline the registration process for foreign investors to reduce barriers to entry. The Saudi Arabian General Investment Authority (SAGIA) is the primary point of contact for foreign investors and provides support throughout the registration process. Furthermore, the Saudi Arabian government has taken steps to improve the investment climate in the country. In recent years, the government has implemented several reforms to make it easier for foreign investors to do business in the country. These include improving the ease of doing business ranking, enhancing the legal framework for foreign investment, and introducing tax incentives for foreign investors. As a result of these measures, the

⁴² See supra note 30

⁴³ See supra note 25

⁴⁴ McPherson-Smith, O. (2021). Diversification, Khashoggi, and Saudi Arabia's public investment fund. *Global Policy*, 12(2), 190–203. https://www.researchgate.net/profile/Oliver-Mcpherson-Smith/publication/350161405_Diversification_Khashoggi_and_Saudi_Arabia's_Public_Investment_Fund/links/626c1689c42af62fe2dfcc99/Diversification-Khashoggi-and-Saudi-Arabia's-Public-Investment-Fund.pdf

number of foreign investors entering the Saudi market has been on the rise.⁴⁵ In 2020, the country received \$5.5 billion in foreign direct investment, a significant increase from previous years. This increase can be attributed to the government's efforts to improve the investment climate in the country and the introduction of the Foreign Investment Law. Direct access to the Saudi market offers several benefits for foreign investors.⁴⁶ First, it allows them to tap into the country's growing economy and take advantage of its strategic location at the crossroads of Asia, Europe, and Africa. Second, foreign investors can leverage the country's skilled workforce and modern infrastructure to expand their business operations.⁴⁷ Third, it enables foreign investors to gain exposure to a large and growing consumer market, which offers significant growth potential. In addition to these benefits, direct access to the Saudi market also challenges foreign investors. One main challenge is navigating the country's complex regulatory environment. The Saudi legal system is based on Islamic law and can be difficult for foreign investors to understand. As a result, foreign investors need to seek legal advice and engage with local partners who can provide them with the necessary support to navigate the local business environment.

6.3.Impact of Foreign Investment Law on Local Businesses

While the Foreign Investment Law has opened the Saudi market to foreign investors, it has also impacted local businesses in the country. The law has created increased competition in several industries, which has forced local businesses to adapt and become more competitive. One of the primary impacts of the law on local businesses has been increased competition. Foreign investors often bring advanced technology, management expertise, and access to international markets. This

⁴⁵ Alenezi, A. (2020). *Improving the Saudi Arabian Foreign Direct Investment Framework and Promoting Diversification*. The University of Manchester (United Kingdom). https://research.manchester.ac.uk/files/194688732/FULL_TEXT.PDF

⁴⁶ See supra note 25

⁴⁷ See supra note 3

can make it difficult for local businesses to compete, particularly in industries where foreign investors have a competitive advantage.⁴⁸ Local businesses have had to adapt and improve their operations to remain competitive. They have had to invest in new technology, upgrade production processes, and improve management practices.⁴⁹ This has led to increased efficiency and productivity, which has enabled local businesses to compete more effectively with foreign investors.

Another impact of the law on local businesses has been the increased focus on innovation and differentiation. Local businesses have had to differentiate themselves from foreign competitors by offering unique products or services or providing a better customer experience.⁵⁰ This has led to increased innovation and creativity among local businesses, which has helped them to compete more effectively in the market. The law has also positively impacted local businesses by providing them access to new markets. Foreign investors often have access to international markets, providing local businesses with new export opportunities. This can help local businesses grow and expand their operations, leading to increased employment and economic growth in the country.

Overall, the impact of the Foreign Investment Law on local businesses has been mixed. While it has created increased competition, it has forced local businesses to adapt and become more competitive.⁵¹ It has also provided local businesses access to new markets, enabling them to grow and expand their operations. The law's long-term impact on local businesses will depend on how well they can adapt and compete in the increasingly competitive market environment.

⁴⁸ See supra note 32

⁴⁹ See supra note 11

⁵⁰ See supra note 37

⁵¹ Ibid

7. The Implementation of Corporate Income Tax Laws

The Implementation of Corporate Income Tax Laws in Saudi Arabia has been a major topic of discussion among businesses and investors.⁵² In 2018, Saudi Arabia introduced a new tax system, including a corporate income tax, to diversify its economy and reduce its reliance on oil revenue.⁵³ This move marked a significant shift in Saudi Arabia's economic policy, which had previously relied heavily on oil revenue and had not taxed corporate income. Under the new tax system, the corporate income tax rate in Saudi Arabia is set at a flat rate of 20%. The tax applies to all companies and institutions operating in the country, including foreign companies in Saudi Arabia. The government has also introduced a range of tax incentives and exemptions to encourage investment and support economic growth.

One of the key benefits of the new tax system is that it has helped to diversify Saudi Arabia's revenue sources. By introducing a corporate income tax, Saudi Arabia can generate new revenue streams unrelated to oil prices. This makes the country less vulnerable to fluctuations in the global oil market and better able to weather economic shocks. Another benefit of the new tax system is that it has helped to improve transparency and accountability in the Saudi Arabian business environment.⁵⁴ By requiring companies to disclose their financial information and pay taxes, the government can better monitor business activities in the country. This can help to prevent tax evasion and other forms of financial malpractice. However, implementing corporate income tax laws in Saudi Arabia has also posed some challenges for businesses and investors. Some companies have expressed concerns that the new tax system may make Saudi Arabia a less

⁵² Alkahtani, A. W. (2021). Family-owned businesses in Saudi Arabia: Challenges and solutions from a legal perspective. *Int. J. Contemp. Manag. Inf. Technol.*, 1(2), 16-22. <https://ijcmit.com/wp-content/uploads/2020/12/Alkahtani-2021-2.pdf>

⁵³ Bradshaw, M., Van de Graaf, T., & Connolly, R. (2019). Preparing for the new oil order? Saudi Arabia and Russia. *Energy Strategy Reviews*, p. 26, 100374. <https://www.sciencedirect.com/science/article/pii/S2211467X19300677>

⁵⁴See supra note 11

attractive destination for foreign investment.⁵⁵ Additionally, the complexity of the tax system and the need for more clarity around certain regulations have made it difficult for businesses to navigate the new landscape. Despite these challenges, introducing corporate income tax laws in Saudi Arabia is an important step toward economic diversification and growth. The new tax system can benefit Saudi Arabia and its citizens by generating new revenue streams, improving transparency and accountability, and creating a more stable economic environment.

8. Government Investment

Government investment, like that in Saudi Arabia via the Public Investment Fund (PIF), may be a vital engine for economic expansion and development. The PIF seeks to diversify the economy, generate new employment, and attract foreign investment via investments in critical infrastructure, technology, and tourism. Examples of the PIF's initiatives to create new economic centers in the nation include its engagement in the NEOM project, the Red Sea Project, and Qiddiya entertainment city. The PIF also promotes an entrepreneurial and innovative culture in the nation by funding regional startups and technology enterprises.

8.1.Public Investment Fund (PIF)

The Public Investment Fund (PIF) is a sovereign wealth fund of the Saudi Arabian government, established in 1971 to promote the economic growth and development of the country. It is one of the largest sovereign wealth funds in the world, with assets worth over \$400 billion as of 2021. The PIF has been playing a crucial role in implementing the Vision 2030 plan, which aims to transform the Saudi Arabian economy and reduce its dependence on oil revenues.⁵⁶ The fund has been tasked with investing in strategic sectors of the economy, such as tourism, infrastructure, and

⁵⁵ See supra note 29.

⁵⁶ See supra note 40

technology, to create new industries, generate employment opportunities, and attract foreign investment.⁵⁷

One of the major investments made by the PIF in recent years is the creation of the NEOM project, a planned cross-border city in the Tabuk Province of northwestern Saudi Arabia.⁵⁸ The project aims to diversify the economy, create new jobs, and attract foreign investment. The PIF has committed over \$500 billion to the project, which is expected to become a major economic hub in the region.⁵⁹ Apart from the NEOM project, the PIF has also invested in other major infrastructure projects, such as the Red Sea Project, which is a luxury tourism development on the Red Sea coast, and the Qiddiya entertainment city, which is aimed at providing entertainment options for the local population and tourists.⁶⁰ The PIF has also been investing heavily in technology, intending to develop a vibrant technology sector in the country. The fund has invested in several technology companies, including Uber, Tesla, and SoftBank, and has also established several local technology startups. In addition to its role as an investor, the PIF has also been playing a key role in promoting the development of local businesses. The fund has provided financial support and guidance to local entrepreneurs and startups intending to create a vibrant and innovative business ecosystem in the country.

However, the PIF's investments have been subject to controversy. The fund has been criticized for its lack of transparency and accountability, with concerns raised about the potential misuse of public funds. In addition, the PIF's investments in controversial projects, such as the NEOM project, have raised questions about the environmental and social impact of the fund's investments. Despite these challenges, the PIF remains a key player in developing the Saudi Arabian economy.

⁵⁷ Ibid

⁵⁸ See supra note 33

⁵⁹ See supra note 14

⁶⁰ See supra note 11

Its investments in strategic sectors of the economy are expected to create new opportunities for local businesses and attract foreign investment. In contrast, its support for local entrepreneurs and startups is expected to promote the growth of a vibrant business ecosystem in the country.

9. Conclusion

In conclusion, Saudi Arabia's economy has undergone significant transformations over the past few decades, driven by its efforts to diversify and reduce its dependence on oil revenues. The country has implemented policies and initiatives to promote economic growth, including foreign investment, tax reforms, and government investment through the Public Investment Fund. These initiatives have positively and negatively impacted individuals, foreign investors, and businesses operating in the country. Foreign investment has played a crucial role in Saudi Arabia's economic development, providing access to new technologies, expertise, and capital. The Foreign Investment Law has made it easier for foreign investors to invest in the country, and the government has introduced several measures to attract and retain foreign talent. However, foreign investment has also posed challenges like cultural clashes and job competition. Implementing corporate income tax laws has been a significant milestone in Saudi Arabia's economic policy. The new tax system has helped to diversify the country's revenue sources, improve transparency and accountability, and create a more stable economic environment. However, it has also posed challenges for businesses and investors, such as complexity and uncertainty in the regulations. Government investment through the Public Investment Fund has been a crucial driver of Saudi Arabia's economic growth, providing funding for various strategic projects and initiatives. However, the fund's significant size and opaque nature have raised concerns about transparency and accountability. Saudi Arabia's economy is poised for continued growth and diversification in the coming years. The country's efforts to attract foreign investment, implement tax reforms, and

invest in strategic projects will continue to play a significant role in driving economic growth and reducing reliance on oil revenues.

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