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Saudi Arabia as a Foreign Direct Investment Destination in the GCC: Current Position, Future Prospects, and Policy Imperatives

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ABSTRACT

This study examines the attractiveness of Saudi Arabia as a destination for foreign direct investment (FDI) within the gulf cooperation council (GCC). The study assesses the Kingdom's current position relative to other GCC countries, identifies the main factors affecting investor choices, and proposes policy steps to make Saudi Arabia a more attractive FDI destination. The study uses a comparative research design that covers multiple countries and is based on Dunning's eclectic OLI theory and location-specific factors. Secondary data for 2020-2024 were collected from the World Investment Report, World Bank, IMF, and other international sources. The findings show that Saudi Arabia is consistently ranked second among GCC countries in FDI inflows, with total inflows of about USD 95.2 billion during the study period. This reflects the positive effect of the Vision 2030 reform programme. The Kingdom is strong in market size, economic growth potential, and digital and innovation development. However, it still lags behind the UAE, the region's top FDI destination, in several key areas of institutional quality and competitiveness. The study concludes with policy recommendations on regulatory reform, talent attraction, sectoral diversification, and digital ecosystem development to help reduce this gap and make Saudi Arabia the top FDI destination in the GCC in the near future.

Keywords: Foreign Direct Investment, Saudi Arabia, Gulf Cooperation Council, Vision 2030, Foreign Direct Investment Attractiveness, Economic Diversification, National Investment Strategy

JEL Classifications: F21, F23

1. INTRODUCTION

In today's highly connected global economy, money flows across borders in search of better returns, lower risk, and more stable business environments. Large multinational companies constantly evaluate different countries based on economic, institutional, regulatory, and strategic factors. Countries with favorable investment conditions usually attract more international capital, while others struggle to compete. A large number of academic studies have sought to identify and explain the main factors that influence where foreign investors decide to invest, and it is widely recognised that these factors vary from country to country and over time.

Foreign direct investment (FDI) is a specific and growing form of cross-border capital flow. Unlike portfolio investment, FDI involves a long-term interest and a meaningful level of control by an investor from one country over a business located in another. It can take the form of buying existing companies, creating new operations (greenfield investments), or forming joint ventures with local partners. FDI is becoming more important because it benefits both sides: for host countries, it helps with capital formation, job creation, technology transfer, and productivity growth; for investing companies, it offers chances to expand into new markets, spread risk across geographies, and reduce exposure to systemic risks through international operations (Dunning, 1980; Fernandez et al., 2023; Zouari et al., 2026).

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FDI plays a very important role in developing and emerging economies, where local savings and financial markets are often not enough to meet long-term investment needs. Multinational companies usually have better access to international financial markets and can bring in resources that would otherwise not be available to the host country. In addition, FDI inflows bring in foreign currency and help improve the balance of payments, making FDI a useful tool for economic stability and growth (Fernandez et al., 2020). Attracting high-quality and sustainable FDI has therefore become a central goal of economic policy in many developing regions.

Within this wider context, the countries of the Gulf Cooperation Council (GCC) have become active competitors for foreign investment. The GCC was established in 1981 and has six Arab member states: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). These countries share similar political systems, cultural backgrounds, language, and history. The region is known for its dependence on oil and holds some of the world's largest proven crude oil reserves. Over time, oil revenues have helped the region to develop rapidly, making it home to some of the world's fastest-growing economies. However, GCC countries differ significantly in their success at attracting FDI, reflecting differences in their resources, governance quality, and economic diversification efforts.

Saudi Arabia holds a unique and important position in this competitive regional environment. As the largest economy in the Arab world and the twentieth-largest globally, the Kingdom has structural advantages, including a large domestic market, abundant natural resources, large sovereign wealth funds, and a strategic geographic location, which set it apart from its GCC neighbours (Juma et al., 2021). Since the launch of Vision 2030 in 2016, the Saudi government has carried out an ambitious programme of structural reforms covering economic liberalisation, social modernisation, and institutional change, with a clear goal of significantly increasing FDI inflows as a key development objective. These efforts have produced measurable results: Saudi Arabia moved to second place among GCC economies in FDI attraction during 2020-2024, with total inflows reaching approximately USD 95.2 billion, and launched a National Investment Strategy that aims to attract USD 100 billion in annual FDI by 2030.

Despite these achievements, Saudi Arabia's FDI performance still falls below its strategic goals and its underlying economic potential. The Kingdom continues to lag behind the UAE, the clear leader in FDI attraction in the region, in several aspects of competitiveness, regulatory environment, and investor confidence. Therefore, there is a clear need for systematic scholarly research on Saudi Arabia's current FDI position, the factors that support or limit its attractiveness, and the best policy measures to strengthen and advance its competitive position.

The main objective of this study is therefore three-fold: First, to assess Saudi Arabia's current position as an FDI destination within the GCC through comparative empirical analysis; second, to identify the main factors that help or hinder FDI inflows to the Kingdom; and third, to propose policy measures aimed at improving Saudi Arabia's FDI attractiveness in a sustainable and diversified way. The paper aims to provide practical insights for policymakers, investment promotion agencies, and potential investors.

The rest of the paper is structured as follows. Section 2 reviews the relevant theoretical and empirical literature on the determinants of FDI, with particular focus on the GCC context and Saudi Arabia's reform path. Section 3 explains the research methodology and data sources. Section 4 presents the comparative empirical analysis and discusses the findings. Section 5 examines Saudi Arabia's future FDI prospects and strategic direction. Section 6 concludes the paper with key findings, policy implications, and suggestions for future research.

2. LITERATURE REVIEW

Foreign direct investment is widely accepted as a driver of economic growth, structural change, and productivity improvement, particularly in developing and emerging economies. Classical and recent studies show that FDI can increase domestic capital formation, transfer technology and management knowledge, and help countries connect to global value chains, although the actual benefits depend on the local capacity to absorb these advantages and on the quality of institutions (Borensztein et al., 1998; Chakraborty and Basu, 2002; Osunkwo, 2020). In this area of research, Dunning's eclectic theory of international production remains the most widely used analytical framework. It explains how ownership, location, and internalisation advantages together influence the investment decisions of multinational enterprises (MNEs) (Dunning, 1980). At the host-country level, research consistently points to a set of location-specific factors: Market size and growth, macroeconomic stability, governance quality, tax regime, human capital, infrastructure, and integration into international markets (Loree and Guisinger, 1995; Makki et al., 2004; Fernandez et al., 2020).

2.1. Determinants of FDI: Global and Theoretical Perspectives

There is general agreement in empirical research that larger, faster-growing markets are more attractive to market-seeking FDI. Early studies (Schmitz and Bieri, 1972; Kravis and Lipsey, 1982; Billington, 1999) and more recent evidence from different sectors (Makki et al., 2004) show that GDP level, growth rate, and per capita income are positively linked to FDI inflows, because they indicate purchasing power and demand. Political stability and institutional quality are also very important, as they reduce uncertainty and transaction costs for foreign investors (Root snd Ahmed, 1979; Schneider and Frey, 1985). More recent studies break down governance into dimensions such as regulatory quality, government effectiveness, and control of corruption, all of which are positively associated with FDI inflows (Bouchoucha and Benammou, 2020).

Fiscal and tax policy is another important topic in the literature. Evidence from OECD countries shows that lower effective corporate tax rates and transparent, stable tax systems tend to attract more FDI, when other factors are held constant (Hajkova et al., 2006). High tax burdens in host countries can reduce the profitability of subsidiaries and therefore discourage new investment (Mutti and Grubert, 2004), which is why many countries use tax incentives and special economic zones as policy tools. Human capital and labour market conditions also play a key role: MNEs generally prefer locations where labour is both cost-competitive and sufficiently skilled to absorb and spread advanced technologies (de Mello, 1997; Milner, 2013).

Infrastructure quality, including physical connections, logistics networks, digital readiness, and energy reliability, is an additional layer of FDI determinants. Poor infrastructure raises operating costs and creates supply chain problems, which discourages export-oriented and efficiency-seeking investors. On the other hand, locations with better connectivity, modern port and airport facilities, and strong digital ecosystems attract a wider range of investment types, including advanced manufacturing, services, and innovation-driven businesses (Fernandez et al., 2020; UNCTAD, 2023).

2.2. Post-2020 Evidence on Saudi Arabia's FDI Determinants

Recent empirical literature on Saudi Arabia has become more detailed, reflecting the structural reforms that have taken place under Vision 2030 and the National Investment Strategy. A multiple linear regression analysis using annual data for 2005-2021 finds that market size (measured by GDP), inflation, and trade openness have statistically significant positive effects on FDI inflows to Saudi Arabia, while GDP per capita shows a negative relationship with FDI. This result suggests that investors respond more strongly to overall market growth and external openness than to rising income levels, possibly because of a shift toward large-scale, capital-intensive projects (Alalmai, 2024).

An empirical study on the determinants of FDI in Saudi Arabia highlights the importance of capital market development and labour market conditions as key long-run drivers of FDI, while finding no significant direct relationship between FDI and immediate economic growth. This is consistent with the broader literature, which shows that FDI-driven growth effects may take time to appear and depend on domestic financial development and labour market flexibility (Balasubramanyam et al., 1999; Baharumshah and Thanoon, 2006). An error-correction model analysis further highlights the importance of multiple factor groups, including cost factors, market factors, infrastructure and technological readiness, and political-legal stability, in explaining FDI patterns in Saudi Arabia. These findings are consistent with the OLI framework because they capture a combined set of location advantages rather than individual variables (Bousrih and Alkofahi, 2022; Saeed, 2023).

Post-2020 scholarship on Saudi Arabia's FDI determinants increasingly emphasises the importance of institutional transformation under Vision 2030, while also recognising ongoing structural challenges. Empirical and thematic analyses suggest that regulatory and legislative reforms have not only improved formal investor protections and transparency but have also led to strategic changes among multinational corporations, particularly in compliance systems, operational restructuring, and sectoral investment allocation (Elfakharani, 2024; Grand and Wolff, 2020). These developments have enhanced the appeal of emerging sectors, such as sustainable technologies and non-oil industries, supporting the Kingdom's broader diversification agenda.

However, the literature also points out that FDI responses to these reforms are influenced by deeper socio-economic and institutional factors. Kumar (2023) emphasises that the reconfiguration of the socio-political contract, covering education, healthcare, and resource management, remains critical for sustaining long-term investment appeal, especially given challenges related to human capital availability, bureaucratic rigidities, and cultural resistance to rapid modernisation. Therefore, while post-2020 evidence supports the view that Vision 2030 reforms have strengthened Saudi Arabia's FDI ecosystem, it also shows that the durability of these gains depends on the Kingdom's ability to align institutional modernisation with socio-cultural change and workforce development.

2.3. Saudi Arabia in the GCC Competitive Landscape

Comparative studies of FDI attractiveness within the GCC consistently show a clear hierarchy, with the UAE being the dominant recipient of foreign investment, followed by Saudi Arabia. The UAE's advantages are widely attributed to its early opening of foreign ownership rules, its well-developed free zone infrastructure, its strategic position as a global logistics hub, and the reputation it has built over decades of business-friendly governance (Alshamlan et al., 2021; Emirates NBD, 2024). Saudi Arabia, by contrast, has historically had a more restrictive regulatory environment, heavy reliance on the kafala (sponsorship) system for managing labour, and limited foreign ownership rights in domestic companies, all of which discouraged efficiency-seeking and market-seeking FDI despite the country's large economic size.

The Vision 2030 reform programme has significantly changed this situation. Steps such as introducing special economic zones, relaxing foreign ownership restrictions, reforming the General Investment Authority (now the Ministry of Investment of Saudi Arabia, MISA), and making business registration easier have substantially reduced barriers for foreign investors. However, cross-country comparative analyses suggest that the Kingdom's institutional transformation, while significant, remains uneven across sectors and regions, and that investor perceptions of the regulatory environment continue to fall behind those of the UAE (UNCTAD, 2024; World Bank, 2024). This gap motivates the need for continued scholarly analysis of how Saudi Arabia can systematically close the competitiveness gap and realise its potential as the GCC's top FDI destination.

2.4. Synthesis and Research Implications

Bringing together global, regional, and country-specific evidence, the post-2020 literature suggests that Saudi Arabia's FDI attractiveness is increasingly shaped by the interaction of three broad groups of determinants: (i) structural macroeconomic fundamentals such as market size, growth prospects, and trade openness; (ii) institutional and legal reforms that improve regulatory transparency, investor protection, and dispute resolution; and (iii) factor-market conditions, particularly capital-market robustness, labour-market characteristics, and infrastructure and technological readiness. While Vision 2030 reforms have significantly improved the institutional environment and contributed to a clear rise in FDI inflows over the medium term, short-term fluctuations in project-level data and cross-GCC comparisons indicate that Saudi Arabia's competitive position remains dynamic and sensitive to global and regional shocks (Saeed, 2023; Emirates NBD, 2024).

For scholarly work on FDI attractiveness, these findings suggest a research design that combines traditional FDI determinants with institution-focused and policy-reform variables, explicitly examining the role of Vision 2030-related changes in shaping investor perceptions. Such an approach can help show whether and how the Kingdom's evolving investment regime translates into sustained, diversified, and productivity-enhancing FDI inflows, relative to its GCC peers.

3. METHODOLOGY AND DATA

The main objective of this study is to identify and assess Saudi Arabia's position as an FDI destination within the GCC and to draw evidence-based policy implications to improve its attractiveness. In this regard, the study uses a comparative, multi-country research design, which allows for a systematic evaluation of FDI performance across all six GCC member states. The study also aims to highlight the main factors that attract FDI inflows to Saudi Arabia, how to build on these factors, and to identify the main constraints that hold back investment, along with targeted recommendations to address them.

The study relies entirely on secondary data obtained from credible and widely recognised national, regional, and international sources. These include the UNCTAD World Investment Reports, World Bank Development Indicators, International Monetary Fund (IMF) World Economic Outlook (2024), ICT Development Index, WIPO Global Innovation Index, IMD World Digital Competitiveness Ranking, and official publications of the Ministry of Investment of Saudi Arabia (MISA) and the Saudi Arabian General Investment Authority (SAGIA). The exclusive use of secondary data ensures consistency, comparability, and reliability across countries and over time.

The empirical analysis covers a 5-year period from 2020 to 2024. This time frame was deliberately chosen to capture recent changes in FDI inflows, including the effects of the COVID-19 pandemic and the subsequent recovery period, as well as the accelerating impact of Vision 2030 reform initiatives. By focusing on this period, the study is able to assess not only the relative FDI performance of GCC countries but also the resilience and adaptability of their investment environments under conditions of heightened global uncertainty.

While the study provides a comprehensive comparative assessment of FDI attractiveness within the GCC, it has certain limitations. The reliance on secondary data limits the analysis to available and published indicators, which may not fully capture firm-level perceptions or informal institutional factors that influence investment decisions. In addition, aggregate FDI data may hide sectoral differences within individual country profiles. Nevertheless, given the credibility of the data sources and the regional focus of the study, the methodology is considered appropriate for achieving the stated research objectives and for producing policy-relevant insights.

4. ANALYSIS AND DISCUSSION

The analysis begins by establishing Saudi Arabia's current position as an FDI destination within the GCC, based on a systematic review of inflow data and key competitiveness indicators. Subsequent sections examine the principal determinants shaping the Kingdom's FDI attractiveness, drawing on international indices covering market fundamentals, economic growth, technological readiness, labour markets, regulatory quality, and fiscal frameworks.

4.1. FDI Inflows: Saudi Arabia's Position in the GCC

Table 1 presents country-wise FDI inflows for the period 2020-2024 (in millions of USD), along with annual rankings and cumulative totals for the study period.

The data show a clear and consistent hierarchy within the GCC. The UAE stands out as the dominant FDI recipient over the 5 years, with total inflows of approximately USD 139.6 billion, the highest in both absolute and relative terms. Saudi Arabia ranks second, with total inflows of USD 95.2 billion, which shows a large and persistent gap compared to the UAE, but a strong lead over the remaining GCC economies.

Saudi Arabia's FDI trend shows some notable characteristics. The Kingdom recorded very strong inflows in 2021 (USD 28.4 billion) and 2022 (USD 26.7 billion), which coincided with accelerated Vision 2030 implementation, including the launch of major giga-projects such as NEOM, The Red Sea Project, Diriyah, and Amaala, as well as important regulatory reforms under the Ministry of Investment of Saudi Arabia (MISA). These inflows were the highest single-year totals in Saudi Arabia's modern investment history. However, a noticeable slowdown is evident in 2023 (USD 22.8 billion) and 2024 (USD 15.7 billion), possibly reflecting global risk aversion, rising interest rates, and changing investor expectations due to project execution challenges. This trend requires careful policy attention, as maintaining high FDI inflows will require not only continued structural reform but also effective investor aftercare and the reduction of risks associated with large-scale investment commitments.

Qatar, by contrast, recorded negative total FDI across the study period, indicating net capital outflows, a pattern partly linked to profit repatriation by foreign firms and disinvestment following the FIFA 2022 World Cup construction phase. Kuwait similarly underperformed relative to its economic size, suggesting that institutional constraints and a restrictive investment environment continue to discourage foreign capital. Bahrain and Oman occupy intermediate positions, with Oman's relatively strong performance

Table 1: Foreign direct investment inflows in gulf cooperation council countries, 2020-2024 (USD millions)

GCC countries	2020	2021	2022	2023	2024	Rank 2024	Cumulative inflow	Rank for cumulative
Bahrain	1021	1779	1951	7226	2478	4	14,455	4
Kuwait	240	567	758	2,113	614	5	4292	5
Oman	1914	8793	5480	4745	8685	3	29,617	3
Qatar	−2434	−1093	76	−474	460	6	−3465	6
Saudi Arabia	1621	28,350	26,710	22,803	15,737	2	95,221	2
UAE	19,884	20,667	22,737	30,688	45,632	1	139,608	1

Source: UNCTAD world investment report, 2020-2024

likely reflecting hydrocarbon-linked project investment. Saudi Arabia's consistent second-place ranking confirms the transformative impact of Vision 2030 on the Kingdom's FDI profile, while also highlighting the challenge of closing the gap with the UAE.

4.2. Market Size and Strategic Connectivity

A large body of FDI literature identifies market size, market growth, and market accessibility as among the most important determinants of where foreign investors choose to locate. Market-oriented FDI is mainly driven by the desire to serve local and regional markets and is therefore positively linked to the size and growth potential of the host economy (Caves, 1971; Chandalert, 2000). Larger markets allow firms to benefit from economies of scale, spread fixed costs over higher levels of output, and reduce average transaction costs (Zhao and Zhu, 2000). Empirical studies consistently show that countries with greater market potential attract higher levels of FDI because of stronger demand conditions and more predictable revenue streams (Kravis and Lipsey, 1982; Na and Lightfoot, 2006).

Saudi Arabia has the largest market size in the GCC. With a population of more than 36 million, the largest in the region, and a GDP of approximately USD 1.07 trillion in 2024, the Kingdom is the largest domestic market for foreign investors in the Gulf. This size advantage is strengthened by a growing middle class, rising per capita income, and a young population, with about 63% under 35. These demographic trends create significant and growing demand across a wide range of consumer goods, services, healthcare, education, entertainment, and housing sectors that are increasingly open to foreign investment under Vision 2030.

Beyond its domestic market, Saudi Arabia serves as a gateway to a regional economy of more than 61 million GCC consumers, as well as providing access to the broader Middle East, Africa, and South Asia. The Kingdom's central location within the Arabian Peninsula, combined with its position along major global trade routes, gives it natural logistical advantages for firms seeking regional market access. Strategic infrastructure investments, including the ongoing expansion of King Abdulaziz International Airport in Jeddah, the development of King Salman International Airport in Riyadh (designed to become the world's largest airport by passenger capacity), and the construction of the NEOM transportation network, are expected to significantly improve Saudi Arabia's connectivity profile over the coming decade.

The Kingdom has also strategically used high-profile international events to raise its global visibility and market appeal. Hosting the 2030 World Expo, the upcoming FIFA 2034 World Cup, Formula One Grand Prix races, and major international sporting and cultural events positions Saudi Arabia as a destination of growing global importance, directly attracting investment in hospitality, entertainment, retail, and supporting infrastructure. These initiatives are expected to create multiplier effects on FDI inflows across multiple sectors, which is consistent with evidence from similar mega-event-driven investment cycles in other economies.

4.3. Economic Growth

High and sustained economic growth signals expanding demand, improving profitability prospects, and a supportive business climate, attributes that are particularly attractive to foreign investors. Countries growing above the global average typically offer superior revenue growth prospects for market-seeking FDI and lower macroeconomic risk for efficiency-seeking investors. Table 2 presents GDP growth rates for GCC economies from 2021 to 2024.

Saudi Arabia recorded the highest average growth rate among GCC economies over the study period at 5.22%, driven mainly by a strong 12% expansion in 2022, the highest single-year growth rate across all GCC economies, which was due to high oil prices and accelerated giga-project spending. However, the Kingdom's growth slowed significantly in 2023 (0.54%) and 2024 (1.81%), reflecting oil production cuts under OPEC+ agreements, lower global commodity prices, and a moderation in growth following the 2022 peak. This volatility, with a range of 0.54-12.00%, reveals a structural vulnerability: Saudi Arabia's continued dependence on headline growth from the hydrocarbon sector, which is subject to global price and demand cycles beyond the government's control.

From an FDI perspective, this growth profile presents a complex picture. The 5.22% average growth rate is strong in absolute terms and signals genuine macroeconomic dynamism. However, the high volatility and the disconnect between oil-driven headline growth and non-oil sector expansion may create uncertainty for market-seeking investors seeking stable demand patterns. The UAE's average growth of 4.81%, while slightly lower, benefits from a more diversified sector mix, including trade, tourism, logistics, and financial services, which produces more predictable, less volatile growth dynamics and, therefore, potentially lower investor risk. A key strategic priority for Saudi Arabia is to show that its non-oil GDP growth, which has been more consistently strong in recent years, translates into sustainable investment opportunities across diversified sectors.

4.4. Technology Adoption, Innovation, and Digitalisation

Technology adoption, innovation, and digitalisation are critical determinants of FDI, as they directly influence operational efficiency, cost structures, scalability, and speed of market entry. Destinations with advanced digital ecosystems and innovation-friendly environments are more attractive for FDI, particularly for knowledge-intensive, technology-driven, and service-oriented multinational enterprises. Table 3 presents the ICT Development Index scores for GCC economies from 2023 to 2025.

Saudi Arabia's ICT performance has demonstrated remarkable upward momentum. The Kingdom's ICT score improved from 94.9 in 2023 to 99.2 in 2025, enabling it to claim the top position among GCC economies in 2025, a notable achievement that reflects sustained government investment in digital infrastructure, broadband expansion, and e-government service delivery. This progress is driven by the Saudi Digital Government Authority's National Digital Transformation Programme, the deployment of advanced 5G networks, and the rollout of cloud computing and cybersecurity infrastructure across both public and private sectors. For foreign investors, this trajectory signals a rapidly improving digital operating environment, reducing transaction costs and increasing the feasibility of technology-intensive business models.

Saudi Arabia's innovation performance has similarly improved materially. The Kingdom's Global Innovation Index ranking improved from 66th globally in 2021 to 46th in 2025, while consistently maintaining second place among GCC economies throughout the study period (Table 4). This progression reflects investments in research and development, the expansion of technology parks and innovation hubs such as the King Abdullah University of Science and Technology (KAUST), and the integration of innovation metrics into Vision 2030 performance frameworks. Nevertheless, the UAE's continued global leadership position (30th globally in 2025) highlights the maturity gap in its innovation ecosystem that Saudi Arabia still needs to narrow.

Saudi Arabia's digital competitiveness trajectory is similarly encouraging, advancing from 36th globally in 2021 to 22nd in 2025, consistently occupying third place within the GCC throughout the study period (Table 5). Strong performance in digital adoption, data and analytics capabilities, and cybersecurity frameworks underpins this improvement. The Vision 2030-linked Saudi Digital Economy Programme targets a digital economy contribution to GDP of 19.2% by 2030, up from approximately 6% in 2020, signalling the government's commitment to a sustained digitalisation agenda. For FDI purposes, this trajectory is particularly relevant in attracting global technology companies, financial technology firms, and cloud service providers seeking a regional base with robust digital infrastructure.

Nevertheless, the UAE retains a dominant and consistent first place across all three technology and innovation indices in the GCC, suggesting that, despite Saudi Arabia's impressive momentum, the gap in digital ecosystem maturity, talent depth, and innovation culture remains substantial. Closing this gap will require not only

Table 2: Economic growth rate (%) of gulf cooperation council economies, 2021-2024

Country	2021	2022	2023	2024	Rank for 2024	Average growth rate	Rank for average
Bahrain	4.35	6.18	1.19	3.02	2	3.69	3
Kuwait	1.67	6.76	−1.67	−2.56	6	1.05	6
Oman	2.58	7.99	1.19	1.67	5	3.36	4
Qatar	1.63	4.19	1.19	2.77	3	2.45	5
Saudi Arabia	6.52	12	0.54	1.81	4	5.22	1
UAE	4.35	7.51	3.62	3.76	1	4.81	2

Source: Compiled from the Global Economy.com, reports from 2021 to 2024

Table 3: ICT development index scores for Gulf cooperation council and their filtered ranking, 2023-2025

Country	2023 global score (out of 100)	2023 filtered rank	2024 global score	2024 filtered rank	2025 global score	2025 filtered rank
Bahrain	96.5	3	97.5	3	97.5	5
Kuwait	98.2	1	100	1	98.4	2
Oman	90.5	6	91.7	6	92.9	6
Qatar	97.3	2	97.8	2	98.4	2
Saudi Arabia	94.9	5	95.7	5	99.2	1
UAE	96.4	4	97.5	3	98.3	4

Source: Compiled from ICT Development Index, 2023-2025

Table 4: Innovation ranking for gulf cooperation council countries, 2021-2025

Country	2021		2022		2023		2024		2025	
	Global rank	Filtered rank	Global rank	Filtered rank	Global rank	Filtered rank	Global rank	Filtered rank	Global rank	Filtered rank
Bahrain	78	6	72	5	67	5	72	5	62	4
Kuwait	72	4	62	4	64	4	71	4	73	6
Oman	76	5	79	6	69	6	74	6	69	5
Qatar	68	3	52	3	50	3	49	3	48	3
Saudi Arabia	66	2	51	2	48	2	47	2	46	2
UAE	33	1	31	1	32	1	32	1	30	1

Source: Compiled from global innovation index, WIPO, 2021-2025

Table 5: Digital competitiveness ranking for gulf cooperation council, 2021-2025

Country	2021		2022		2023		2024		2025	
	Global rank	Filtered rank	Global rank	Filtered rank	Global rank	Filtered rank	Global rank	Filtered rank	Global rank	Filtered rank
Bahrain	NA	NA	32	4	38	4	30	4	32	4
Kuwait	NA	NA	NA	NA	41	5	45	5	42	6
Oman	NA	NA	NA	NA	NA	NA	NA	NA	36	5
Qatar	29	2	26	2	29	2	26	2	20	2
Saudi Arabia	36	3	35	3	30	3	27	3	22	3
UAE	10	1	13	1	12	1	11	1	9	1

Source: Compiled from IMD world digital competitiveness ranking, 2021-2025

continued infrastructure investment but also deeper engagement with the private sector, stronger academic-industry linkages, and more permissive regulatory environments for emerging technologies such as artificial intelligence, blockchain, and biotechnology.

4.5. Labour Market, Human Capital, and Talent Attraction

Human capital quality and labour market efficiency are important determinants of FDI because the availability of skilled, adaptable, and internationally competitive labour directly affects productivity, scalability, and long-term business success. Multinational investors generally prefer destinations that offer not only cost-effective labour but also regulatory flexibility, deep talent pools, stable workforces, and alignment with international business practices.

Saudi Arabia's labour market presents a complex and changing picture. The Kingdom has a national workforce of approximately 16.5 million, supplemented by an expatriate labour force of roughly 13 million, the largest combined labour pool in the GCC. Vision 2030 has placed workforce nationalisation (Saudisation, or the Nitaqat programme) at the heart of its economic diversification agenda, aiming to significantly increase the participation of Saudi nationals in the private sector workforce. While this initiative has produced meaningful results, including the Saudi female labour force participation rate rising from approximately 17% in 2016 to over 33% in 2024, it has also created transition costs for foreign investors, who face compliance requirements around workforce localisation that can restrict operational flexibility and raise staffing costs in labour-intensive sectors.

Recognising the need to complement Saudisation with talent-attraction strategies, the Saudi government has introduced a set of measures to make the Kingdom more competitive in the global competition for skilled professionals. The Premium Residency programme (similar to the UAE's Golden Visa) offers long-term residency to high-net-worth individuals, senior executives, skilled professionals, and investors. A Special Talent Residency category targets distinguished scientists, researchers, medical specialists, athletes, and cultural figures. The Special Integrated Logistics Zone (SILZ) and various special economic zones offer customised employment frameworks designed to attract internationally mobile talent in logistics, manufacturing, and advanced industries.

However, Saudi Arabia's talent-attraction offer currently lags behind the UAE's in several areas. The UAE's more open social environment, more varied entertainment and lifestyle infrastructure, and longer track record as a global expatriate destination give it a clear advantage in attracting and retaining talent. For foreign firms, the depth and quality of the available talent pool, rather than the long-term pipeline, is often the deciding factor in location decisions. Saudi Arabia's recent social liberalisation measures, including the relaxation of gender segregation rules, the establishment of an entertainment sector under the General Entertainment Authority, and expanded tourism access, have significantly improved its appeal to international talent, but further progress is needed to match the UAE's established advantage.

4.6. Regulatory Quality, Ease of Doing Business, and Institutional Environment

Regulatory quality and institutional stability are important determinants of FDI because they directly affect transaction costs, predictability, and long-term investment security. Foreign investors prefer jurisdictions with transparent, consistently enforced regulations that are in line with international best practices, as regulatory uncertainty increases operational risk and discourages capital commitment.

Saudi Arabia has made significant progress in improving its regulatory environment over the study period. The Ministry of Investment of Saudi Arabia (MISA) (2024) has simplified investment licensing, reduced establishment timeframes, and expanded the range of activities open to full foreign ownership. A comprehensive Company Law overhaul in 2022 modernised corporate governance frameworks, strengthened minority shareholder protections, and brought Saudi commercial law closer to international standards. The Saudi Centre for Commercial Arbitration (SCCA) has expanded its capacity and international recognition, providing investors with better mechanisms for dispute resolution. The Public Investment Fund (PIF), with assets under management exceeding USD 900 billion, has played an active role in co-investing alongside foreign partners, reducing risk on large project investments, and demonstrating sovereign commitment to the investment agenda.

The Vision 2030 reform programme has also improved Saudi Arabia's rankings in global competitiveness frameworks. Saudi Arabia's position in the World Bank's Doing Business Index improved significantly before the index was discontinued, and its standing in the IMD World Competitiveness Yearbook and the World Economic Forum Global Competitiveness Report has also strengthened. However, investors continue to cite challenges, including bureaucratic complexity at sub-national levels, inconsistent regulatory interpretation across government entities, long approval processes for specific project categories, and limited transparency in government procurement, all of which, if not addressed, risk reducing the impact of high-level reform commitments.

The judicial and dispute resolution environment remains an area that needs further development. While MISA has established dedicated investor service centres and fast-track dispute mechanisms, Saudi Arabia's judicial system, which incorporates elements of Islamic law (Sharia) alongside commercial codification, can pose challenges for foreign investors unfamiliar with its procedures. Continued investment in specialised commercial courts, expanded use of international arbitration conventions, and greater consistency in judicial precedents will be essential to maintaining investor confidence as the volume and complexity of FDI-related transactions increase.

4.7. Tax Policy, Special Economic Zones, and Fiscal Incentives

Tax policy and fiscal incentives play a decisive role in shaping the location choices of foreign investors because they directly affect after-tax returns, cost structures, and long-term investment viability. Jurisdictions with predictable, competitive, and transparent tax regimes are more likely to attract efficiency-seeking and profit-oriented FDI.

Saudi Arabia's tax environment has undergone significant changes in recent years. The Kingdom imposes a 20% corporate income tax on foreign-owned entities, which is substantially higher than the UAE's 9% federal corporate tax, although exemptions and incentives in special economic zones can reduce effective rates considerably. Zakat (an Islamic levy of 2.5% on net assets) applies to Saudi and GCC-owned businesses, while foreign entities are subject to corporate income tax. Value-Added Tax, introduced at 5% in 2018 and increased to 15% in 2020, represents a higher consumption tax burden than in peer GCC economies, including the UAE (5%). Withholding taxes on dividends, royalties, and management fees payable to non-resident entities further affect the effective after-tax return for foreign investors and have been noted in investor surveys as a source of complexity and additional cost.

To address these structural disadvantages, Saudi Arabia has developed a network of special economic zones (SEZs) that offer significantly improved fiscal incentives. The four currently operational SEZs, the Ras Al Khair SEZ (industrial and mining), the Jazan SEZ (food processing and logistics), the Cloud Computing SEZ (technology and data), and the King Salman Energy Park (SPARK; energy services and manufacturing) offer foreign investors reduced corporate tax rates (ranging from 5% to a temporary zero rate in specific cases), import duty exemptions, simplified customs procedures, and fast licensing. The NEOM special jurisdiction, though structured differently, similarly offers a customised regulatory and fiscal framework designed to attract frontier technology and infrastructure investment.

In addition, Saudi Arabia has actively pursued a network of bilateral investment treaties (BITs) and double taxation avoidance agreements (DTAAs), providing foreign investors with stronger legal protections and reduced tax friction on cross-border capital flows. As of 2024, the Kingdom has concluded DTAAs with over 60 countries, and its BITs network has been expanded and updated to incorporate modern investor protection standards. The Ministry of Finance has also introduced a range of sector-specific incentive programmes, including subsidised industrial land, energy price support for manufacturing investors, and public-private partnership frameworks in infrastructure, healthcare, and education. These measures collectively improve the after-tax viability of foreign investment in priority sectors, although their complexity and administrative requirements can create friction in practice.

5. SAUDI ARABIA'S FUTURE FDI PROSPECTS AND STRATEGIC TRAJECTORY

Saudi Arabia's FDI trajectory over the medium to long term is shaped by a combination of favourable structural trends and ambitious policy commitments, supported by Vision 2030 and the National Investment Strategy (NIS). The NIS, launched in 2021 with an explicit target of attracting USD 100 billion in annual FDI by 2030, represents the most ambitious investment promotion plan in the Kingdom's history. Achieving this target would require more than a sixfold increase compared to 2024 inflows, which is a challenging but not impossible ambition given Saudi Arabia's underlying economic scale and the scale of planned giga-projects.

Several structural factors support a positive medium-term outlook for FDI. First, Saudi Arabia's domestic market size and demographic dynamics, including a young and increasingly urbanised population with rising disposable income, will generate sustained demand across a growing range of tradeable and non-tradeable sectors, creating natural investment opportunities for market-seeking FDI. Second, the portfolio of giga-projects currently under development, including NEOM, The Red Sea Project, Diriyah, Amaala, Qiddiya, and others, represents an investment pipeline of extraordinary scale, estimated at over USD 1.3 trillion in combined project value. Even partial realisation of this pipeline will generate significant direct and catalytic FDI inflows in construction, advanced manufacturing, tourism, and supporting services.

Third, Saudi Arabia's strategic position in the energy transition offers distinctive opportunities for green FDI. The Kingdom's exceptional renewable energy resource endowment, among the highest solar irradiance levels globally and significant wind potential, combined with massive sovereign capital through the PIF and the Aramco dividend stream, allows for co-investment structures that are attractive to international clean energy developers, hydrogen producers, and battery technology manufacturers. The National Renewable Energy Programme targets 50% renewable electricity generation by 2030, requiring an estimated USD 50 billion in energy sector investment, a significant portion of which is expected to come through FDI.

Fourth, Saudi Arabia's growing integration into global value chains, driven by active trade diplomacy, new free trade agreement negotiations, and the strategic development of industrial and logistics clusters, improves its attractiveness to efficiency-seeking FDI. The Kingdom's accession to the WTO Government Procurement Agreement, participation in regional integration frameworks, and deeper economic relationships with China, South Korea, Japan, and major European economies create new channels for technology transfer and investment partnerships.

However, realising this potential will require sustained attention to several risk factors. Global macroeconomic conditions, including interest rate movements, commodity price cycles, and broader Middle East geopolitical tensions, could reduce FDI inflows to a degree largely beyond Saudi Arabia's policy control. Internally, the pace and consistency of institutional reform implementation, the resolution of labour market transition challenges as Saudisation targets become more demanding, and the ability to deliver on mega-project commitments without significant cost overruns or delays will be critical to investor confidence. Maintaining the reform momentum and ensuring that regulatory improvements at the national level are effectively translated into actions at the business registration and project approval levels remain the central execution challenges for investment promotion authorities.

6. POLICY RECOMMENDATIONS FOR ENHANCING SAUDI ARABIA'S FDI ATTRACTIVENESS

Based on the above analysis, the following policy recommendations are proposed to improve Saudi Arabia's FDI attractiveness in a sustained and diversified manner. These recommendations are structured around six priority areas.

6.1. Regulatory Modernisation and Investor Experience

Saudi Arabia should accelerate the digitalisation and consolidation of investment-related regulatory processes, establishing a single, unified digital platform for business registration, licensing, permit issuance, and compliance monitoring, similar to Dubai's integrated free zone services. Reducing approval timelines to international best-practice standards (typically below 5 working days for routine licensing), expanding the range of activities open to 100% foreign ownership, and implementing systematic regulatory impact assessment for all new investment-related legislation would significantly reduce compliance costs and improve the investor experience. Specialised investor ombudsman services and dedicated fast-track dispute resolution mechanisms should be strengthened and promoted internationally.

6.2. Tax Competitiveness and Incentive Structure

While full alignment with the UAE's 9% corporate tax rate may not be possible given Saudi Arabia's fiscal commitments, recalibrating the tax incentive structure within SEZs and moving toward a more unified, transparent, and sector-neutral incentive framework would improve clarity and reduce investor complexity. A structured review of withholding tax rates on dividends and royalties, with a view to reducing effective tax burdens for qualifying foreign investors in priority sectors, could improve after-tax return comparisons with peer jurisdictions. The VAT regime should be evaluated for selective relief mechanisms for export-oriented and technology-intensive investors, in line with international practice.

6.3. Talent Attraction and Labour Market Flexibility

Saudi Arabia should pursue a two-track talent strategy: Simultaneously developing the domestic workforce through education-to-employment pipeline investments while removing structural barriers to attracting internationally mobile skilled professionals. The Premium Residency programme should be simplified, expanded, and more actively promoted through Saudi diplomatic networks and investment promotion activities. A pilot programme offering time-limited full labour market flexibility, free from Nitaqat compliance requirements, within designated innovation zones and SEZs could attract knowledge-intensive investors for whom access to talent is the main location constraint. Continued progress in social liberalisation, lifestyle infrastructure, and personal freedoms is equally important in improving Saudi Arabia's appeal for expatriate talent.

6.4. Innovation Ecosystem and Digital Economy Development

Saudi Arabia should prioritise closing the innovation competitiveness gap with the UAE through targeted investments in research infrastructure, academic-industry collaboration platforms, and start-up ecosystem development. A dedicated National Innovation Fund, co-financed by PIF and international venture partners, could support early-stage technology investment and talent retention in high-value sectors including artificial intelligence, biotechnology, advanced manufacturing, and financial technology. Regulatory sandboxes that allow the testing and scaling of disruptive business models, particularly in fintech, health tech, and smart city technologies, would show institutional openness to innovation and attract global technology leaders.

6.5. Sectoral Diversification of FDI

Investment promotion efforts should be more precisely targeted at sectors where Saudi Arabia has genuine competitive advantages compared to GCC peers, including mining and minerals processing, petrochemical downstream industries, renewable energy and green hydrogen, logistics and supply chain services, healthcare and pharmaceuticals, and entertainment and tourism. Sector-specific investment roadmaps, supported by transparent data on available opportunities, risk-sharing mechanisms, and offtake guarantees, would reduce information gaps and lower entry barriers for first-mover foreign investors. Strengthening backward and forward links between foreign investors and domestic Saudi suppliers would improve multiplier effects and create more sustained economic value from FDI inflows.

6.6. Investment Aftercare and Reputation Management

Saudi Arabia's ability to sustain FDI inflows depends not only on attracting new investors but also on ensuring that existing investors have positive operational experiences and expand their commitments over time. A structured investment aftercare programme, including dedicated relationship management for major investors, proactive monitoring of operational challenges, and rapid escalation pathways for regulatory issues, should be institutionalised within MISA. International investor satisfaction surveys and transparent public reporting on FDI outcomes, including employment generation, technology transfer, and supply chain localisation, would build credibility and support positive referrals within global investment communities. Saudi Arabia' international reputation management, through sovereign communications and high-profile investment conferences such as the Future Investment Initiative (FII), should be complemented by consistent delivery on reform commitments to ensure that the narrative and the reality remain aligned.

7. CONCLUSION

This study set out to assess Saudi Arabia's current position as an FDI destination within the GCC, examine the main determinants shaping its attractiveness, evaluate its future prospects, and propose policy measures to improve its competitive standing. The comparative analysis, based on a comprehensive range of macroeconomic, institutional, technological, and policy-related indicators for the period 2020-2024, produces several consistent and policy-relevant findings.

The evidence confirms that Saudi Arabia holds a well-established second position among GCC economies in FDI attraction, with cumulative inflows of USD 95.2 billion over the study period. This performance reflects the transformative impact of Vision 2030 on the Kingdom's investment climate, including regulatory liberalisation, institutional modernisation, the development of special economic zones, and the use of the Public Investment Fund as a catalytic co-investor. Saudi Arabia's intrinsic structural advantages, the largest domestic market in the GCC, the highest average economic growth rate over the study period, a rapidly improving digital and innovation ecosystem, and a compelling long-term sectoral investment pipeline, provide a strong foundation for sustained FDI attraction.

Nonetheless, a significant and persistent gap remains between Saudi Arabia and the UAE, the GCC's leading FDI destination, across multiple dimensions, including institutional maturity, talent-attractiveness, regulatory consistency, depth of the digital ecosystem, and investor experience. Closing this gap is the central challenge of Saudi Arabia's FDI promotion agenda and requires a sustained, multi-dimensional policy response rather than incremental adjustments to existing frameworks.

The study's policy recommendations, focused on regulatory modernisation, tax competitiveness, talent attraction, innovation ecosystem development, sectoral FDI diversification, and investment aftercare, provide a practical roadmap for advancing Saudi Arabia's competitive position. Importantly, these recommendations are grounded in an understanding that FDI attractiveness is not the result of any single factor, but rather an emergent property of a mutually reinforcing ecosystem of macroeconomic fundamentals, institutional quality, human capital availability, technological readiness, and fiscal competitiveness. Achieving the National Investment Strategy's target of USD 100 billion in annual FDI by 2030 will require the consistent, credible, and operationally effective implementation of reforms across all these dimensions.

Future research could extend this analysis by incorporating firm-level survey data to capture investor perceptions and decision-making processes, using econometric panel data methods to quantify the marginal impact of individual reform initiatives on FDI inflows, and examining the sectoral composition of FDI to assess whether inflows are shifting toward higher-value, productivity-enhancing activities consistent with Vision 2030's diversification objectives. Overall, the evidence presented confirms that Saudi Arabia has the scale, ambition, and reform momentum to become the GCC's foremost FDI destination, but that translating potential into sustained performance will require unwavering commitment to institutional transformation and investor-centric governance.

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