

IMPACTS OF INVESTMENTS FOR REGIONAL AND LOCAL DEVELOPMENT; THE CASE OF Saudia Arabia

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Abstract: Saudi Arabia is the ideal location for foreign investment to suit the demands of foreign investors, according to an analysis of all the potential motivations of international investors. FDI affects FDI outflows, the substitution effect for both domestic and foreign capital is once again noticeable. Saudi Arabia's financial growth has been effective in luring FDI inflows. Due to its favourable effects on FDI inflows, the expanding Civic Platform is also seen to be the best option for foreign investors in the monarchy

Keywords: investment effects, capitalizing, multiplier effects, Foreign Direct Investment (FDI)

Introduction

An investment made by a person, business, or other legal entity in another legal entity or its equivalent to obtaining control or voting rights outside the investor's country of residence to maximise return on investment is referred to as a foreign direct investment (FDI)(Belloumi & Alshehry, 2018). In addition to the transfer of money, these investments call for the allocation of material resources, production methods, decision-making, and marketing skills, as well as successful business methods. An investor from one nation invests in a firm in another as part of long-term financial cooperation between the two. The start-up of a new business or the purchase of an existing local business is both examples of foreign direct investment. In addition to having a direct effect on a nation's growth, foreign direct investment is

also linked to successful investments. FDI increases the possibility of creating new employment by contributing capital. Multinational corporations get almost two-thirds of all investments made worldwide (MNEs)(Mahmood, 2018). To entice foreign direct investment from developed nations, these nations place a high value on several industries. Industrialized nations make international investments and take into account a range of objectives, including access to resources, raw materials, effective markets, inexpensive land, smart people resources, and plan implementation. The utilisation of resources is the primary goal of foreign direct investment in the nation(Kadi, 2018). The abuse of cheap labour and raw resources might be the cause. The discovery and development of natural resources may include investor nations. Invest in the regional and local marketplaces in the area. FDI searches a market when a supply firm discovers its clients overseas. For example, The producer of vehicle parts can keep tabs on the automaker. Market-oriented investments frequently employ self-healing strategies to avoid significant obstacles, whether they are delicate or actual. If investors want to satisfy domestic, nearby, or global markets, an open trade management approach is crucial. Only when the cross-border market is open and ready for market efficiency can investments be made. Therefore, integrated domestic markets, particularly those in Asia and Europe, are where this form of foreign direct investment occurs most frequently. The branch of Nestlé in the Middle East and North Africa is the greatest illustration of foreign direct investment since it efficiently expands by launching modest goods in several nearby nations. Each associated small business unit aims to serve a local market with a particular product. When companies make investments, acquire companies, or form partnerships, FDI is further encouraged to accomplish other long-term strategic goals.

Saudi Arabia is the ideal location for foreign investment to suit the demands of foreign investors, according to an analysis of all the potential motivations of international investors. Furthermore, because there is little local manufacture of consumer products, there is a sizable regional market and a high reliance on imports. More automobiles are imported into Saudi Arabia than any other nation, but neither domestic nor foreign investors have established a single manufacturing facility there.

The goal of this study is to ascertain if Saudi Arabia’s macroeconomic climate is conducive to luring foreign investment.

Results

Table 1 displays the results of the ADF test on the model variables. At the level of the OPt, FDI_t, FMD_t, and DINV_t series, the findings demonstrate the presence of a unit root. Horizontal and steady, GR_t. The variables all behave stationary in the initial difference form. Even if the research reveals the integration of mixed purchases, this is fine because ARDL cointegration will come next.

Table 1: ADF test

Variable	Intercept	Intercept and trend
FDI,	-2.3208	-2.8281
GR,	-3.5734**	-3.6367**
FMD,	1.0037	-3.1267
OP,	-1.4970	-1.9916
DINV,	3.4552	1.3392
AFDI,	-4.7201**	-4.6654***
AFDM,	-5.1441***	-5.3589***
AOP,	-4.9723***	-4.8235***
ADINV,	-1.3207	-6.0344***

Table 2: Estimated FDI inflows model through ARDI,

Variable	Parameters	SE	t-statistic	P-value
Long run results	0.6731	0.3548	1.8974	0.0652
<i>FMD_t</i>	0.5896	0.2084	2.8295	0.0652
<i>OP_t</i> ,	-0.3516	0.1532	-2.2945	0.0272
<i>DINY_t</i> ,	0.2035	0.3650	0.5576	0.5803
<i>GR_t</i> ,	-11.2821	6.0324	-1.8702	0.0690
Intercept				

Short run	-0.2691	0.0621	-4.2251	0.0001
result	-0.2691	0.0972	-4.3351	0.0086
ECT_{t-1}	0.1811	0.0972	-2.7680	0.0321
ΔFDI_{t-1}	0.1586	0.0545	2.9127	0.0059
ΔFDM_t	-0.0946	0.0287	-3.2975	0.0021
ΔOP_t	0.0548	0.0965	0.5677	0.5735
$\Delta DINV_t$				
ΔGR_t	Estimated F-value=2.7763			
Bound test	Critical F-value			
	At 10%(2.45-3.52			
	At 5%(2.86-4.01			
	At 1%(3.74-5.06			

Estimates for FDI inflows from the Saudi model are shown in Table 2. Before continuing, it should be noted that although the F value for the feedback test is quite low, the cointegration predicted by this approach can be validated by ECTt-1 factors that are negative and substantial. As a result, cointegration may be shown in the ARDL scoring model. Long-term FDI inflows are often positively impacted by GDP growth. As a result, rising economic activity and growth did not boost Saudi Arabia’s inflow of foreign direct investment. The FMD has a favourable and considerable effect on FDI inflows. The increase in FMD generated \$670 million in foreign direct investment. The provision of direct and indirect aid for investments and commercial activity is where FMD is most helpful. The financial markets in Saudi Arabia are now growing quickly. Additionally, it helps to boost FDI inflows. Additionally, OP positively and significantly affects FDI inflows. As a result, an increase in OP will

promote FDI inflows, although as was already noted, FDI inflows are encouraged by overall economic growth. Finally, direct investment hurts FDI inflows. Direct investment can be used to indicate FDI inflows in this situation. Empirical research by Mahmoud and Chowdhury also supports this surrogate impact of FDI on FDI inflows (2012). The short-term investigation revealed poor ECTt-1 values. This demonstrates that our model has short-term relationships. This coefficient's value translates into a 26.91 per cent yearly convergence rate. Once more, both the short- and long-term effects of FMD and OP are favourable for FDI inflows. However, the magnitude of the coefficients is relatively tiny in the near term. Therefore, we may claim that these elements have more of an impact over the long run than they do over the short term. Similar to how FDI affects FDI outflows, the substitution effect for both domestic and foreign capital is once again noticeable. Therefore, DI has the same negative impact in the short run.

Conclusion

Still open to foreign investment, governments are eager to welcome it to reduce savings or currency imbalances. Based on yearly data from 1970 to 2015, this article examines the factors that influence FDI inflows to Saudi Arabia. The key factors that influence FDI inflows are thought to be economic growth, FMD, OP, and DI. Data analysis methods included ARDL cointegration tests and ADF unit root testing. Unit root analysis reveals a heterogeneous order of integration in our model. Using ARDL approaches, cointegration and short-term connections are also discovered in our suggested model. Long-term and short-term FDI inflows are positively impacted by economic growth, albeit the impact is minor. FMD also produces positive outcomes. Thus, Saudi Arabia's financial growth has been effective in luring FDI inflows. Due to its favourable effects on FDI inflows, the expanding Civic Platform is also seen to be the best option for foreign investors in the monarchy. Direct investment is frequently employed in place of foreign investment, even though it has a detrimental impact on FDI inflows. Based on our results, we suggest that the Saudi government expand financial markets, offer tax advantages, and loosen limitations on establishing new financial enterprises to promote foreign investment. Instead of relying solely on

the oil sector to increase foreign investment in the kingdom through diversification policies, the government should develop prudent economic policies to greatly accelerate economic growth by adopting those policies, as oil has a positive impact on both foreign direct investment and oil. Low Saudi Arabia. global market

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