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## GLOBAL COMPETITIVENESS AND FDI INFLOWS IN GCC WITH REFERENCE TO SAUDI ARABIA: A PATH ANALYSIS APPROACH Mahmoud Magdy BARBARY

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### Abstract

This study investigates the impact of global competitiveness factors on Foreign Direct Investment (FDI) inflows in the Gulf Cooperation Council (GCC) countries, with a focus on Saudi Arabia, during the period 2010-2022. Utilizing a path analysis approach, the research examines the impact of basic requirements, efficiency enhancers, innovation factors, and GDP growth on FDI inflows. The findings reveal that competitiveness efficiency enhancers, particularly infrastructure, market efficiency, and labor market conditions, play a pivotal role in attracting FDI to the GCC region, especially Saudi Arabia. In contrast, basic requirements, innovation factors, and GDP growth, while essential for long-term development, do not independently influence immediate FDI inflows.

The study highlights the interaction between different competitiveness factors, noting that basic requirements can amplify the effect of efficiency enhancers, whereas a negative interaction between efficiency enhancers and innovation suggests a potential trade-off. Policymakers are urged to adopt a balanced approach, enhancing infrastructure and labor market efficiency while aligning foundational and innovation policies to sustain long-term FDI growth. The research offers key policy implications, suggesting that a focus on efficiency-driven reforms, combined with strengthening macroeconomic stability and innovation frameworks, will help maximize FDI inflows in the region.





Keywords: Global competitiveness; FDI; GDP growth; GCC; Saudi Arabia.

JEL: 043; 047; 057.

### 1. INTRODUCTION

Foreign Direct Investment (FDI) plays a pivotal role in economic development, especially in emerging markets such as GCC countries. FDI is widely recognized for its ability to stimulate economic growth, transfer technology, create jobs, and enhance global integration. As part of the Kingdom's Vision 2030, Saudi Arabia has sought to reduce its dependency on oil revenues by diversifying its economy, with a significant emphasis on attracting foreign investments in key sectors such as renewable energy, healthcare, and technology (Saudi Vision 2030, 2020).

Global competitiveness, as defined by the World Economic Forum, refers to the set of institutions, policies, and factors that determine the level of productivity in a country. It is widely considered a critical factor in attracting FDI, as competitive economies are better able to offer favorable investment climates, ensure regulatory efficiency, and foster innovation (Porter, 1990; Schwab, 2019). Saudi Arabia's competitiveness has improved in recent years, bolstered by reforms aimed at enhancing the business environment, improving infrastructure, and fostering human capital development (IMD, 2022). Despite these improvements, challenges remain in translating competitiveness gains into sustained FDI inflows, making this relationship an important area for investigation.

While Saudi Arabia has made significant strides in improving its global competitiveness, the link between these improvements and FDI inflows remains underexplored. Existing studies often examine either competitiveness or FDI in isolation, with limited consideration of their interdependencies, particularly in the context of emerging economies (Barbary & Salman, 2025). Moreover, many empirical studies on FDI inflows rely on linear models that do not fully capture the complexity of the relationships between key economic variables, such as GDP and competitiveness. To address this gap, this research employs path analysis, a statistical modeling technique that allows for the examination of both direct and indirect relationships between variables (Kline, 2015).

This study seeks to answer the following question: *What is the direct and indirect impact of global competitiveness on FDI inflows and GDP in GCC countries?* Specifically, the study will test the hypothesis that global competitiveness has both a direct positive effect on FDI inflows and an indirect effect through its influence on GDP growth.

The main objectives of the study are to examine the direct impact of global competitiveness on FDI inflows in GCC countries focusing on Saudi Arabia,





analyze the indirect effects of global competitiveness on FDI inflows through GDP growth, and to provide policy recommendations for enhancing Saudi Arabia's investment climate by leveraging competitiveness improvements.

This research is significant for both academics and policymakers. From an academic perspective, the study contributes to the limited empirical literature on the determinants of FDI inflows in Saudi Arabia, particularly through the lens of global competitiveness. By employing path analysis, the study offers a more nuanced understanding of the causal relationships between competitiveness, GDP, and FDI inflows, going beyond traditional linear models (Hair et al., 2014).

For policymakers, the findings provide actionable insights into the role of competitiveness' reforms in attracting FDI. As Saudi Arabia continues to pursue its Vision 2030 goals, understanding the drivers of FDI is crucial for crafting policies that will attract long-term investment and support sustainable economic growth (Saudi Vision 2030, 2020).

Based on the foregoing the study will be organized as follows: after the introduction, the study presents a detailed literature review, theoretical perspectives, and previous empirical findings related to global competitiveness and FDI inflows. The third section will focus on the nature of the GCC economies specially Saudi's economy in light of 2030 vision and its macroeconomic indicators, the fourth section outlines the methodology and data analysis, variable definitions, and the statistical model (Path analysis) used in the analysis, then the results of the path analysis, followed by a discussion of the findings, policy implications, limitations of the study, and suggestions for future research. Finally, the conclusion of the study.

## 2. LITERATURE REVIEW AND PREVIOUS EMPIRICAL STUDIES

The concept of competitiveness is not a modern concept, as different economic schools have addressed the concept of competitiveness either explicitly or implicitly. The classical school focused on the concept of competitiveness on the relative costs of production elements that enable the state to specialize in producing certain goods or services in which it has an absolute advantage or a relative advantage (Voinescu & Moioiu, 2014). While the neoclassical school focused on competitiveness from a microeconomic perspective that is necessarily reflected at the macro level. There are also many contemporary views such as Paul Krugman, who linked competitiveness to production growth and made output growth the primary driver of global competitiveness (Siudek & Zawojska, 2014).





Next, the development of the concept of competitiveness, its measurement indicators, and its relationship to foreign direct investment and GDP growth are discussed.

#### **2.1.Global Competitiveness: Theoretical Perspectives**

Global competitiveness, as defined by the World Economic Forum (WEF), is a nation's ability to provide high levels of prosperity to its citizens. This ability hinges on the productive use of resources and the efficiency with which a country utilizes its institutions, policies, and other factors of production (Schwab, 2019). According to the *Global Competitiveness Report* by the WEF, competitiveness is measured across various pillars, including institutions, infrastructure, macroeconomic stability, health, education, market efficiency, and innovation capacity. In competitive economies, these factors tend to converge to foster sustainable growth and development.

The WEF wasn't the only international organization to address the global competitiveness. The international institute for management development (IMD) defines competitiveness as a comprehensive concept that evaluates the ability of the state to create and maintain a sustainable economic environment capable of creating added value for the institutions of this country and improving the welfare of its citizens economically, socially and culturally (Barbary, 2023). The Economic Committee formed by USA President Reagan in 1984 to discuss the competitiveness of the US economy, OECD, and the European Development Report 2000 are among the most important contributors to study and measure the global competitiveness. (Martin, 2003) Michael Porter's Competitive Advantage of Nations (1990) remains foundational in understanding competitiveness. Porter highlights that a nation's competitive advantage is derived from its ability to innovate and upgrade its industries. His diamond model identifies four determinants of national competitiveness: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. Countries that improve these determinants are more likely to attract FDI by providing stable, efficient, and innovation-driven markets. Porter's framework further indicates that the competitiveness of a nation is interlinked with its ability to attract foreign capital, as competitiveness fosters a conducive business environment that entices global investors.

A major source of theoretical controversy regarding global competitiveness is the difference between the concept of competitiveness at the microeconomic level and its concept at the macroeconomic level. Competitiveness at the microeconomic level has a clear and specific concept, as it is considered the ability of an institution to produce goods and services that meet the needs of consumers, which enables it to remain in the market, and in the event of its





inability to do so, it exits the market. While competitiveness at the macro level does not have the same clear concept, as it is a set of multiple indicators, each of which individually expresses a specific economic phenomenon. However, combining these indicators into one indicator, which is global competitiveness, may not give any consideration for what this indicator means, or how the country benefits from it if it improves or how it is harmed if it decreases. In addition, competition at the macro level does not follow the same rules as competition at the micro level, as the success of a country in international markets may create more opportunities for the success of other countries, and therefore the improvement of the economic conditions of a country may not necessarily be at the expense of harming other countries. (Barbary, 2023) Regarding the measures of global competitiveness, the WEF relies on an index containing 12 indicators such as institutions, labor, financial, and product markets, health and education (Schwab, 2019). The Global Competitiveness Index of IMD is based on 4 main indicators such as economic performance, infrastructure, and government and business efficiency (IMD, 2019). The competitiveness index of the American competitiveness council is measured based on four indicators such as investment, infrastructure, human capital. And productivity (Metwally, 2021).

#### 2.2.Foreign Direct Investment (FDI) and Its Determinants

FDI is widely recognized as a critical component of economic development, particularly in emerging markets. According to Dunning's eclectic paradigm, FDI inflows are determined by three primary factors: ownership advantages, location advantages, and internalization advantages (Dunning, 1993). Ownership advantages refer to firm-specific assets such as technology, brand equity, and managerial expertise that multinational companies bring to foreign markets. Location advantages are the characteristics of the host country that attract FDI, including natural resources, market size, and economic stability. Internalization advantages are the benefits firms derive from producing goods and services internally rather than outsourcing to third parties. These factors together drive the decision of multinational corporations to invest in foreign markets, including Saudi Arabia.

Research has shown that competitiveness significantly influences FDI inflows. For instance, a competitive economy characterized by efficient regulations, strong institutions, and a well-educated labor force can attract sustained FDI (World Bank, 2021). Moreover, increased global integration and openness have made global competitiveness a key determinant for investors seeking stable and growth-conducive environments. As Saudi Arabia embarks on economic diversification as part of Vision 2030, global competitiveness plays





a vital role in attracting FDI in non-oil sectors such as healthcare, renewable energy, and information technology (Ramady, 2010).

#### 2.3. The Relationship between Competitiveness and GDP Growth

Competitiveness does not only influence FDI; it also impacts overall economic growth. According to the Solow growth model, long-term economic growth is driven by technological progress and capital accumulation (Solow, 1956). Competitiveness' reforms that enhance a country's innovation capacity, education system, and infrastructure development can lead to productivity gains, which, in turn, drive GDP growth. Studies have demonstrated that competitive economies tend to have higher growth rates due to their ability to attract investments, stimulate innovation, and increase efficiency in the use of resources (Schwab, 2019).

Moreover, studies by Sala-i-Martin et al. (2008) find that competitiveness directly influences GDP by fostering innovation, improving institutional efficiency, and enhancing infrastructure. These factors contribute to a more favorable business environment that promotes investment and economic activity, thereby boosting economic growth. Emerging economies that have successfully improved their global competitiveness have seen accelerated economic growth rates, often surpassing those of more developed economies (Sala-i-Martin, Bilbao-Osorio, & Blanke, 2008).

Additionally, Furman, Porter, and Stern (2002) highlight the role of innovation in enhancing competitiveness and spurring economic growth. Their research shows that countries with robust innovation systems and competitive markets tend to achieve higher productivity and sustained economic growth. They argue that innovation is a key channel through which competitiveness translates into GDP growth, as it enables countries to move up the value chain and produce higher-value-added goods and services.

In summary, the relationship between competitiveness and GDP growth is well-established in both theoretical and empirical literature. Competitive economies are better positioned to achieve sustained economic growth through productivity enhancements, innovation, and efficient resource allocation. Policymakers often focus on improving national competitiveness to foster economic development and ensure long-term prosperity.

#### **2.4.Previous Empirical studies**

Several empirical studies have addressed the relationship between foreign direct investment and competitiveness, but the problem in most of these studies was the variables that were used to express competitiveness, as most studies addressed only one sub-index or only one determinant of competitiveness and did not address all competitiveness indicators to analyze the relationship





between global competitiveness as a comprehensive variable and foreign direct investment.

Meyer and Sinani (2009) analyze the relationship between institutional quality and FDI flows into transition economies. Their study highlights how institutional factors such as governance, regulatory quality, and corruption influence FDI. They find that improvements in institutional quality are positively associated with increased FDI inflows, suggesting that a more competitive institutional environment attracts more investment.

Also, Barbary (2023) analyzed the relationship between global competitiveness and GDP in MENA countries, concluded that WEF global competitiveness 12 sub-indicators affect GDP in MENA countries, but infrastructure sub-index was insignificant because most of the infrastructure investments in MENA countries were related to the extractive industries such as oil and natural gas, also innovation sub-index was insignificant due to the nature of the MENA countries' economies which are mainly developing countries.

Bénassy-Quéré, Coupet, and Mayer (2007) investigate how various institutional determinants impact FDI. Their results indicate that countries with better institutions, including regulatory frameworks and property rights protection, tend to attract more FDI. This study underscores the role of institutional competitiveness in shaping FDI flows.

Cheng and Kwan (2000) explore the determinants of FDI location in China, focusing on factors such as economic competitiveness, infrastructure, and market potential. Their findings suggest that economic competitiveness, including aspects such as infrastructure quality and market size, significantly influences FDI decisions.

The literature suggests that global competitiveness is a critical determinant of FDI inflows, particularly in emerging economies like Saudi Arabia. Improvements in competitiveness pillars such as infrastructure, education, and market efficiency are associated with higher FDI inflows. Additionally, competitiveness has an indirect impact on FDI through its influence on GDP growth. Competitive economies tend to attract more investment and experience higher growth rates, making competitiveness a key factor for economic policy.

#### 3. GLOBAL COMPETITIVENESS AND FDI IN GCC

The relationship between global competitiveness and FDI hasn't get the required attention in GCC countries specially with relying on oil and gas sector in those countries which has most of the FDI inflows, knowing that investments in oil extraction sector do not require improving the country's level in terms of global competitiveness indicators, but are linked to other





logistical and political determinants. On the other side, the relationship between global competitiveness and foreign direct investment (FDI) is particularly significant for Saudi Arabia, given the country's strategic objectives outlined in *Vision 2030*, which seeks to diversify the economy away from oil dependency and enhance its competitiveness in global markets. Over the past 25 years, Saudi Arabia has implemented numerous reforms aimed at improving its business environment and attracting higher levels of FDI. These reforms have included regulatory changes, institutional improvements, and investments in infrastructure, all of which are essential components of competitiveness.

#### **3.1.Global competitiveness trends in GCC**

The GCC countries' global competitiveness score is considered high compared to the other countries in MENA Region because of the development strategies followed by these countries and as a result of the high income that improves the level of health and education. The following Table 1 shows the average score of the GCC countries in the global competitiveness sub-indicators, which consists of three indicators: Competitiveness basic requirements (institutions, infrastructure, macroeconomic environment, health and primary education). Competitiveness efficiency enhancers (higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size). Competitiveness innovation factors (business sophistication, innovation), in addition to the average score of countries in the overall competitiveness index, from 2010-2022.

country	Global	Competitiveness	Competitiveness	Competitiveness
	competitiveness	basic	efficiency	innovation
	index	requirements	enhancers	factors
Saudi Arabia	4.94	5.45	4.71	4.12
Bahrain	4.54	5.21	4.56	3.77
UAE	5.1	5.98	4.98	4.52
Kuwait	4.54	5.12	4.17	3.4
Qatar	5.14	5.84	4.72	4.63
Oman	4.49	5.27	4.33	3.81

**Table 1.** GCC countries' average global competitiveness indicators 2010-2020 (1 lowest - 7 highest)



Source: Author's calculation based on Global Competitiveness Reports of WEF (2010-2020) It is noted from Table 1 that competitiveness basic requirements are the best indicator in terms of score, while the innovation factors get the lowest score in all GCC countries. Also, all the results for all variables are very close between all countries, because of the social and geographical proximity and the proximity of the economic nature of the GCC countries.

The World Economic Forum's *Global Competitiveness Report* has consistently tracked Saudi Arabia's progress in enhancing its global competitiveness. In the late 1990s and early 2000s, Saudi Arabia's competitiveness was largely influenced by its natural resource wealth, particularly oil. However, this dependency also made the economy vulnerable to fluctuations in global oil prices, which led to periods of economic instability. As a result, Saudi Arabia embarked on a series of reforms aimed at creating a more diversified and sustainable economic model.

Saudi Arabia's competitiveness began to improve significantly after its accession to the World Trade Organization (WTO) in 2005. WTO membership encouraged Saudi Arabia to modernize its trade policies, streamline regulations, and open its economy to foreign investors (Ramady, 2010). The country's efforts to improve institutional quality, infrastructure, and education have been reflected in its competitiveness rankings. For instance, in the 2019 *Global Competitiveness Report*, Saudi Arabia ranked 36th out of 141 countries, highlighting the progress made in areas such as market efficiency, financial system development, and innovation capability (Schwab, 2019).

The next Table 2 shows the Saudi's competitiveness indicators from (2010-2020) which varies from 1 as the minimum score and 7 as the maximum score

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Global Competitiveness Index – world economic											
forum	4.72	4.75	4.95	5.17	5.19	5.1	5.06	5.07	4.84	4.83	4.9
institution	4.8	4.84	5.22	5.47	5.35	5.13	4.97	5.07	5.1	5.01	4.41
infrastructure	4.4	4.63	5.07	5.31	5.23	5.18	5.19	5.09	5.07	5.2	5.46
macroeconomic stability	6	5.86	5.35	6.09	6.55	6.69	6.67	6.63	4.71	4.87	7
health	5.7	5.37	5.64	5.78	5.82	5.92	6.03	6.01	5.98	6.03	5.74
Skills	4.3	4.29	4.55	4.81	4.79	4.65	4.64	4.73	4.8	4.87	5.25
Product market	4.7	4.79	5.11	5.25	5.12	4.79	4.68	4.7	4.64	4.6	4.55
Labor market	4.4	4.33	4.42	4.57	4.47	4.31	4.25	4.3	4.3	4.1	3.99
Financial system	4.2	4.44	4.83	5.06	4.88	4.71	4.66	4.32	4.23	4.16	4.97

**Table 2.** Global competitiveness indicators (WEF) in Saudi Arabia (2010-<br/>2020)





ICT adoption	3.7	4.18	4.17	4.33	4.91	4.6	4.54	4.7	5.01	4.94	4.83
Market size	4.8	4.88	4.97	4.92	4.85	5.07	5.1	5.4	5.44	5.44	5.3
Business dynamism	4.5	4.61	4.91	5.11	4.91	4.74	4.57	4.54	4.52	4.5	3.71
Innovation capability	3.7	3.7	3.92	4.16	4.03	3.93	3.8	3.83	3.69	3.73	3.57

Source: Global competitiveness reports - WEF (2010-2020).

It is noted from Table 2 that the score of Saudi Arabia in most indicators was stable, as Saudi Arabia has demonstrated improvements in several key areas of competitiveness, particularly in infrastructure, skills, and ICT adoption. However, challenges remain in labor market efficiency, business dynamism, and innovation capability, which are critical for sustaining long-term competitiveness. Addressing these issues through continued reforms and diversification efforts will be key to enhancing Saudi Arabia's global competitiveness in the future.

Ease of doing business is another major index that measures the regulatory environment for business operations. Saudi Arabia has made significant strides in improving its ease of doing business, moving up 30 places in the 2020 ranking to reach 62nd globally (World Bank, 2021). This improvement is largely due to regulatory reforms aimed at simplifying procedures for starting a business, obtaining permits, and enforcing contracts.

#### **3.2.FDI** inflows in Saudi Arabia

In recent years, Saudi Arabia has significantly prioritized attracting foreign direct investment (FDI), especially following the introduction of Saudi Vision 2030. This initiative aimed to broaden investment opportunities across various sectors, influencing how the country addresses FDI determinants, including not only economic factors but also infrastructure, technology, cultural aspects, institutional frameworks, human resources, and regulatory environments (Tocar, 2018).

The Saudi business landscape offers several attractive features for FDI, including a robust and stable energy sector, which is crucial given that energy costs are a major component of production expenses in many developing nations. Additionally, Saudi Arabia has a large, expanding high-income domestic market and a leadership committed to comprehensive economic reform. Investment incentives are available in numerous economic zones, such as NEOM and the Red Sea project, and there is easy access to affordable, skilled labor from neighboring countries (USA Department of State, 2023).

These reforms have positively impacted FDI inflows into Saudi Arabia, although these inflows have experienced year-to-year fluctuations. It is important to note that such variations are not unique to Saudi Arabia but are





also observed across many Middle Eastern countries due to both regional and global factors, in 2021 and for the first time, Saudi Arabia got placed among top 25 countries attracting FDI, the following Table 3 showing FDI inflows in several MENA countries from 2017 to 2022.

	2017	2018	2019	2020	2021	2022
KSA	1419	4247	4563	5486	19286	7886
Tunisia	881	1036	845	652	660	713
Morocco	2686	3559	1720	1763	2266	2141
Egypt	7409	8141	9010	5852	5122	11400
Jordan	2030	955	730	726	622	1137
UAE	10354	10385	17875	19884	20667	22737

Table 3	. FDI inflows	in MENA	countries (2	2017-2022)	USD millions
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Source: World investment Report (2023) - UNCTAD

It is noted from Table 3 that the Saudi's FDI inflows had improved gradually due to the investment incentives that the government give to the investors, motivating them to explore many sectors other than oil and gas sector to diversify the Saudi's economy.

The relationship between competitiveness and FDI is mutually reinforcing. A competitive economy is more likely to attract higher levels of foreign investment, while FDI contributes to improving competitiveness by bringing in new technologies, management practices, and skills. In Saudi Arabia, the government's efforts to improve competitiveness through regulatory reforms, infrastructure investments, and human capital development have had a positive impact on FDI inflows. Additionally, the liberalization of sectors such as tourism, entertainment, and technology has opened new opportunities for foreign investors, further enhancing the Kingdom's competitiveness.

However, challenges remain. Saudi Arabia's reliance on oil revenues continues to pose risks to long-term competitiveness and FDI attraction. To mitigate these risks, the country must continue its diversification efforts, invest in innovation and technology, and create a more dynamic private sector that can compete globally.

#### 4. METHODOLOGY AND DATA ANALYSIS





The focus of this study is to investigate the relationship between global competitiveness and FDI inflows in GCC countries, with GDP growth rate as a mediating factor. To achieve this, we will use Path Analysis, which is a form of Structural Equation Modeling (SEM). Path Analysis allows to examine the direct and indirect relationships between the variables and offers a more nuanced understanding of how different competitiveness factors influence FDI inflows.

#### 4.1. The methodological approach:

- Data Collection: data for key variables, including global competitiveness, GDP growth rate, and FDI net inflows in USD billions for GCC countries are gathered from multiple sources such as the World Economic Forum's *Global Competitiveness Report*, World Bank's *World Development Indicators*, and UNCTAD's *World Investment Report*. This data spans a period of 13 years (2010–2022).
- Variables:
  - **Dependent Variable**: Foreign Direct Investment inflows (FDI) in USD billions.
  - **Independent Variables**: 1- Competitiveness basic requirements. 2- Competitiveness efficiency enhancers. 3- competitiveness innovation factors.
  - Mediating Variable: Gross Domestic Product growth rate (GDP growth %)
- **Estimation Technique**: The model will be estimated using Maximum Likelihood Estimation (MLE), which is the most common method for estimating path analysis models.
- Step 1: Descriptive Statistics: the descriptive statistics will be calculated, which will provide insights into the distribution, central tendency, and variability of the variables in your panel data set.
- Step 2: Diagnostic Tests: In panel data analysis, the following diagnostic tests are commonly used:
  - **Multicollinearity Test (VIF Variance Inflation Factor):** Checks for correlation between independent variables.
  - **Normality Test:** Ensures that the residuals of the variables are normally distributed.





- Heteroskedasticity Test: Detects whether there is constant 0 variance in the error terms across the observations.
- Autocorrelation Test: Determines if there are patterns in the residuals, typically using the Durbin-Watson test.
- Stationarity Test (e.g., Levin, Lin & Chu test): Ensures that 0 the variables do not contain unit roots.
- Step 3: Path Analysis: After running the descriptive statistics and diagnostic tests, path analysis will be performed.

#### **4.2.Data Analysis**

4.2.1. **Descriptive Analysis:** In Table 4 we made our descriptive analysis.

Variables	Mean	Maximum	Minimum	Std.Dev.
FDI net inflows (USD				
billions)	4.309862	22.73656	-2.81264	5.745957
Competitiveness Basic				
Requirements	5.492727	6.2	4.69	0.389286
Competitiveness				
Efficiency Enhancers	4.583247	5.24	3.89	0.347178
Competitiveness				
<b>Innovation Factors</b>	4.047922	5.18	2.97	0.540617
GDP Growth Rate (%)	3.072367	19.59233	-5.27402	3.984952

**Table 4.** Descriptive Analysis

Source: AMOS software output.

#### 4.2.2. Diagnostic Tests

The diagnostic tests were conducted to assure that the model is valid, and the results of diagnostic tests came as follow:

Following Table 5 contains Multicollinearity VIF test: multicollinearity VIF test.

Table 5. VIF t	est
Variable	VIF
Competitiveness Basic Requirements	2.69
Competitiveness Efficiency Enhancers	1.82
Competitiveness Innovation Factors	3.09

Table 5	. VIF test
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1.07



Source: AMOS software output.

VIF test results indicate low moderate multicollinearity as all values are under 5.

#### • Normality test:

Path analysis requires that the residuals follow the normal distribution. Jarque-Bera test was conducted, and the results shows that the model's statistics is 1.761762 with P-Value (Sig.) 0.414418. And since the P-Value (Sig.) is greater than 0.05 meaning that the residuals follow the normal distribution.

#### • Heteroskedasticity (Breusch-Pagan Test):

Path analysis requires that there is no heteroscedasticity. This assumption can be verified using the Breusch-Pagan-Godfrey test. Which after doing it the results shows that the Model's Obs\*R-squared equal to 38.54861 while its Prob. Prob. Chi-Square (27) is 0.0696.

It is clear from the results of the analysis that the P-Value (Sig.) is greater than 0.05 meaning that the residuals have constant variance (Homoscedasticity).

- Serial Correlation: The Wooldridge test for autocorrelation in panel data was conducted, indicating no significant autocorrelation as the p-value > 0.05
- **Stationarity Test:** In Table 6, a stationarity test was conducted and its results was recorded.

Table 0. Stationarity Test						
variables	ADF test					
	t-Statistic	Sig.				
FDI net inflows (USD billions)	-4.749124*	0.0002				
Competitiveness Basic Requirements	-7.559544**	0.0000				
Competitiveness Efficiency Enhancers	-9.090462**	0.0000				

#### Table 6. Stationarity Test





Competitiveness Innovation Factors	-9.482205**	0.0000
GDP Growth Rate (%)	-6.152176*	0.0000

Source: AMOS software output.

The results indicate that Y and M variables are stationary at the level using the Intercept constant, where Sig. Less than 0.05. and variables X1, X2 and X3 variables are stationary at the first level of differences I (1) using the Intercept constant, where Sig. Less than 0.05. Yet, non-stationarity does not pose a significant problem in path analysis, as path analysis is based on panel data, so non-stationarity in the variables would not typically require correction.

#### 4.2.3. Path Analysis

Path analysis was conducted to test the existence of a significant and direct relationship between competitiveness three variables and FDI net inflows, also to test the existence of significant and indirect relationship between GDP growth rate (as a mediating variable) and FDI net Inflows through the impact of competitiveness three variables on GDP growth rate.

The following Figure 1 shows the results of path analysis:

#### Figure 1. The Path analysis results



Source: AMOS software output.

Table 7 shows the results of the path analysis to test the direct effects between the variables under study.

#### Table 7. Path analysis between variable.





Independent variables	Directio n	Mediatin g Variable	Estimat e	Standar d error S. E	Calculate d T value (C.R.)	Sig. (P- value )
competitivene ss basic requirement	<i>→</i>	fdi net inflows	2.129	2.869	.742	.458
competitivene ss efficiency enhancer	<i>→</i>	fdi net inflows	7.959	2.583	3.081	.002
competitivene ss innovation factor	<i>→</i>	fdi net inflows	-2.202	2.176	-1.012	.311
competitivene ss basic requirement	<i>→</i>	gdp growth rate	435	1.924	226	.821
competitivene ss efficiency enhancer	<i>→</i>	gdp growth rate	-1.310	1.726	759	.448
competitivene ss innovation factor	<b>→</b>	gdp growth rate	2.515	1.431	1.758	.079
gdp growth rate	<i>→</i>	fdi net inflows	.259	.171	1.515	.130

Source: AMOS software output.

While Table 8 shows the indirect relationship between variables of the study.

#### Table8.Indirectrelationshipbetween

variab	ole.							
Independent variables	Direction	Mediating Variable	Direction	dependent variables	Estimate	Lower Bounds	Upper Bounds	Sig. (P- value)





competitiveness basic requirement	<b>→</b>	gdp growth rate	<i>→</i>	fdi net inflows	113	-1.356	1.169	.830
competitiveness efficiency enhancer	<b>→</b>	gdp growth rate	<i>→</i>	fdi net inflows	339	-1.615	.595	.562
competitiveness innovation factor	<b>→</b>	gdp growth rate	<i>→</i>	fdi net inflows	.651	342	2.166	.268

Source: AMOS software output.

From the previous tables Table 7 and 8, it could be noticed that:

- Regarding the direct relationship between competitiveness basic requirements and FDI net inflows. The value of the regression coefficient was 2.129, which indicates the existence of a positive direct effect between competitiveness basic requirement and the FDI net inflows. The result of the t-test indicates that **this effect is insignificant**, as the level of Sig. (P-value) is .458 which is more than the significance level of 0.05.
- Regarding the direct relationship between competitiveness efficiency enhancers and FDI net inflows. The value of the regression coefficient was 7.959, which indicates the existence of a positive direct effect between competitiveness efficiency enhancers and FDI net inflows. The result of the t-test indicates that this effect is significant, as the level of Sig. (P-value) is .002 which is less than the significance level of 0.05.
- Regarding the direct relationship between competitiveness innovation factors and FDI net inflows. The value of the regression coefficient was (-2.202), which indicates the existence of a negative direct effect between competitiveness innovation factor and the FDI net inflows. The result of the t-test indicates that this effect is insignificant, as the level of Sig. (P-value) is .311 which is more than the significance level of 0.05.
- Regarding the direct relationship between competitiveness three variables and GDP growth rate. value of the regression coefficient of competitiveness basic requirements was -.435, which indicates the existence of a negative direct effect between competitiveness basic requirement and the GDP growth rate. The result of the t-test indicates that **this effect is insignificant**, as the level of Sig. (P-value) is .821 which is more than the significance level of 0.05. Regarding competitiveness efficiency enhancers, the value of the regression coefficient was -1.310, which indicates the existence of a negative direct effect between competitiveness efficiency enhancer and the GDP growth rate. The result of the competitiveness efficiency enhancer and the GDP growth rate.





t-test indicates that **this effect is insignificant**, as the level of Sig. (P-value) is .448 which is more than the significance level of 0.05. Regarding competitiveness innovation factors, the value of the regression coefficient was 2.515, which indicates the existence of a positive direct effect between competitiveness innovation factor and the GDP growth rate. The result of the t-test indicates that **this effect is insignificant**, as the level of Sig. (P-value) is .079 which is more than the significance level of 0.05.

Regarding the impact of GDP growth rate (as a mediating variable) on FDI net inflows through competitiveness three variables. The value of the regression coefficient was .259, which indicates the existence of a positive direct effect between GDP growth rate and the FDI net inflows. The result of the t-test indicates that **this effect is insignificant**, as the level of Sig. (P-value) is .130 which is more than the significance level of 0.05.

To enhance the robustness of the model, the path analysis was reconducted using lagvariable of GDP growth rate. The results can be found in Table 9.

Variable	Coefficient	P-Value
Const	-0.071062941	0.467483145
Competitiveness Basic		
Requirements	0.204723303	0.191024623
Competitiveness Efficiency		
Enhancers	0.473660537	0.000544896
Competitiveness Innovation Factors	-0.226714585	0.178861189
GDP Growth Lagged	-0.04846761	0.63023041

#### **Table 9. Lagged Model Results**

Source: AMOS software output.

The lagged model had improved the results as the  $R^2$  increased from 19.3% to 26.1%, but the effect of lagged GDP growth remained non-significant. As competitiveness efficiency enhancers still the only significant variable. So, interaction model of path analysis has been conducted in Table 10.

Table 10	Interaction	model	results
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Variable	Coefficient	P-Value
Const	-0.110618071	0.32111933
Competitiveness Basic Requirements	0.135222864	0.348737597
Competitiveness Efficiency Enhancers	0.33091411	0.011004853
Competitiveness Innovation Factors	-0.152842386	0.328512892
GDP Growth (Lagged)	-0.019355836	0.831911003





Interaction (Basic-Efficiency)	0.745283241	7.71E-05
Interaction (Efficiency-Innovation)	-0.595191151	0.000738297
Source: AMOS software output.		

By adding interaction terms between competitiveness factors, the model's explanatory power significantly increased, reaching an  $R^2$  of 42%. The interaction between **Competitiveness Basic Requirements** and **Efficiency Enhancers** had a strong positive effect on FDI inflows, while the interaction between **Efficiency Enhancers** and **Innovation Factors** showed a significant negative effect. This suggests that competitiveness factors are interdependent, and their combined effects need to be considered for a more accurate understanding of FDI inflows.

The analysis underscores the importance of examining interaction effects and potential non-linearities in future research or policy decisions

#### 5. DISCUSSION

The results of the study highlight the intricate relationship between competitiveness factors and foreign direct investment (FDI) inflows in the GCC countries. In the initial model, **competitiveness efficiency enhancers** emerged as the only statistically significant factor, positively influencing FDI inflows. This finding is consistent with the notion that factors such as labor market efficiency, market size, and infrastructure development which are core components of efficiency enhancers, are critical in attracting foreign investments. As noted by Porter (1990), such factors play a pivotal role in enhancing a country's comparative advantage, thereby making it more attractive to foreign investors (Dunning, 2008; Wang, 2013).

Conversely, **competitiveness basic requirements**, **competitiveness innovation factors**, and **GDP growth** were found to have nonsignificant effects on FDI inflows in the initial model. While this might seem counterintuitive, it suggests that, in GCC countries, foundational competitiveness factors like health and primary education, macroeconomic stability, and innovation are not yet at levels where they exert a strong influence on FDI (Blomström & Kokko, 2003; Lucas, 1993). This could be because basic requirements are relatively more





standardized across the region, and investors might not see variations in these factors as decisive in making investment decisions (Asiedu, 2006). Innovation factors, though critical in advanced economies, may also not yet be fully developed in these regions to attract substantial FDI (Keller, 2010; Nelson & Pack, 1999).

The lagged model introduced a time-dynamic aspect by lagging GDP growth, which modestly improved the model's explanatory power, increasing the R<sup>2</sup> from 19.3% to 26.1%. However, lagged GDP growth continued to be non-significant, with a p-value of 0.63. This suggests that economic growth in the previous periods does not directly translate into immediate increases in FDI inflows, possibly due to delays in the response of foreign investors to changes in economic conditions (UNCTAD, 2020). This result aligns with findings from previous research, which suggests that while GDP growth is important, its effect on FDI inflows can be subject to significant lags or mediating factors (Lipsey, 2000; Chakrabarti, 2001).

The interaction model provided more nuanced insights, significantly increasing the model's explanatory power to 42%. The interaction between competitiveness basic requirements and efficiency enhancers was particularly noteworthy, with a coefficient of 0.745 and a p-value of 0.00008. This suggests that the positive effect of efficiency enhancers on FDI inflows is amplified in countries with strong foundational competitiveness factors. Such findings support the argument that competitive economies cannot rely on one-dimensional improvements; rather, a holistic enhancement of both basic and efficiency factors is necessary to attract substantial foreign investments (Alfaro, Kalemli-Ozcan, & Volosovych, 2008; Globerman & Shapiro, 2002).

Interestingly, the interaction between efficiency enhancers and innovation factors revealed a negative coefficient (-0.595, p = 0.0007), suggesting that in the presence of high efficiency enhancers, innovation factors might have a counterbalancing effect on FDI inflows. This could be attributed to potential overemphasis on efficiency improvements in industries that require innovation, where investors might perceive a lack of innovation infrastructure as a drawback. This finding resonates with studies emphasizing that developing countries often face trade-offs between efficiency gains and fostering innovation, which requires a longer-term, more strategic investment (Rodrik, 2006; Lall, 1992).

Overall, the analysis underscores the importance of not only examining individual competitiveness factors but also considering their interactions. The significant improvement in model performance when interaction terms were introduced suggests that competitiveness factors





are interdependent, and their combined effects can provide a more accurate understanding of FDI dynamics (Bevan & Estrin, 2004). Future research and policy decisions should account for these interdependencies and explore potential non-linearities to craft strategies that optimize FDI inflows.

## **Policy Implications**

Policymakers aiming to enhance FDI inflows should prioritize creating a balanced strategy that improves both basic competitiveness requirements and efficiency enhancers. As shown in this study, the interplay between these factors is crucial, and neglecting foundational elements such as macroeconomic stability or primary education could undermine the positive effects of efficiency improvements (Dollar & Kraay, 2003). Additionally, while fostering innovation is critical in the long term, governments must ensure that innovation policies complement rather than counterbalance efficiency-driven reforms to maximize FDI attraction (Caves, 2007; Aghion & Howitt, 2006).

#### Limitations of the study

While the study provides important insights into the impact of global competitiveness on FDI inflows within the GCC countries, several limitations must be considered.

One of the main limitations of this study is the limited availability of data over a longer period. The panel data used for each of the six GCC countries may not capture the full extent of economic trends and competitiveness changes over time. This limitation restricts the ability to analyze long-term trends and the potential lagged effects of competitiveness factors on FDI inflows. Future research could benefit from accessing more extended datasets or using alternative data sources to better understand the temporal dynamics of these relationships.

Given that the data is drawn from different sources and may have been compiled under varying methodologies, there is a possibility of measurement errors that could affect the reliability of the results. This is particularly relevant for variables like global competitiveness, which are derived from composite indices that may be subject to subjectivity and changes in methodology over time. Future studies should consider





the potential impact of measurement errors and explore methods to mitigate them.

The limited time frame of the data may emphasize short-term effects while potentially underestimating or missing long-term impacts. The relationships between global competitiveness, GDP growth, and FDI inflows may evolve over longer periods, especially in response to structural economic reforms or shifts in global economic conditions. Future research could aim to distinguish between short-term and longterm effects by utilizing data over more extended periods or employing models that better capture these dynamics.

While the study focuses on the GCC countries, the findings may not be entirely generalizable to other regions with different economic structures and levels of development. The GCC is a unique economic bloc with a heavy reliance on oil exports, which may influence the dynamics between competitiveness, GDP, and FDI in ways that differ from other regions. Future research could expand the scope to include comparative studies with other regions or explore the applicability of the findings in different economic contexts.

#### **Future Research Directions:**

- Extend the time frame of the analysis to include more historical data, if available, to better understand the long-term effects of global competitiveness on FDI inflows.
- Investigate the potential measurement errors in competitiveness indices and other variables and explore methods to mitigate their impact on the results.
- Distinguish between short-term and long-term effects of competitiveness on FDI by employing dynamic models or utilizing longer data series.
- Conduct comparative studies with other regions or economic blocs to test the generalizability of the findings and explore differences in the determinants of FDI inflows.

#### 6. CONCLUSION

This study aimed to examine the impact of global competitiveness factors on Foreign Direct Investment (FDI) inflows in the Gulf Cooperation Council (GCC) countries, with particular focus on Saudi Arabia. Through a path analysis approach, we explored how





competitiveness elements such as basic requirements, efficiency enhancers, innovation factors, and GDP growth influence FDI inflows both individually and in combination.

The results revealed that competitiveness efficiency enhancers comprising infrastructure, market efficiency, and labor market conditions played the most critical role in attracting FDI inflows to Saudi Arabia and the GCC region. This finding underscores the importance of improving efficiency-related factors to boost the region's attractiveness to foreign investors. Notably, the effect of competitiveness basic requirements, innovation factors, and GDP growth were non-significant in isolation, indicating that these variables, while important for long-term development, are not yet decisive for immediate FDI attraction in the region.

The lagged model improved explanatory power slightly by incorporating time-lagged GDP growth, but GDP growth remained a non-significant predictor of FDI inflows. This suggests that economic growth, while critical for overall development, may not translate directly into short-term FDI gains and may be more influenced by other structural and institutional factors.

Crucially, the interaction model revealed that competitiveness factors do not operate in isolation. The positive interaction between basic requirements and efficiency enhancers suggests that foundational elements such as macroeconomic stability and health systems amplify the impact of efficiency-related improvements on FDI. However, the negative interaction between efficiency enhancers and innovation factors indicates a potential trade-off between efficiency and innovation in attracting FDI. Countries may need to balance short-term efficiency gains with long-term innovation development to sustain FDI inflows.

In conclusion, this study highlights the need for GCC countries, particularly Saudi Arabia, to adopt a holistic approach to improving their competitiveness. While efficiency enhancers currently play a significant role, strengthening basic requirements and fostering innovation are crucial for sustaining long-term FDI inflows. Policymakers should focus on enhancing infrastructure, labor market efficiency, and market size, while also ensuring that foundational elements and innovation policies are aligned with these efficiency-driven reforms. This balanced strategy will help maximize FDI inflows and ensure sustained economic growth in the region.

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