Foreign Direct Investment Drivers with regard to Saudi Financial Services

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Submitted in accordance with the requirements for the degree of

Doctor of Philosophy

Brunel Business School

Brunel University

April 30th, 2015

Acknowledgements

First, I am deeply grateful to my supervisors, Dr. Frederick Mmieh and Dr. Chima Mordi of Brunel University, for their depth of insight, understanding, involvement and dedicated supervision at every critical stage of this research, making it possible for me to complete this important study.

I would like to thank the Saudi Arabian Monetary Agency (SAMA) and the Saudi General Investment Authority (SAGIA) for allowing me to use their facilities and for providing me with their support in the collection of the data which has been used in this research. I would also like to thank the various organisations and all those Saudi government officials who contributed to this study, both directly and indirectly. I would also like to express my appreciation to the 104 participating firms and senior executives for their cooperation, patience, and valuable advice.

Finally, I would like to express my heartfelt thanks to all my family members for their good wishes and encouragement, and for their everlasting support and deep understanding and for the patience they showed during my study.

Abstract

The economy of Saudi Arabia is rich in oil. It is the world's leading oil exporter and a prominent member of the Organization of Petroleum Exporting Countries (OPEC), and a country which embraces Foreign Direct Investment (FDI). FDI is core to increasing the capital and the economic wealth of a country. It is a platform for innovative technologies, advanced management practices, investment, and for the development of an unrestricted market for generating goods and services. Host nations struggle to attract FDI because of the difficulty in recognising FDI drivers that shape FDI inflows. This study identifies significant drivers that influence financial services. These are market drivers, economic drivers, infrastructure drivers and political drivers. Noticeably, previous studies have failed to discuss the complexity of these drivers' effectiveness in terms of a particular business and a particular country.

The objective of this study, therefore, is to analyse the effect of different FDI drivers on FDI inflows with regard to Saudi financial services. This study finds that market drivers are the most effective FDI drivers in terms of Saudi financial services, followed by economic and political drivers. This study supports the findings of previous studies that suggest that infrastructure drivers are not effective in terms of FDI inflows with regard to Saudi financial services.

Abbreviations and Acronyms

ARAMCO	Saudi Arabian Oil Company
CITC	Communication and Information Technology Commission
CMA	Capital Market Authority
EU	European Union
FDI	Foreign Direct Investment
GCC	Gulf Cooperation Council
GCR	Global Competitiveness Report
GDP	Gross Domestic Product
GNP	Gross National Product
IMF	International Monetary Fund
JV	Joint Venture
KSA	Kingdom of Saudi Arabia
M&A	Mergers and Acquisitions
MNC	Multinational Corporation
MNE	Multinational Enterprise
NAFTA	North American Free Trade Agreement
NCC	National Competitiveness Center (Saudi Arabia)
OECD	Organization for Economic Cooperation and Development
OLI	Ownership, Location and Internationalization
OPEC	Organization of Petroleum Exporting Countries
PRS	Political Risk Services
R&D	Research and Development
SA	Saudi Arabia
SABIC	Saudi Arabian Basic Industrial Company

SAGIA	Saudi General Investment Authority
SAMA	Saudi Monetary Agency
SPSS	Statistical Package for Social Sciences
SR	Saudi Riyal
TNCs	Trans-National Corporations
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conferences for Trade and Development
USA	United States of America
USD	United States Dollar
WIR	World Investment Report
WTO	World Trade Organization
CEEC	Central and Eastern European Countries
IBM	International Business Machines

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Chapter One

Introduction

1.1 Introduction

The focus of this chapter is to present a broad outline of the study. It gives a summary of the following topics: research background, research objectives, research scope, research questions and hypotheses, research structure, research contributions, research limitations, and future research direction.

1.2 Research Background

Foreign Direct Investment (FDI) is core to increasing the capital and ensuring the development of the economy of a country. It is a platform for innovative technologies, management practices, investment, and the development of an unrestricted market for the generation of goods and services. Therefore, it plays a significant role in improving overall productivity in host nations, and helps improve their general rate of economic development. Host nations struggle to attract FDI because of the difficulty with regard to recognising FDI drivers that shape FDI inflows. A primary economic focus of Saudi Arabia is the need to intensify and increase FDI inflows in order to ensure sustained economic growth.

The UNCTAD's World Investment Report (2014) states that Saudi Arabia now ranks third behind Turkey and the United Arab Emirates as the leading FDI beneficiaries in Western Asia. When contrasted with the size of its economy, it is safe to state that foreign direct investment thrives in Saudi Arabia. The aggregate of inward FDI stock towards the end of 2013 was $208 billion. This is analogous to 28% of Saudi Arabia's GDP. After the petroleum industry, the financial sector is the second most important industry in terms of

attracting FDI, with a share of 17.5% of the total FDI stock in 2013 (SAGIA, 2014). The Saudi Arabian General Investment Authority (SAGIA) is responsible for encouraging a favorable and advantageous atmosphere for investment in the Kingdom. One of its principal goals is to position Saudi Arabia among the ten most competitive countries in the world in terms of FDI.

The location of a host country is of crucial importance for multinational companies when it comes to selecting an appropriate environment as their operating site (Dunning, 1998). Even though Dunning's model offers a framework for location decisions, the appropriate drivers associated with decision-making have not been determined (Ho and Lau, 2007). Thus, this research examines and analyses the effectiveness of FDI drivers, in order to identify which drivers have the most significant effect on FDI inflows with regard to financial services in Saudi Arabia.

1.3 Research Objectives

The primary objective of this study is to identify the effectiveness of FDI drivers in relation to a particular industry (financial services) and a specific country (Saudi Arabia). This will be achieved through a comprehensive survey of the data. The aim will be to create a conceptual framework that can act as a model with which to examine the effectiveness of FDI drivers in a selected host country and selected industry. Another aim will be to influence the FDI policy makers in the Saudi financial sector by identifying what matters the most in terms of FDI inflows. Thus, host governments will be able to attract more FDI to a particular industry and not waste valuable resources on FDI drivers that do not have an effective role to play in terms of FDI inflows.

1.4 Research Questions

This study utilised the same questions used in previous studies (see Blonigen, 2005; Buckley, Devinney and Louvriere (2007); Dunning, 2008) that are evaluated in the literature review to determine which of the FDI drivers are the most effective in relation to FDI inflows. Therefore, the questions that are explored in this research are as follows:

Q1: To what extent do FDI drivers affect FDI inflows in the context of Saudi financial services?

Q1 is divided into sub-questions to explicate the rationale of the research. The sub-questions are as follows:

Q1: To what extent do market drivers affect FDI inflows in the context to Saudi financial services?

Q2: To what extent do economic drivers affect FDI inflows in the context to Saudi financial services?

Q3: To what extent do infrastructure drivers affect FDI in the context to Saudi financial services?

Q4: To what extent do political drivers affect FDI inflows in the context to Saudi financial services?

The primary aim of this research is to explore the effectiveness of FDI drivers as they relate to Saudi financial services. To answer the research questions, the central question is expressed in the form of several hypotheses. These are as follows:

H1: Market drivers affect FDI inflows in regard to Saudi financial services.

H2: Economic drivers affect FDI inflows in regard to Saudi financial services.

H3: Infrastructure drivers affect FDI inflows in regard to Saudi financial services.

H4: Political drivers affect FDI inflows in regard to Saudi financial services.

1.5 Scope of the research

The review of the literature on FDI drivers highlights the lack of clear identification of the related effective drivers in the context to Saudi financial services. Previous studies on FDI drivers usually focused on one or a few drivers, without taking into consideration the host country and the target industry. Therefore, such studies are not applicable when applied to other countries and targeted industries or, as Dunning (2008) stated, a shopping list of FDI drivers. The Saudi Arabian government and other host country governments, especially in developing countries, face difficulty when it comes to identifying the FDI drivers that affect FDI inflows. Such an identification is necessary for these governments to improve their investment policy in order to attract more FDI and to avoid wasting valuable resources on FDI drivers that do not affect FDI inflows. It is believed that, when studying the effect of FDI drivers, current studies should take into consideration the industry, and the host country for the targeted location, which is the focus of this research.

1.6 Research Structure

Chapter 1. Includes the research background, the research objectives, the research questions, the hypotheses, the research structure, the contributions of the research, and the research limitations and future directions.

Chapter 2. Reviews the literature on FDI, including definitions of FDI, the reasons for studying FDI, trends with regard to FDI, types of FDI, key theories of FDI and the literature on FDI drivers.

Chapter 3. An overview of FDI in Saudi Arabia and a discussion of FDI inflows into financial services in Saudi Arabia.

Chapter 4. Reviews the research methods, population definition, sample size, selection of methods, the survey design, data collection, the response rate and the research questions

and hypotheses.

Chapter 5. Presents the analysis of the research findings, including an analysis of the effectiveness of FDI drivers and the empirical analysis model.

Chapter 6. Presents the conclusions and the implication of the study, including the research conclusions, the limitations, future research directions, and the research contribution.

1.7 Research Contributions

Because, as far as the researcher is aware, research of this nature has not been carried out elsewhere, it adds knowledge to the existing literature with regard to FDI inflows in terms of the Saudi financial services. There is only a limited amount of research on the effectiveness of FDI drivers in developing countries. The significance of this study, therefore, stems from its analysis of this issue (the effectiveness of FDI drivers). It is safe to state that this research will be beneficial to developing economies in general, and particularly to Saudi Arabia. It will illuminate their understanding of which FDI drivers matter the most in terms of FDI inflows. This study will create a model to examine the effectiveness of FDI drivers as they relate to Saudi financial services. It is hoped that it will be the starting point for subsequent studies and will offer some valuable understandings, policy implications, and recommendations for the Saudi Arabian government, global firms, and the international business community. A review of Saudi Arabia's economic reform policies and private sector-led investment initiatives, its legal, monetary, political and social issues and business procedures that improve or delay FDI inflows, is a necessary first step for local and foreign investors. It is also necessary for the Saudi government, in order to it to understand the major obstacles that investors face in investing in Saudi Arabia. It also provides the Saudi government with a clear picture of the strategic steps that should be taken to attract new FDI to the country. As the global demand for FDI grows, and the

supply of FDI reduces, there is an overwhelming need better to understand the effect of FDI drivers and how they shape the final destination of FDI.

1.8 Research Limitations

This study is geographically limited to Saudi Arabia as it is naturally focused on FDI in Saudi Arabia. Thus, the wisdom of applying these results to financial services in other countries remains to be established. Another limitation is that the survey samples is limited to financial services in Saudi Arabia, and is not representative of other FDI industries in Saudi Arabia well as other sectors in other countries.

1.9 Future Research

Given that, in the past, this area of study has not been broadly researched, the results and conclusions of this study act as a jumping off point for prospective work on this topic It therefore offers an opportunity for scholars to further extend international business research into the effectiveness of the FDI drivers that determine FDI destinations in other industries and other countries. The findings of this study are critical to the international development community and the business community alike, to allow them to understand better the complexity of MNEs' destination decisions.

Chapter Two

Literature Review

2.1 Introduction

Chapter One outlined the study plan and background. This chapter sets the research in a wider context by critically reviewing various relevant studies which address the research problem (Saunders, Lewis and Thronhill, 2009). The existing literature is of particular use to researchers using quantitative methods, as it reveals gaps in current studies. It also helps them to develop frameworks and theoretical or conceptual models, to identify relevant variables, and to test the relationships between them. Therefore, in this chapter, the relevant literature reviewed will comprise FDI definitions, types of FDI, theories of FDI, its drivers (which include market, economic, political, infrastructure factors) and conceptual frameworks.

2.2 FDI Definitions

There is a concensus that Foreign Direct Investment can be defined as "…cross-border investment made by a resident firm in one economy (the *direct investor)* with the objective of setting up a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor" OECD (2008, p.10). The above definition resonates with the United Nations World Investment Report (UNCTAD, 1999, p.465) which defines FDI as "…an investment involving a long-term relationship and a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, the company Affiliate or foreign affiliate)."

Often the direct investor's drive for embarking on FDI is to cultivate an enduring strategic relationship with a direct investment enterprise. This relationship will guarantee a substantial amount of influence on the part of the direct investor in managing the direct investment enterprise. The enduring interest is emphasised by the direct investor holding at least 10% of the voting rights of the direct investment enterprise (IMF, 1993, p.7). Note that there is no universal agreement on the total ownership of shares on the part of the individual(s) to ensure effective control or having a voice within a firm. Depending on the reguatory frame of reference of various economic national .Jurisdictions, this could vary between 10% and 25% of the total ownership of shares of a company (Dunning, 2008). Direct investment may also allow the direct investor access to the economy in which the direct investment enterprise is located. The numerical guideline of the ownership of 10 percent of the ordinary shares or voting stock means that the direct investor can have an effectual voice or influence in the management of the organisation. Direct investment purposes are different from those of portfolio investment in that in the case of the latter investors do not expect to influence the company's management. Note also that foreign direct investors are individual(s) or (un) incorporated companies which have a stake in a direct investment enterprise in a country other than the country or countries of residence of the investor (OECD, 2008).

2.3 Why Study FDI?

The academic interest in FDI has emerged for various reasons, and this has led to the need to understand the FDI phenomenon, and to explain its origins, the processes involved, and the consequences. In the 1990s, FDI accounted for about a quarter of international capital outflows, having out-grown other forms of foreign investment which existed in the 1970s. The rapid growth of FDI can be attributed to the push towards globalisation, global

competition, and the tendency for governments to allow financial, goods and factor markets to be more open to competition. Many have argued that FDI flows have shown resilience in their ability to grow in spite of global trade expansion. (Jeon, 1992; Moore, 1993; Dunning, 2008). The second reason for the interest in FDI is the concern raised about the causes and consequences of foreign ownership. For instance, some still view FDI as symbolising new colonialism, while others believe national economies cannot survive without the resources that FDI brings into a country (Mossa, 2002; Dunning, 2008). Since the 1980s, developing economies have been singled out for the benefits they receive from the movement of funds, technology, technical skills, management and markets which FDI provides during periods of global recession (Mossa, 2002, Lipsey, 1999, Dunning, 2008).

2.4 Types of FDI

FDI can occur in one of three situations – green-field investment, cross-border mergers and acquisitions (M & A) and joint ventures (JV) (Mossa, 2002). Green-field investment occurs when a foreign company sets up new production, distribution or other facilities in a host country (Dunning and Lundan, 2008). The host country welcomes green-field investment because of job creation and release of the possible profit.. Note also that FDI could also take place in brown-field development. The term "brown-field investment" is used to describe a situation in which investments are officially acquired as a new investment. This happens when a foreign investor acquires a business, but almost entirely replaces the central line focus of the business concerned it equipment, labour, and product. This idea has been used particularly to describe takeovers in economies in transition (Meyer and Estrin, 1998; Mossa, 2002; Dunning and Lundan, 2008).

Another form of FDI is merger and acquisition, when a foreign company acquires or merges with a local company in the host country. Mergers and acquisitions have two main

advantages over green-field investment. First, it is low cost, especially if the acquired investment is a profitable operation that can be bought inexpensively. Second, mergers and acquisitions may allow the investor to enter the market in a short period of time. Firms may be motivated to engage in cross-border takeovers to strengthen their competitive position in the global market by acquiring the special assets of other companies, or to use their own assets on a larger scale (Mossa, 2002; Dunning and Lundan, 2008).

The third form of FDI is joint ventures by which a company in a host country or an institution of government, and another foreign company agree to develop, for a limited time, a new entity and new assets. The relationship between the two parties is one of benefit sharing, where the foreign company provides technical expertise and the ability to raise funds, and the other company provides a significant contribution in terms of its experience of local bureaucracy and local laws and regulations (Mossa, 2002; Dunning and Lundan, 2008). On the whole in terms of types of FDI based on investment patterns, Rugman and Brewer (2001) and Dunning and Lundan (2008) identify four types of MNE activity including natural resource seekers, market seekers, efficiency and strategic asset seekers or capability seekers.

2.5 Overview of FDI Theories

2.5.1 Hymer's International Operations of National Firms

Until the 1960s, FDI explanations were confined to the standard neoclassical theory of capital movement, stating that capital tends to move from areas where rates of return are low, to areas with higher yields. Thus, FDI was treated in the same way as portfolio investment and was seen to depend only on international differences in interest rates, and to be motivated by yield (Hennart, 1994). This was the insight of Hymer (1960), who saw flaws in the prevailing view that portfolio and direct investment were synonymous. Hymer

noted that the United States was a *net* exporter of FDI, but a net importer of portfolio investment, which implies there were differences between the two investments. In addition, direct investment was mainly carried out by companies in the manufacturing sector, while a predominance of financial institutions was involved in portfolio investment (Rugman and Brewer, 2001; Mossa, 2002; Jones and Wren, 2006; Dunning and Lundan, 2008). According to Hymer's theory of the international operations of companies (Hymer, 1960), if direct investment is to be explained, then the key concept that distinguishes portfolio investment is the level of control it gives the company with regard to its investment. Specifically, the FDI exists where the investor has control over the foreign company's activities, and this is the basis of Hymer's theory (quoted in Dunning and Rugman, 1985; Rugman and Brewer 2001; Jones and Wren, 2006; Dunning and Lundan, 2008).

2.5.2 Vernon's Product Life-Cycle Theory

Following the contribution of Hymer, there was an upsurge in research into international investment by companies. One aspect not considered by Hymer was when and where the benefits of multinational companies would exist (Dunning, 1981). This was explained by Vernon (1966) in his *product life cycle theory*. Vernon argued that the decision to locate production was not made by standard cost factor analysis or due to the cost of labour, but by a more complicated process. According to Vernon, a product has a life cycle that involves three main steps. These steps are important because they have implications for the international location of a product as explained in Rugman and Brewer (2001), Mossa (2002), Jones and Wren (2006) and Dunning and Lundan (2008).

According to Vernon (1966), the first step - the product development process '..the process of product development . described the non-standardised nature of the product the

company makes. From his point of view, if a product involves standardised inputs in the production process that can be accurately calculated, the general requirements for the product are known with certainty. A lack of standardisation means there is doubt surrounding the product, so communication between producers and suppliers and customers is of paramount importance. This leads to a location decision that results in the product being located close to its markets. In the second when the demand for a product increases, the business moves through the product cycle to a greater level of standardisation. This means the need for the product to be produced close to its market declines, allowing economies of scale. This affects the firm's location decision, especially as the demand for the product is likely to grow in other countries, and the company must decide if it is worthwhile setting up production abroad. During the third phase '..the standardised product phase ,one can see an extension of the product maturation period, when product standardisation has reached its "peak", and a final framework for the product is found. The international market is now well established, and price competition will determine sales. The low cost of labour in less developed countries could encourage companies to reduce costs further by locating in these areas.

The theory of product life cycle as proposed by Vernon looks at the dynamics of FDI in terms of why, when and where it occurs. It was the first attempt to integrate a dimension of location to the theory of FDI. However, when Vernon's theory was originally developed in the 1960s, the US was the undisputed leader in R & D and product innovation. Now, product innovation takes place outside the United States, and new products are introduced simultaneously in many developed countries. The production facilities are in several countries from the beginning, and the international production system has become too complicated to be explained by a simple version of the product life cycle. Vernon (1979) admits this, noting that since the income and technological gap between the United States

and other industrialised countries has decreased, the assumption of a simple product life cycle has become less likely (quoted in Rugman and Brewer, 2001; Jones and Wren, 2006; Dunning and Lundan, 2008).

2.5.3 Caves' Horizontal and Vertical FDI Theories

Caves (1971) expanded Hymer's theory of direct investment and placed it firmly in the context of industrial organisation theory. The importance of this work is that it linked Hymer's theory of international production with the then current theories of industrial organisation in terms of horizontal and vertical integration. Caves distinguished between companies that engage in horizontal FDI and those which engage in vertical FDI. Horizontal FDI occurs when a company enters its own product market in a foreign country, while vertical FDI occurs when a company enters the market for products at different stages of production (quoted in Rugman and Brewer, 2001; Jones and Wren, 2006; Dunning and Lundan, 2008).

According to Caves (1971), a firm will undertake horizontal FDI if it has a unique asset that others do not have, or because of the harmful effects of tariffs on its exports. The two reasons are likely to result in FDI in market structures that are characterised by oligopoly and product differentiation. If a company has a unique advantage, then according to Caves, it must have two characteristics that enable it to set up overseas production. The first is that the asset must be a public good within the firm so that, once provided, sunk cost occurs, and the company advantages can be used in other national markets. The second characteristic of the asset is that profits made in the host country must depend on production in that country, because it ensures that the company has to locate abroad if it is to be successful in production (Rugman and Brewer 2001; Jones and Wren, 2006; Dunning and Lundan, 2008).

Caves (1971) further considers FDI at different stages of production, but in the same industry, namely vertical FDI. The argument is that this happens when countries try to avoid strategic uncertainty and erect entry barriers to prevent foreign companies from entering the market. Caves argued that vertical FDI is more likely if the profits in the international market are dependent on long-term price, and that investment is large which together ensure that the market structure is characterised by a few suppliers (Rugman and Brewer, 2001; Jones and Wren, 2006; Dunning and Lundan, 2008).

2.5.4 Buckley and Casson's Internalization Theory

In the 1970s, a further strand in the FDI literature began to emerge This was the theory of the internalisation of FDI. It is based on Coase's theory of the firm (1937). It examines the important role the analysis of transaction costs plays in forming organisations (Jones and Wren, 2006).). The process of internalisation is developed to explain international production and FDI. One of the leading proponents is Buckley and Casson (1976). They present a multinational as essentially an extension of a multi-plant company. Buckley and Casson noted that the activities of companies, especially large companies, take the form not only of producing goods and services, but also engaging in activities such as marketing, training, research and development, management techniques and participation in financial markets (Rugman and Brewer, 2001; Dunning and Lundan, 2008). These activities are interdependent and are connected by "intermediates", taking the form of either hardware or knowledge and expertise. If markets are imperfect in terms of intermediates, this raises an incentive for the company to internalise its intellectual property, provided the benefits outweigh the costs. When it occurs across national borders, multinationals emerge, and therefore FDI occurs (Jones and Wren, 2006).

2.5.5 Dunning's Eclectic Theory (Paradigm) – Ownership, Location and Internationalisation (OLI)

Reflecting on the history of the theory of FDI, Dunning (1977) noted that it was developed in terms of either the structural market failure hypothesis of Hymer and Caves, or the internalisation approach of Buckley and Casson. Dunning responded to these eclectic bringing together of competing theories to form a single theory or model. It is usually a fundamental principle of Dunning's model that it links the benefits of Hymer and the internalisation school, and adds a dimension of location theory (quoted in Jones and Wren, 2006; Dunning and Lundan, 2008).

The eclectic FDI model suggests that a company invests directly in a foreign country only if three necessary rather than sufficient conditions are met. First, the company must have asset ownership. This gives it an advantage over other companies in that it is exclusive to the company. Second, there is a need to internalise these assets within the company rather than as a result of contracts or licences. Third, there must be an advantage to setting up production in a particular foreign country rather than relying on exports (Jones and Wren, 2006). A major criticism of the OLI model has been directed at the ownership advantages in that it does not pay any attention to behavioural variables (Cleeve, 2009).

According to Dunning (1977), there are different types of ownership *(O),* location *(L)* and internalisation *(I)* advantages. The ownership advantages are defined by Dunning as particular assets that are specific to the business, giving it the potential to earn more profits. They include the size of the company, the level or quality of management, access to inputs, the market access of the products, and technological capabilities. . Location advantages are the assets that a country possesses that make production attractive, as opposed to exporting. They include input prices, transport costs, communication costs, and government incentives. Stable political and legal systems, commercial infrastructure,

language, and culture are also relevant to location advantages. Internalisation advantages are the means by which the company maximises gains from their ownership due to being able to avoid or overcome market imperfections. Internalisation advantages are the ways that a firm maximises the gains from their ownership advantages to avoid or overcome market imperfections. Reasons for internalisation include avoiding transaction costs, protection of rights, avoiding tariffs, and the ability to achieve scale economies in production, marketing and finance (Dunning, 1981; 1988; 1988; Jones and Wren, 2006; Dunning and Lundan, 2008).

Not all the conditions for FDI *OLI* will be divided uniformly '..are necessarily the same ..' in all countries. Therefore, the drivers that are specific to each country will decide each condition. The advantages resulting from a company's ownership are likely to be influenced by market size in the firm's home country This is because the larger the market, the more a company can benefit from ownership in terms of economies of scale. In terms of specific location drivers labour costs vary between developed and developing countries, while transport costs are determined by the distance between the home and host countries. Finally, the drivers for each country may affect the extent to which companies initiate their advantages (Jones and Wren, 2006; Dunning and Lundan, 2008).

In seeking to test the hypotheses proposed by Dunning and Lundan (2008), it is useful to distinguish between three contextual or structural variables that will influence configuring how OLI will affect any activity of an MNE. variables are specific to some countries (or regions). Second, those variables vary, depending on the specific types of activities undertaken by businesses; and third, the variables that are specific to particular companies. The propensity of enterprises of a particular nation to engage in FDI varies in terms of the economic characteristics, the institutional framework and the culture of the country of origin, and those of the countries in which they propose to invest, the range and

types of products (including intermediate products) that they intend to produce, and their management strategies and underlying organisation.

Dunning (2001, 2008) believes that the importance of the eclectic paradigm elements varies between sectors, between regions and countries, and between companies. He urges that the eclectic paradigm would be best viewed as a framework for understanding the drivers that influence the behaviour of multinational companies' location, rather than in terms of an MNE theory. He concludes that no international trade theory can satisfactorily explain all the forms of cross-border transactions with regard to goods and services. Furthermore, Dunning (2008) urges that no theory can provide a satisfactory explanation that includes all the variables that reflect the many activities of MNEs, because the motivations for such activities and production varies worldwide.

The drivers in Dunning's OLI model explaining the behaviour of multinational companies in terms of location have been criticised by many as being nothing more than a shopping list (Dunning, 2001; 2008; Stoian and Filippaios, 2008). Another criticism of the eclectic model is that the variables identified by the model are large, and the projection value is almost zero (Dunning, 2001, 2008). In defence of this, Dunning (2008) pointed out that first, each variable identified in the OLI eclectic paradigm is well established in international economic theorySecond, the objective of the eclectic paradigm is not to provide a fully satisfactory explanation of all types of international productions for MNEs, , but to provide a methodology and guidance for a group of variables or drivers that help to explain MNE behaviour with regard to a particular location. Third, criticism of the eclectic paradigm can apply to other general theories associated with FDI activity on the part of multinational companies

2.5.6 Porter's Diamond of Competitive Advantage

The most influential work on the impact of location on international competitiveness in the 1990s was Porter's "diamond" of competitive advantage (Porter, 1990). Porter argues that, within a single nation, four interdependent elements in each industry determine international competitiveness. These determinants include the conditions of factors, demand conditions, related and supporting industries, and business strategy, structure and rivalry. Porter sees two elements, namely government and luck, as secondary determinants that may affect the strength of the primary elements (Rugman and Brewer, 2001).

Porter's approach is an important step in classic economic thinking with regard to sources of competitiveness in industry. His comments on the importance of (1) created conditions for advanced factors as opposed to natural resource endowments; (2) sophisticated rather than demand on a large scale; (3) links with related businesses and support; and (4) intense domestic competition perhaps being useful for administrators and policy-makers However, Porter's international trade framework is also thought to have significant weaknesses, particularly in applying his views at the enterprise level.. Its framework assumes that, for each company in a business, a single home base exists. This acts as the sole source of this firm's key location advantage These specific competitive advantages can then be absorbed into the company, namely to contribute to the development and operation of the company. A nation's diamonds cannot be drawn on selectively because, as a company builds on the strengths of a foreign diamond, it is considered to be still at a disadvantage in terms of the businesses of that foreign diamond (Rugman and Brewer, 2001; Dunning and Lundan, 2008).

Porter's (1990) view has been rightly criticised by several experts in international trade. Dunning (1993), cited by Rugman and Brewer (2001), states that 'To suggest the

competitive position of MNEs like IBM, Philips of Eindhoven, SKF, Nestle, BAT, rests only on their access to the diamond of competitive advantage of their home countries is ludicrous .However, much of their initial investments overseas may have been based on such advantages'Porter recognised that the strategic choice for specific companies to 'shift' the 'home base' in the country of origin to the host country was the basis of their specific competitive advantages. However, businesses and industries in small open economies are largely based on international links, particularly through inward and outward FDI as sources of competitiveness. For example, in small economies such as Belgium in the European Union (EU) context, or Canada under the North American Free Trade Agreement (NAFTA), an analysis of the sources of international competitiveness on the part of domestic enterprises must consider the issue of access to the components of foreign diamonds. Therefore, a "more diamonds" approach is clearly needed, as explained by several conceptual and empirical studies (see Moon, Rugman and Verbeke, 1995; 1998; Rugman and Brewer, 2001; Dunning and Lundan, 2008).

Tam, Newton, Strange and Enright (2008) also noted another critical part of Porter's framework. First, Krugman (1994) specifically criticised the idea that host countries are competing, in the same way that companies compete. In addition, Porter focuses on competition between, and the competitiveness of, particular industries, in different locations, rather than competition between national economies. Second, Porter puts the government factor of the host country outside the core framework. Third, several researchers have argued that Porter did not pay sufficient attention to related competitive drivers such as globalisation (Dunning, 1993), multinational organisations (Dunning, 1993; Rugman and Verbeke, 1993), technology (Narula, 1993), wage rates and exchange rates (Daly, 1993), pioneering companies and entrepreneurs (Cho, 1994) and staffing resources (Cartwright, 1993). Several authors have questioned the validity of the model,

and the conclusions drawn from the model, in terms of locations (see Tam, Newton, Strange and Enright, 2008). They argue that the competitive advantages conferred by the host countries on multinational subsidiaries were also of importance. Enright, Scott and Dodwell (1997) suggested a substitute advance on Porter's framework r based on the concept that the specific advantages of the location that contribute to firm competitiveness would vary by the firm industry. Tam, Newton, Strange and Enright (2008) expanded the number of drivers under Porter to allow us to understand the competitiveness of a host country's location in terms of drivers. These drivers are based on six general drivers, specifically inputs, industry and clustering of nations competition and cooperation among businesses, market demand, institutions, and the internal strategy of the company.

2.6.1 Overview of FDI Drivers

Dunning (1998) pointed out that, in recent years, the behaviour of MNEs when expanding into cross-border locations has not been studied by researchers or international business scholars. He explained the lack of attention on the part of researchers with regard to multinational location decisions was because scholars have traditionally believed that national location decisions on the part of a company can be used to explain the choice of cross-border location, and because economics scholars may have found the current explanation of MNEs' choice of location to be acceptable. In addition, they may not be interested in the subject of the location decisions of MNEs. According to Cleeve (2007), economists in the 1960s and 1970s (e.g. Hymer, 1960; Kindleberger, 1969) have paid particular attention to analysing the ownership benefits of multinational companies, overlooking FDI location decisions. In fact, little has changed recently, as researchers have not yet paid much attention to the benefits of the location in terms of its influence on FDI inflow (Dunning, 1998; 2002). In addition, Blonigen (2005) points out that recent global

trends have led to a growth in extensive interest on the part of economists and academics to engage in empirical studies of the main factors motivating FDI activities. The literature explaining FDI drivers is relatively large. However, it may still be in its early stages of development and is always available for anyone to study.

Dunning (2000) argues that researchers and international business economists have not focused on how the location-related theories can explain MNE operations across the world, and how FDI location can affect the competitiveness of these companies worldwide. However, the interest on the part of researchers on the subject of FDI location drivers has grown in recent years. Economists such as Audretsch (1998), Krugman (1991; 1993) and Venables (1998) and industrial clustering analysts such as Scott (1996), Storper (1995) Storper and Scott (1995), Cushman (1985), Froot and Stein (1991) and Rangan (1998) have identified the role of exchange rates and how they affect the measurement and geography of FDI schedules.

Dunning's (1998) eclectic model stressed the importance of the location decision with regard to a host country as being a key driver for multinational companies in terms of their selection of operating sites. According to Dunning (2000), since the 1930s, there have been many theories that have attempted to explain the choice of the location of FDI and how firms gain a competitive advantage as a result of locating in a particular country. Some of these theories include the location aspect of Vernon's (1966) 'product life cycle' theory and that of Knickerbocker's (1979 PAGE?) "Follow the leader in the industry theory that improves on earlier theories at explain the clustering of an industry.", as stated by Dunning (2000), the question of location was not the core to the interests of students of MNE activities.

According to UNCTAD (1998), when studying FDI location drivers, some points need to be recognised. First, FDI is not similar to trade, licensing or portfolio investment. Rather, FDI relates to complex projects that involve a long-term commitment to multinational companies in foreign countries. Second, the effectiveness of FDI drivers depends on four investment characteristics: the motive for investment (for example market-seeking or efficiency-seeking FDI), the type of investment (for example, new or sequential FDI), the sector in which the investment takes place (for example services or manufacturing) and the size of the investors (small, medium-sized or large companies). In addition, the effectiveness of FDI drivers will change over time in some countries, such as changes in the economic environment of the host country, and the world. The document concluded that the host country provided what FDI is seeking, and a host country with favourable investment policies toward FDI will be well-positioned to attract FDI.

According to Ho and Lau (2007), location investment decisions are dominated by three theoretical approaches proposed by researchers, including the stepwise approach, the maximisation approach, and the conceptual framework. First, the stepwise approach as proposed by Blair and Premus (1987) shows that a company will first form a committee to select the new location, and the committee will list the 'must have' drivers together with the desirable drivers in the new location, and then compare potential locations that mostly fulfil the list of drivers. The committee will then choose a particular location. Second, the maximisation approach is based on Dunning's (1989) eclectic model of FDI, where the location decision is the solution to a maximisation problem incorporating ownership advantages, internationalisation advantages, and location advantages all being considered .According to Ho and Lau (2007), one of the Dunning model criticisms is that, although it provides a framework for location decisions, the drivers associated with decision-making have not been revealed. Third, the conceptual framework is based on Porter's competitive

advantages framework. Porter (1990) suggested that a company will gain a competitive advantage depending on the choice of location, and the company must evaluate the advantages and limits of potential destinations before they decide of the final location. The restrictions include the host country's investment policies towards foreign investment, the limits of technology and transport costs.

Cohen (2007) points out that the impact of FDI on the part of MNEs in a diverse global economy and the behaviour of locating multinationals has not been fully explained, despite nearly 40 years of theories. Cohen points out that the limits of theory for explaining MNE locations reflect the assumptions made by researchers, that the strategic location of a company can be generalised to MNE global expansion. In addition, a single theory explaining why FDI takes place in foreign markets cannot apply to other subsidiaries of multinational enterprises in other locations, regardless of the size and the objectives of the industry Therefore, Cohen (2007, p.126) concludes, "Calculating trade-offs between positive and negative country characteristics is an art, not a science." Investing abroad on the part of multinational corporations cannot be blended into a wide economic model that can explain the behaviour of business location. In addition, another false assumption in the literature is that the decision of a firm to invest abroad normally occurs because of detailed research by the company, and the development of risk and return calculations associated with investment performance, without the inclusion of senior management objectives. However, the decision to invest abroad, as suggested by Cohen (2007, p.127), is as follows: "Decisions to build foreign subsidiaries ultimately are based on the perceptions of a small group of senior managers, not a scientific formula", and sometimes the decision to choose a particular location results from the strong preferences of the executives concerned. Dunning (1993, p.68) believes that "It is not possible to formulate a single operationally testable theory that can explain all forms of foreign-owned production any

more than it is possible to construct a generalised theory to explain all forms of trade or the behaviour of all kinds of firms."

The literature with regard to FDI drivers is full of studies that identify which location drivers have the most significant effect on FDI destinations. However, as explained by Cohen (2007), the main objective for companies when expanding abroad is to find a host country that gives them the best return on investment with the least risk. Cohen (2007) points out that two location drivers play a major role in location decisiona in terms of FDI. First, executives will not pay more attention to a single driver when choosing a host country, but rather to a group of drivers linked to their industry and a target market that will allow a better return on their investment compared to other locations. Second, companies focus on the environment of the host country and their friendliness towards foreign investors compared to the attitude of other countries when coming to a decision about the location of a long-term investment commitment. Cohen (2007) insists that there are no important drivers with regard to FDI location decisions that cannot be found in existing studies. A company's decision to choose a location is done on a case-by-case basis, and cannot be generalised to other location decisions, because the same location factors may be seen differently by the company's decision makers, and the relative importance of these drivers will vary, depending on the type of investment invovled and the business objectives. In addition, the personal culture of the company will give a different evaluation in terms of what is regarded as being important drivers. Cohen (2007) believes that a resource-seeking company, when it makes its FDI location decisions, will have a clear, unchanging priority about location drivers. Access to raw materials is one the most important location drivers, as is the quality of infrastructure and a favourable investment environment in the host country. In addition, market-seeking FDI is attracted to factors such as large market size, economic growth, and host government membership of

free trade agreements. Meanwhile, efficiency-seeking FDI is attracted to low labour costs in less developed countries. Finally, strategic asset-seeking FDI, such as merging with another company, may overshadow the host country location drivers. Here, the corporate-specific drivers would be the most important aspects to consider.

Deloitte and Touche's (2002) study is the most widely-cited survey. It deals with the relative importance of location drivers from the point of view of the executives of 130 companies from around the world. The most highly rated factor among the 20 drivers in the survey was access to customers. Other location drivers in the survey in descending order of importance are: a stable social and political environment, the reliability and quality of physical infrastructure, the ability to hire technical professionals, the ease of doing business, the ability to hire managerial staff, corruption, the cost of labour, crime and security, the ability to hire qualified workers, national tax rates, the cost of utilities and public services, road quality, raw materials, availability and quality of academic and technical training, land with services availability, local taxes, access to suppliers, labour relations and unionisation, and air transport.

Buckley, Devinney and Louvriere (2007) believe that most empirical studies of FDI drivers are based on surveys that question the location decisions made by companies when they choose their international investment location. However, Buckley, Devinney and Louvriere (2007) suggest that these studies contain two limitations. First, they rely solely on the choice of drivers in terms of business location, and they assume that these drivers can apply to other companies in other countries. Second, these studies assume that the decisions of companies follow a systematic approach. However, different executives take different approaches when they make their international location decisions. Buckley, Devinney and Louviere (2007, p.2) conclude that FDI location decisions have not received attention in the literature of international business affairs, and they point out that "FDI is

not a point-of-time ‘go/no-go’ decision, but a process”. Mudambi and Navarra (2003) believe that the study of FDI drivers is missing in the literature. Many empirical studies of FDI location which were based on surveys did not deal with several important issues, as emphasised by Devinney et al. (2003). First, the surveys cover the final destinations of alternative companies, and what the effectiveness of these choices were from the executive’s point of view. Second, the surveys are based on internal decisions within firms. Therefore it is not known if the choices are unique to the executives invovled, and if the destination driver’s alternatives can be applied to other firms.

Cheng and Kwan (2000) conducted a study on the influence of FDI location drivers in China between 1985 and 1995, and found the large size of the Chinese market, a well-established infrastructure, and benign legislation towards FDI including positive government policies, had a positive impact on FDI inflow into the host country. Biswas (2002) believes that traditional and non-traditional FDI drivers will jointly decide the choice of FDI location. By studying FDI in the United States from 44 countries during the period 1983-1990, Biswas (2002) concluded that good infrastructure, low wages, political stability and a healthy legal system are necessary drivers for attracting FDI. From the author's perspective, these drivers play a significant role in deciding FDI destinations. Dunning (1993), Globerman and Shapiro (1999) and Shapiro and Globerman (2001), argued that economic drivers alone may not induce FDI inflows because of globalisation and the integration of global markets. Therefore, there is an urgent need for international researchers to explore new drivers that affect FDI destination in the new global market (Banga, 2003).

According to Banga (2003), the impact of the host government’s policies and investment agreements are important factors to consider. He also found that the size of the host country market, low labour costs, the availability of skilled labour, a sound financial

system, investment agreements, low energy costs and low tariffs, are all necessary drivers for attracting FDI. The UNCTAD report (1992) shows that market drivers, human capital, economic stability, the availability of infrastructure and a sound financial system in the host country have a positive effect on FDI behaviour. The business environment of the host country, government policies, economic conditions, and entry mode will play a significant role in developing the location motivations in terms of FDI.

The natural resource-seeking FDI, according to Dunning (1998) and Caves (1996), is influenced by natural resources and their cost and quality, the availability of infrastructure and incentives for investment in the host country. Market-seeking FDI will be influenced by the size and growth of the host market, the availability and cost of skilled labour, the quality of infrastructure, the existence of institutional support services and agglomeration economies and the macroeconomic policies of the host government. Mostly drivers related to production costs, the availability of skilled labour, completing the host market ,the quality of infrastructure, economic stability and the availability of agglomeration economies, all affect efficiency-seeking FDI location decisions. Strategic asset-seeking FDI location decisions are influenced by assets related to knowledge, institutional quality, price, the availability of assets, and access to different cultures and institutions in the host market.

Dunning (2004) argued that the increased intensive competition in global markets has forced multinational companies to reassess their international location strategies, and has forced host governments to reconfigure their investment policies in order to attract more FDI, and to protect FDI from going to more competitive countries. Dunning (2004) also stressed that host governments that want to attract more FDI should include locating changes in drivers with regard to FDI seeking a new location in recent years. For example, multinational companies in developing countries are attracted to traditional economic

engines such as market size, natural resources and cheap labour, while multinational companies in developed countries look for a healthy business environment, the correct legal configuration, infrastructure to support investment, support and services industries, and a range of institutions and government policies that would improve FDI operations and the global competitiveness in the host countries (Dunning, 2004).

Buckley and Ghauri (2004, p.81) suggested that the 'next big question' in international business will be "…the analysis of globalisation, with a focus on economic geography, arising from the changing strategy and the external impact of multinational enterprises (MNE) on the world economy". Dunning (1998) urges that international business scholars should pay more attention to the evolution of the location preferences of multinational companies in recent decades, in response to the globalisation of world economies. UNCTAD (1998) and Dunning (1999) have pointed out that because of globalisation, multinational companies have changed the way in which they try to achieve their market-seeking, resource-seeking and efficiency-seeking goals. As countries open their markets to FDI, multinationals now have a wide variety of locations to choose from, that best serve their strategies and objectives. According to Dunning (2002), the motives for FDI in developing countries have changed to (vertical) efficiency-seeking FDI, instead of resource- and market-seeking FDI.

Many researchers, including Kokko (2002) and Nunnenkamp (2002) have pointed out that globalisation has reshaped the importance of finding drivers for FDI in developing countries, and that the host countries with their attractive markets would be not sufficient to attract FDI to them. Therefore, host governments will face a challenge in providing the right policies to attract FDI. UNCTAD (1996) and Nunnenkamp (2002) concluded that globalisation would have two effects on the drivers associated with FDI location. First, multinational companies have used a wide range of policies with regard to evaluating host

countries about potential investment. Second, the relative effectiveness of FDI drivers has changed because of globalisation. In addition, the effectiveness of traditional FDI drivers has not declined due to globalisation, but their effectiveness in terms of FDI destination choice has. The size of the host country market is one of the most successful drivers in the opinion of many researchers. However, this driver has decreased importance with regard to FDI destination .New drivers have become more efficient, such as low costs, good infrastructure, a benign business environment, and highly skilled workers in the host country.

Globalisation has increased competition between multinational companies and forced them to reduce their prices. Multinational companies transfer their production facilities to low-cost developing countries. However, FDI in developing countries remains motivated by access to the natural resources or the market opportunities provided by the host country (Nunnenkamp, 2002). If globalisation changes the motivational importance of FDI location, host governments will struggle with one another and shape their investment policies to attract FDI. Therefore, host governments can no longer rely on the traditional location of drivers as identified in the literature by many researchers (for example, market drivers) that explain FDI location decisions.

Globalisation has increased international competition between countries in terms of attracting FDI. Location advantages based solely on the traditional drivers that explain FDI location decisions may be inadequate in terms of attracting FDI (Cleeve, 2004). However, Nunnenkamp (2002) makes the point there is no strong evidence in recent empirical studies to support the view that globalisation has influenced competition for FDI among countries, and has led to changes in the relative importance of traditional and non-traditional location drivers for FDI in developing countries. He also found that there are surprisingly slight changes in the relative importance of FDI drivers. According

to Nunnenkamp (2002), traditional market drivers are still some of the most important drivers with regard to FDI location decisions, and the large size of the host market has become more important, rather than weaker. Non-traditional location drivers such as costs and the business environment have become less important with globalisation. In addition, UNCTAD (1998) concluded that it is difficult to draw a conclusion from these studies as to whether or not the list of determinants has changed over time, or whether some have increased or lost in importance. In addition, Flores and Aguilera (2007) believe that the assumptions underlying FDI location choice have changed over the last 20 years, and that the change in the associated drivers when it comes to chosing a location for other places in terms of FDI remains uncertain and needs more study.

Galan, Benito and Vincente (2007) believed that the FDI location decision is one of the most difficult decisions that managers must make, especially in the case of managers of multinational companies. Therefore, such managers must understand how the location drivers in different countries may influence their location decisions, and how they can benefit from their knowledge in order to succeed in the highly competitive world markets (Dunning, 1998; Narula and Dunning, 2000). Galan, Benito and Vincente (2007) insisted that most of the studies into the location of FDI were written without considering the views of multinational managers, because they rely on econometric approaches using secondary data (e.g. Swamidass, 1990; Woodward and Rolfe, 1993, Loree and Guisinger, 1995; Grosse and Trevino, 1996; Tan and Vertinsky, 1996; Ulgado, 1996; Cheng and Kwan, 2000; Zhou et al., 2002). Galan, Benito and Vincente (2007) point out how the views of researchers with regard to FDI location movement have changed in recent years, and how international business studies have had little interest in FDI location. Dunning (1998) suggests that this is because academics mistakenly believe that the location behaviour in the home country of companies can be extended to describe their

international location choices. In recent years many academics and researchers have tried to find a better explanation, including new theories and empirical studies explaining the effectiveness of FDI drivers on the destination selections of MNEs (Galan, Benito and Vincente, 2007). The following are some of the main theories with regard to locating FDI. Product cycle theory (Vernon, 1966; 1979); theories of exchange rates (Aliber, 1971; Blonigen, 1997); process theories of internationalisation (Hirsch, 1976; Johanson and Vahlne, 1977; 1990); theories of risk diversification (Rugman, 1979); agglomeration theories (Krugman, 1991; 1993; Porter, 1994; 1996); theories of government incentives (Loree and Guisinger, 1995); and theories of location (Dunning, 1997; Kuemmerle, 1997; Chen and Chen, 1998). However, even these new theories underestimate the importance of FDI location decisions they rely mainly on frameworks or models that test the effect of drivers on the identification of other drivers that may be of importance, and in terms of the choice of location. None of them, however, provides an acceptable rationalisation of the FDI drivers that influence company executives when it comes to making the decision as to the final destination of FDI worldwide (Galan, Benito and Vincente, 2007).

The Economist Intelligence Unit (2002) studied the major drivers that influence the location decisions for FDI. Business executives in the study suggested that political stability, institutions, infrastructure, investment policies towards FDI, competition in the host country and the economic conditions are the key location drivers that will affect the future location of FDI in the coming years. Tatoglu and Glaister (1998) studied FDI in Turkey and found that the size of the market, the return on investment, economic growth and the policies of the host government to FDI are the most important drivers for FDI in Turkey. They also found that the relative importance of location drivers in the host country may vary according to the origin of FDI, the target sector for the FDI, and the size of the investment. In addition, Tatoglu and Glaister (1998) suggested that the location

motivations for FDI can take two forms, both of which play an important role in FDI location decisions. The first is the Ricardian form that includes natural resources, the workforce, and proximity to the market. The second consist of environmental drivers that include economic, political, infrastructure and legal drivers in the host country. Tatoglu and Glaister (1998) summarise the studies that explain the location drivers in terms of market size and growth (Aharoni, 1966; Kobrin, 1979; Davidson, 1980; Buckley and Mathew, 1980; Root, 1987; Young et al., 1989; Sabi, 1988), the political and legal environment (Goodnow and Hansz, 1972; Kobrin, 1979; Anderson and Gatignon, 1986; Agarwal, 1994), the policies of the host government (Davidson and McFetridge, 1985; Goodnow 1985), industrial competition in the host country market (Goodnow, 1985; Harrigan, 1985a; 1985b), geographical proximity and transport costs (Goodnow and Hansz, 1972; Davidson and McFetridge, 1985) and the host country infrastructure (Dunning and Kundu, 1995; Ulgado, 1996). However, according to Tatoglu and Glaister (1998), there is limited empirical research into the relative effectiveness of FDI drivers, and how these would vary according to the type of investment.

According to UNCTAD (2006), a number of motivations influence firms to expand or to move their operations to cross-border or international markets. The motivations in terms of internationalisation can be identified as 'push' (home country) and 'pull' (host country) drivers. Home push drivers that motivate or force a firm to expand or transfer its activities outside the country of origin may include market conditions, costs of production, local business conditions, and national government policies. Market conditions in the country of origin include a limited ability to grow in the local market, especially when it is a mature market. Cost conditions in the home market may include higher costs of production, especially labour and resource costs. The business conditions in the home country can also force a company to develop abroad, especially when competition is strong in the home

market. The home country's conditions can act as a push factor when government policies toward trade are not favourable to domestic enterprises. Host country pull drivers include the attractive market of the host country, cost savings in the host country, the existence of means of production in the host country, a benign business environment in the host country and the openness of exchange policy in the host government. However, UNCTAD (2006) noted that while the push and pull drivers can influence the location decision of MNEs, these drivers cannot explain the final choice of MNEs, as the motive and strategies of firms must be considered during analysis of the choice of location.

Two of the few studies of FDI in Saudi Arabia are those by Abdel-Rahman (2002) and Ramady and Saee (2007). Abdel-Rahman's (2002) study claims that the location drivers that influence FDI location decisions in favour of Saudi Arabia are economic drivers, political drivers, cost drivers, openness of the economy and the country's macroeconomic environment. However, GDP growth of the country, exports and imports and domestic investment are also important drivers for FDI inflows. Ramady and Saee (2007) studied FDI inflows into Saudi Arabia between 1984 and 1997. They found the lack of qualified Saudi manpower, the Saudi government labour policy of Saudization (nationalisation), high taxes, the fear of foreign firms when it comes to entering the Saudi market alone, and that FDI is concentrated mainly in manufacturing and related industries - all these drivers negatively affected FDI inflows. However, these studies did not consider how FDI drivers' effectiveness might vary from one particular industry to another in Saudi Arabia, and they believed their studies could be generalised to other sectors in Saudi Arabia. Similarly, Mellahi, Gurmat, Frynas and Al-Bortmani (2003) studied FDI location in Oman and found that political and economic stability are the most important FDI location drivers. However, they found that customer purchasing power, market size, and the availability of low-cost inputs are not relevant location drivers for FDI in Oman. In addition, Mina (2007)

examined the location determinants that are favourable with regard to attracting FDI flows to the GCC countries. He found that market size, trade openness, the quality of institutions, and the quality of the infrastructure attract FDI, while human capital, including qualified personnel, has a negative impact on FDI inflows to the GCC countries.

According to Cleeve (2009), the location advantages are divided into three groups. The first is the access to, and the relative cost of, production drivers. A firm's decision to invest abroad will be affected by certain geographical drivers such as natural resources and manufactured resources. Some relate to the quality and productivity of the labour force, materials quality and cost, energy costs, and language and cultural differences between the home and the host country. The second is tax and trade barriers. A foreign company's location decision is affected by government policies towards foreign firms. These policies include government intervention, tax rates, incentives, investment claimed, political stability, and trade freedom. The third is transport costs and access to the market. The importance of transport costs in FDI location decision making will be affected by the industry under consideration. In some industries such as the construction, materials and food industries, high quantity and volume, transport costs and distance are of importance. In the knowledge and high technology industry, transport costs are not important in the FDI location decision. Usually, firms will locate near their market when the goods they produce have a relatively high transport cost.

According to Cleeve (2004), those host countries that offer a stable political and economic environment, have usually implemented a liberalisation and privatisation of trade policies, and have adopted international trade agreements, will be more successful in attracting FDI. Mmieh and Owusu-Frimpong (2004) studied the flow of FDI in Ghana and showed that the implementation of its structural adjustment programme (SAP) and the policy of economic improvement of the Ghanaian government has led to an increase in FDI

flows. In addition, they inferred that the Ghanaian government's efforts to reduce inflation, promote financial stability, remove requirements for granting licenses FDI, remove exchange controls and limit the market exchange on the black market have all led to an increase in FDI inflows into Ghana.

Tahir and Larimo's (2005) research results show that the large size of the parent company, international experience, big market of the host country, cultural similarity and low cost of labour will influence market research and efficiency-seeking FDI. In addition, a host country with low inflation, political stability and a stable currency, will attract risk reduction-seeking FDI. In addition, a high-level of research and development in the parent company attracts knowledge-seeking FDI. Stoian and Filippaios's (2008) study showed that Greek companies enter countries similar to those of with a small market size and open economies, while a lack of legal issues and ease of doing business will play a major role in location decisions with regard to FDI. Buckley, Devinney and Louvriere's (2007) study suggests that the relative importance of location drivers on FDI location decisions in decreasing order of importance are: the return on investment, market growth, market size, staying in the same industry, market stability, exploiting assets, asset protection and the cost of the product. They also identified the least important drivers as: the relations established in the market, trade barriers, competition, access to new resources, currency depreciation, investment incentives, government policies and democratic culture. McCarthy and Atthirawong (2003) suggest that research into the drivers that affect FDI location decisions for manufacturing companies is limited. By studying various location drivers that include deciding on the location, the study reveals that the most important drivers are cost, infrastructure, labour supply, and economic, government and political drivers. They also identified other drivers with regard to location, including the

quality and availability of transport, political stability, legal drivers, telecommunications, quality, the availability of labour and other costs operations.

2.6.2 Selected FDI Drivers

2.6.2.1 Market Drivers

Market-related drivers have been extensively studied in the literature, and many authors have inferred that market drivers are one of the most effective drivers in terms of influencing FDI destination. The literature has provided evidence supporting market size and market growth as effective drivers in the choice of location related to FDI (see Scaperlanda, 1967; Schmitz, 1970; Goldberg, 1972; Lunn 1980; Hill and Munday, 1992; Yamawaki, Thiran and Barbarito, 1996; Mellahi, Gurmat, Frynas and Al-Bortmani, 2003). One of the drivers that has received continuous support in empirical research as a driver that impacts on the location choice of MNEs is the market size of a particular country (Flores and Aguilera, 2007). For example, Contractor (1991) showed a positive empirical relationship between FDI and market size indicators such as GDP and growth rate. Similar results were reported by Loree and Guisinger (1995) in a study of US FDI equity and per capita GDP of a country, and in Sethi et al.'s (2003) study of US FDI stock and flows during 1981-2000. A survey by Agarwal (1980) with regard to FDI drivers which is often cited in the literature, found that the size of the host country market explains the success of a host country when it comes to attracting FDI, especially in developing countries. Nunnenkamp (2002) showed that some scholars who had dismissed earlier studies that supported the importance of market-related drivers as not being important offered results supporting the relevance of market-related drivers. Zhou, Delios and Yang (2002) showed that the reasons for the effectiveness of market-related drivers in terms of FDI inflows, as suggested by many experts, is that major markets provide benefits such as

economies of scale and high-income generation. Several empirical studies on FDI (e.g. Cunningham, 1975; Swedenborg, 1979; Dunning, 1980; Scaperlanda et al., 1983;. Papanastassiou and Pearce, 1990; Tahir and Larimo, 2005) also confirm that the market potential of the host country has a significant and positive effect on attracting FDI. Some have argued (e.g. Sabi, 1988) that companies expect to experience greater long-term profits through economies of scale and lower production marginal costs in countries with a strong potential with regard to a wider market (Tahir and Larimo, 2005). Chakrabarti (2001) and Nunnenkamp (2002), while questioning the importance of the determinants of FDI, found there was a strong positive correlation between FDI inflows and market size.

Banga (2003) estimates that the most important economic fundamentals, as recognised in the literature, are the variables that can affect market-seeking FDI. Here there are two drivers, i.e. the current market size and the potential market size. While a large market size generates economies of scale, a growing market improves market potential prospects and attracts FDI inflows (see Bhattacharya et al., 1996; Chen and Khan, 1997; Mbekeani 1997; Billington, 1999 and Zhang, 2001). Expanding pressures in other markets in terms of increased sales or increased market share have influenced multinationals when it comes to entering new markets as a means of compensating for the maturity of domestic. Market growth can influence FDI location; companies will enter those markets in which they can develop (Jones and Wren, 2006). Cheng and Kwan (2000) concluded that if goods and services are produced for the local market, local demand drivers would be important. Therefore, the pattern of FDI will determine the relative effectiveness of market-related drivers. Kravis and Lipsey (1982), Coughlin et al. (1991), Wheeler and Mody (1992) and Braunerhjelm and Svensson (1996) made a comparison between countries. They all found that the size of the market has a positive effect on FDI. Billington (1999), Barrell and Pain (1999) and Wei et al. (1999) found the rate of

growth in market size, instead of the level, has an influence in determining FDI location. However, Scaperlanda and Mauer (1969) found that this does not affect the decision with regard to location. Kang and Lee (2007) estimated that the potential market in adjacent areas, in addition to the size of the host regional market could affect FDI destinations. In their study of Japanese FDI in developed parts of Europe, Head and Mayer (2004) found that areas surrounded by large markets attract more FDI. Using spatial econometric techniques to analyse trends in US FDI in OECD countries, Blonigen et al. (2004) found a positive coefficient with the market potential variable..

The influence of market size on efficiency-seeking and market-seeking FDI in the empirical literature has been shown to be positive. FDI is attracted to larger markets in order to minimize production costs and to exploit economies of scale (Mina, 2007). Under the assumption of market size, multinationals look for (large) markets to minimize costs, including fixed costs, and to exploit economies of scale (Mina, 2007). Despite the differences in views, methodologies, selection of the sample and analytical tools found in the empirical literature, Chakrabarti (2001) found a positive effect in terms of market size as measured by GDP per capita and FDI. By performing extreme bounds analysis using cross-sectional data on 135 countries for 1994, he arrived at the same conclusions. Similar to Chakrabarti (2001), Moosa and Cardak (2006), using cross-sectional data from 138 countries in the period 1998-2000 and an analysis of the extreme bounds, found evidence to support the positive influence of market size, as measured by real GDP on FDI.

Blonigen (2005), Chakrabarti (2001a, 2001b) all support the influence of market size on FDI location choice. Resmini (2000) studied the influence of the characteristics of the host countries with regard to FDI from the European Union for the period 1990-1995, and found that market size is positively associated with FDI. Frenkel et al. (2004), based on gravity models and using data for the period 1992 to 2000 on FDI bilateral flows of the G5

countries to 22 emerging markets in Asia, Central Europe and Latin America, found that the size of the host market is an important factor in terms of location. However, when separating the emerging markets in terms of regions, - Latin America, Asia, and Central Europe - they found that the size of the market affected FDI only in Latin America and Central Europe. Using aggregate data with regard to many developing countries, Root and Ahmed (1979) found that using GDP per capita as an indicator of the size of the market was the most dominant variable in determining FDI in developing countries. According to Cleeve (2009), UNCTAD, in various publications, have shown that market size is a significant factor in terms of FDI locations in sub-Saharan Africa. However, Cleeve (2009) concluded that the importance of the market factor in FDI location decisions is declining, as other variables such as political variables have become more important drivers for FDI locations in sub-Saharan Africa.

An interesting finding by Mina (2007), who studied the drivers that influenced FDI location decisions in the Gulf countries, including Saudi Arabia, Bahrain, Oman, Kuwait and the United Arab Emirates, is that market size in these countries was not a major driver for FDI flows. He concluded that, because of the small population in these Gulf countries, economies of scale cannot be realised, and FDI inflows may be discouraged. Therefore, the influence of market size on FDI inflows can be ambiguous. However, the influence of the whole GCC market in total may have a positive influence on FDI, as this is an integrated market with the free movement of goods and services.

Zitta and Powers (2003) found that the size and nature of the host country market has a major impact on decision-making with regard to FDI. Market drivers such as size, growth, stage of development and local competition are relevant location criteria (Rugman, 1979). The size of the US market undoubtedly influences the nature of FDI inflows (US Department of Commerce, 1993). Past results, such as those of Schneider and Frey (1985),

Culem (1988), Tsai (1994) and Billington (1999) offer evidence in support of this view. Using data from 54 developing countries over three years (1976, 1979 and 1980), Schneider and Frey (1985) found a significant positive effect in terms of market size, as measured by real GDP per capita, on FDI. Using bilateral data flows between six industrialised countries for the period 1969-1982, Culem (1988) provided similar results. Using data from the US foreign investment sector in 42 countries for the period 1982 to 1988, Wheeler and Mody (1992) found evidence that market size leads foreign investment in developing countries. Using data on 62 countries for the period 1975-1978 and 51 countries over the period 1983-1986, Tsai (1994) also arrived at the same conclusion. The size of the foreign market and its growth potential are considered to be the main factors that influence the choice of location (Kobrin, 1979; Yamawakai, 1993 ; Gilmore, O'Donnel, Carson and Cummins, 2003).

Buckley, Devinney and Louvriere (2007) studied the effect of management experience on decisions about locating FDI. They found that companies with extensive international experience would give low priority to those familiar markets or ones similar to those of the country of origin. In addition, as companies gain experience in international markets, they can give a higher priority to those host markets that are less attractive, compared with other less experienced companies, because of the latter's lack of familiarity. According to Cleeve (2004; 2009), the familiarity of the host country market are effective factors in location decisions for FDI. Lack of knowledge of the host market can cause a company to underestimate the available target market opportunities, and overestimate the risks that exist in this market (Cleeve, 2004; 2009). Randoy and Dibrell (2002) concluded that location familiarity and market attractiveness have an important role to play in the choice of location for MNEs. According to them, the factor "location familiarity" refers to the ability of the foreign investor to manage the impact of cultural differences between the

host and home countries. A number of previous studies have proposed the idea unfamiliar location would increase operational costs and and affect the profit expected by the foreign companies, as the the market is not familiar to the investor (e.g., Johanson and Vahlne, 1977; Anderson and Coughlan, 1987; Kogut and Singh, 1988). Therefore, if managers recognise that a particular host country is not familiar, then they will not choose that host country for their investment Companies prefer countries where they are already active compared with those where they are not (Davidson, 1990). Companies with extensive experience have a lower preference for nearby markets that are similar and familiar. Markets that others may perceive as being less attractive because of high levels of uncertainty, increase in terms of priority as the experience of the company increases.

2.6.2.2 Economic Drivers

There is extensive literature that has analysed the impact of economic fundamentals on FDI flows. Overall, economic policy contributes to strengthening these economic fundamentals. Many scholars such as Schneider and Frey (1985), Wheeler and Mody (1992), Tsai (1994), Jackson and Markowski (1995), Taylor (2000) and, more recently, Banga (2003), all support the positive effect of economic and political stability on FDI inflows. UNCTAD (1998) shows that monetary and fiscal policies which encourage economic stability will influence FDI flows. Since these policies determine interest rates, and the cost of capital in a host country, they directly affect one of the determinants of investment decisions. However, UNCTAD (1998) concluded that the effects of interest rates on FDI location destinations are less than those on domestic investment,because multinational companies have a better choice of funding sources for their international operations, and they are not limited to the local market level. Economic stability and growth must be associated with political stability in order to influence FDI flows (Mellahi

et al., 2003). In addition, UNCTAD (1998) urges that economic instability will have a negative impact on location decisions with regard to FDI. However, economic stability and political environment in a host country will motivate foreign investors if such an environment is accompanied by other location drivers.. Therefore, economic stability is a necessary but not a sufficient driver when it comes to attracting FDI, and must operate alongside other drivers for it to play an essential role in motivating FDI flows. Ho and Lau (2007) believed that the importance of the economic environment in the host countries in FDI location decisions will be greater when the investor plans to expand their market share in the host country in which their investment is located. Otherwise, when the target markets are outside the host country in which the investment is to be located, the economic environment of the host country will have a minimal effect and be of low priority with regard to FDI flows.

Aliber (1993) argued that a strong macroeconomic policy is a key factor in terms of FDI location decisions. He believed there is a positive relationship between the growth rate of the host country and the flow of FDI - a view widely supported by the literature (Wheeler and Mody, 1992). However, the research results reported by Scaperlanda and Mauer (1969) found no significant support for the relationship between FDI flows and economic growth. Lim (2001) argued that even if there is little support for the relationship between FDI and growth, there is a view increasingly expressed in recent literature that FDI location decisions are positively affected by the growth of the host country.

Economic drivers, especially tax rates and the tax structure of the host economy, are key investment considerations. Several studies have shown that the corporate tax rate has a negative effect on investment decisions (Friedman et al., 1992; Loree and Guisinger, 1995; Billington, 1999). Mina (2007) argues that the openness of the host economy is also important for FDI. He also concludes that the more open an economy is, the more the host

country is likely to attract FDI. However, in their review of the literature, Chakrabarti (2001) and Moosa and Cardak (2006) found empirical evidence of a slightly or negligible influence of trade liberalisation on FDI. Since the Gulf countries rely heavily on oil exports, trade liberalisation should have a positive impact on FDI in that region (Mina, 2007).

Various researchers (Aliber, 1970; Zitta and Powers, 2003; Gilmore, O'Donnel, Carson and Cummins, 2003) argue that the influence of economic factors on FDI location is affected by the impact of interest rates, changes in exchange rates, economies of scale, borrowing sources in international capital markets, inflation, and the tax structure of the host country. In addition, any devaluation in the currency of the host country will have a positive impact on FDI profitability and may influence the flow of FDI (Froot and Stein, 1989). Exchange rate policy in the host country is related to the economic environment and reflects the economic stability of the host country which in turn can affect FDI flows. It also affects the cost of the host country's assets, the rate of transfer of profits, and the competitiveness of the exports of the foreign partners (UNCTAD, 1998). Cassou (1997) argues that the influence of exchange rates on FDI is complicated. When the value of the currency of a host country depreciates, foreign companies will find it easier and less expensive to establish their operations in the country. However, this will reduce the profitability of their operations there (Jones and Wren, 2006). Blonigen (1997), Trevino et al. (2002), Radulescu and Robson (2003) and Banga (2003) conclude that when the FDI goal is to export to the host country, a depreciation of the currency of the host country will lead to an increase in the profits resulting from FDI. In addition, FDI can have the benefits of lower costs in their operations in the case of export-orientated FDI, and attract resources and efficiency-seeking FDI (Banga, 2003). However, if a company accepts that the depreciation of the currency of a host country could continue after investing in that

country, this may discourage the company from entering the market as the cost of the operation or of resulting exports will be high.

Mmieh and Owusu-Frimpong (2004) argue there is no evidence to support the view that FDI inflows will be influenced by the high purchasing power of the currency of the host country. Dunning (1991) and Letto-Gillies and Grimwade (1997) show that the rate of exchange of the host country can positively affect FDI inflows. Froot and Stein (1991) and Letto-Gillies and Grimwade (1997) provide empirical support for the relationship between currency depreciation in the host country and FDI inflows. Other studies have found evidence to support the argument that a short-term change in exchange rates will influence FDI flows. Beamish (2000) and Tahir and Larimo (2005) estimate that the effect of FDI on exchange rates may vary, depending on the investment and the goals and strategies with regard to FDI on the part of the host country. However, Blonigen (2005) criticised these studies in that they focus primarily on US FDI data. Other studies also suggest that FDI inflows will move in line with the movement in the exchange rate. He stressed that the financial crises in the 1990s that created a sudden movement in exchange rates in Asian countries, led to a strong movement on the part of MNEs in terms of entering new markets in Asia, and that these countries received a large FDI inflow (Blonigen, 2005). Lipsey (2001) studied US FDI in three areas in the face of currency crises in Latin America in 1982, Mexico in 1994 and East Asia in 1997, and found that FDI inflows during these crises were stable. Desai, Foley and Forbes (2004) found that US companies which encountered exchange difficulties in foreign countries, increased their investment.

Most of the literature on the effects of taxation on FDI issues relate to Hartman (1984, 1985) as being the first to report on how certain types of FDI may unexpectedly be insensitive to taxes. . The key insight by Hartman is that the earnings of a partner in a host

country will be affected by parent and host country taxes (Blonigen, 2005). Cheng and Kwan (2000) have argued that export-orientated FDI will be affected by taxes in the host country, but taxes on FDI targeting the local market will have a lesser effect. Instead, other drivers such as FDI market policies that affect local market demand will be more important than taxes. While there is agreement among researchers about the impact of non-tax drivers on FDI flows, the results with regard to the influence of tax drivers on FDI inflows are contradictory and questionable (Ho and Lau, 2007). Several studies have examined the effect of taxes on FDI flows, and the results are conflicting (Mossa, 2002; Ho and Lau, 2007). Scholars such as Coughlin (1991), Hines (1996), Cassou (1997), Billington (1999) and Jones and Wren (2006) found that high tax rates have a negative impact on FDI inflows because they reduce the profits that can be made. However, Glickman and Woodward (1989) and Wheeler and Mody (1992) found that taxes will not significantly affect FDI flows. UNCTAD (1998) argues that the corporate tax rate and personal taxation will affect FDI flows. In addition, a host country with a corporate tax rate will be more attractive than a location with higher rates. Therefore, the managers making destination decisions will be influenced by tax rates when they choose their host country for their operations, and this can affect the hiring of foreign workers in the host country.

The decision-making process of foreign direct investment and the location is complex and often affected by tax and non-tax drivers (Ho and Lau, 2007). Tax drivers (such as tax rates on income and corporate tax depreciation allowances) can influence FDI flows, and determine the level of capital that will go to a particular location. Non-tax drivers such as economic conditions and the availability of a suitable workforce can affect FDI flows by affecting operating efficiency and the benefits of FDI. Although there is agreement about the impact of non-tax drivers on FDI flows, the results with regard to the impact of tax drivers on foreign direct investment are contradictory and inconclusive (Ho and Lau,

2007). There appears to be a consensus that favourable non-tax drivers (e.g., skilled labour, ethical behaviour and a good infrastructure) can attract FDI inflows. On the other hand, some studies suggest that taxes are not effective drivers with regard to FDI inflows, and there is only a weak correlation between the two (Ho and Lau, 2007). They suggested that the relative importance of taxs driver with regard to FDI inflows would depend on the industry in which FDI operates and the choice of host countries. In addition, tax considerations are in effect for FDI inflows in the service industry, while non-tax considerations are effective for FDI with regard to the manufacturing industry.

Jun (1989) shows three ways in which tax policies affect FDI inflows. First, the tax policies in the host country will have a direct effect on FDI margins. Second, the tax policies of the host country will affect the benefits associated with domestic investment. Third, tax policies affect the relative cost of capital with regard to domestic and foreign investment (Mossa, 2002). Theoretically, a higher corporate tax rate reduces net profits and, therefore, discourages FDI inflows (Hartman, 1981). Thus, the need to locate manufacturing facilities in countries with low tax rates serves the purpose of market-seeking FDI (Tahir and Larimo, 2005). Yamada and Yamada (1996) suggest that incentives in the form of tax-related policies, such as a corporate tax on lower earnings, are important determinants of FDI on the part of Japanese companies in the European Union. Ermisch and Huff (1999) conclude that lower taxes on the investments of foreign companies are a favourable strategy to attract FDI to less developed countries such as Singapore.

Interest on the part of international economists and host governments on the effects of taxation on FDI has been considerable (Blonigen, 2005). A clear theory is that high taxes discourage FDI inflows, and that the most important question is one of magnitude. However, some articles in the literature have shown why some studies on the

effect of taxes on FDI locations can be ambiguous. According to Blonigen (2005), the effects of taxation on FDI can vary significantly in terms of the type of taxes, the activity of FDI, and tax policies in the host country and parent countries with regard to FDI. MNEs face tax rates at various levels in both the host country and the country of origin, and policies to deal with double taxation can substantially alter the effects of these taxes on the incentive of an MNE to invest. The empirical approaches and data samples used by researchers have differed a great deal, so there are still major questions about how taxes affect FDI location. The evidence seems more convincing than a credit system to deal with foreign taxes on the part of a multinational company makes taxes in the host country relatively unimportant (Blonigen, 2005).

2.6.2.3 Infrastructure Drivers

Several researchers (Loree and Guisinger, 1995; Cheng and Kwan, 2000) showed the importance of the infrastructure available in the host country in terms of FDI location decisions. According to Root and Ahmed (1978) and Loree and Guisinger (1995), the idea of infrastructure relates to the availability and quality of infrastructure such as roads, ports, airports, telephone lines, and others. Zhou, Delios and Yang (2002) believe that the infrastructure is related to the nature of production, which requires the availability of adequate roads, railways, ports and other installations for operational efficiency. Many researchers such as Root and Ahmed (1978), Loree and Guisinger (1995) and Cheng and Kwan (2000) conclude that the location decisions of MNE are influenced by infrastructure through the expected operational costs in a particular host country. That is the cost of transporting raw materials and finished products to and from the operational centres of multinational companies and their target markets. Banga (2003) found that the higher the infrastructure level, the greater the attractiveness of the host country for FDI. Other studies have confirmed that FDI is attracted to regions with better transport infrastructure

(Coughlin et al., 1991; Loree and Guisinger, 1995). If the products are for export, production costs and the cost and reliability of transport in the world market are more crucial (Cheng and Kwan, 2000).

Infrastructure refers to the quality of public services and transport in a particular location (Ho and Lau, 2007). Infrastructure is related to the nature of production, which needs adequate roads, railways, ports and other facilities for operational efficiency (Kang and Lee, 2007). In addition, infrastructure support multinational companies in host countries to reduce the setup costs associated with new investments (Coughlin et al., 1991; Chen, 1996; Cheng and Kwan, 2000). Ho and Lau (2007) noted the effectiveness of infrastructure with regard to FDI flows on the industry considered in their study; each industry has a different priority in terms of infrastructure levels. Heavy industries such as oil-related industries will need a high level of infrastructure in the host country to get their products to world markets. Therefore, the infrastructure in the host country is an important factor in such an industry. In addition, Jones and Wren (2006) inferred that infrastructure is a potential attractor of FDI as it improves the distribution of goods and services, and the ability of a company to recruit labour, and to communicate with suppliers and buyers.

The theory of agglomeration economies suggests that once countries attract the first mass of investors, the process could be self-reinforcing, with no change in policy. In addition, when agglomeration economies are present in a host country, the current FDI should be a good predictor of future FDI, even after adjustment for the traditional drivers of comparative advantage (Campos and Kinoshita, 2003). In addition, they concluded in their study that foreign investors could be attracted to countries where there is a great deal of existing foreign investment. Being less well informed about the environment of a country, foreign investors may see the investment decisions made by others as a good signal of favourable conditions, and invest too much as a way to reduce uncertainty For example,

Japanese investors prefer to site their plants in areas where they find concentrations of previous Japanese investments in the same industry and, for auto-related firms, previous investments made by Japanese firms. Agglomeration effects could be because of the existence of positive links between projects (Kang and Lee, 2007). One incentive for this is the spillover effect created as a result of research and development. A second possible incentive is confidence and the possibility for firms to cluster.. Given the uncertainty as to whether or not a country (region) would be a good location for FDI, the success of a business can be a sign of underlying regional or national characteristics A third incentive comes from the supply of, and demand for, intermediate goods (Fujita et al., 1999). Theoretical analysis has developed various explanations for manufacturing agglomerations.

The level of industrialization should be associated with a high level of FDI. With regard to a particular country or region, a high level of industrial economies of scale will lead to many companies and a clustering of industries, potentially increasing the possibility of beneficial effects (Jones and Wern, 2006). Whether or not we consider industrial concentration (clustering) as measured by the infrastructure of a region, the level of industrialization or the amount of previous FDI, Wheeler and Mody (1992), Billington (1999), Wei et al. (1999) and Campos and Kinoshita (2003) have all found a significant positive effect of these on FDI inflows, which they attribute to agglomeration economies. Devereux (2003) and Jones and Wren (2006) suggested that companies tend to locate close to other firms in the same industry to benefit from the spillover effect. In their study, Tuan (2003) showed that agglomeration economies will significantly affect FDI. Ng and Tuan (2003) also showed that FDI would prefer a host country with a high degree of business agglomeration. Studies by Smith and Florida (1994), Head et al. (1995) and

flows. Marshall (1920), Krugman (1991) and Campos and Kinoshita (2003) concluded in their studies that agglomeration economies are an important factor in terms of FDI location decisions. They also suggest that with regard to economies of agglomeration, new investors mimic past investment decisions on the part of other investors in choosing where to invest, and tend to locate their investment in countries with high levels of agglomeration economies. By placing themselves alongside other companies, they win as investors are already in place. Common sources for these positive externalities are the dissemination of knowledge, specialized labour and intermediate inputs.

The vague and general concept of technology spillover is the most often-cited source of agglomeration effects (Head, Ries and Swenson, 1995). Useful technical information flows are shared between entrepreneurs, designers, and engineers in various industries. Much of the spillover between foreign invested enterprises may include the flow of knowledge based on experience on how to work effectively in a particular state. Physical proximity can improve the flow of knowledge by making it less expensive to engage in casual communication. Since technological spillovers are impossible to measure, little is known about the geographical extent of this impact, the extent to which they operate within industries compared to between industries, and the extent to which they flow between companies of different national origins. While the prosperity of the high-tech cluster in Silicon Valley and high fashion in central Milan can result from a spread of local knowledge, specialised labour and parts can all play important roles as well. As reported by Marshall (1920), localised industry creates a pooled market for workers with specialised skills (Head, Ries and Swenson, 1995). Krugman (1991) argues that combining economies of scale with moderate transport costs encourages users and suppliers of intermediate inputs to cluster close together. These agglomerations reduce overall transport costs and generate significant levels of demand - enough to justify the effort to produce

highly specialised parts. This will attract assemblers, which encourages new entrants and further specialisation.

The availability of a skilled workforce in a host country should have a positive effect on FDI because a host country's inputs in the form of greater availability of skilled labour will provide foreign investors with a group of workers from which to choose (Jones and Wren, 2006). Haaland and Wooton (2003) and Jones and Wren (2006) examined the effect of the labour market on the attractiveness of the host country for FDI, and revealed that labour market "flexibility" is a positive determinant in terms of FDI inflows. Billington (1999) argued that the unemployment rate could also be used to measure the availability of labour. He concluded that a host country with a high level of unemployment would offer a larger workforce for companies to choose from. A high unemployment rate can also mean that workers invest more in keeping their jobs and will work for lower wages, leading the host country to be more attractive for FDI. Billington (1999), Friedman (1992) and Coughlin et al. (1991) all found that the unemployment rate has a positive effect on FDI inflows. However, the evidence provided by Taylor (1993) suggests that a too high rate of unemployment can be a deterrent to FDI. However, the effect of the unemployment rate varies, depending on the FDI objectives, such as market-seeking FDI vs. efficiency-seeking FDI. Education is a key factor in developing human capital (World Bank, 1999). People with more and a higher quality of education can increase the attractiveness of the host country for FDI inflows (Noorbakhsh et al., 2001). The results of education in a workforce means that it is competent, educated, and skilled in the use of modern production facilities, engineering and technology (Meier 1995; Noorbakhsh et al., 2001). Campos and Kinoshita (2003) argued that a well-educated workforce in the host country could learn and adopt new technologies quickly, and this would reduce training costs with regard to local workers for the investor coming from abroad. High-quality work

not only raises production, but also allows companies to exploit production using advanced technologies (Zhang, 2001). This is especially true for FDI from the US, Japan, and Western Europe, which tends to relate to capital-intensive production and is skilled labour oriented. A country with a better quality workforce should receive more FDI compared to other countries (Zhang, 2001).

Mina (2007) shows the availability and quality of the workforce are effective for FDI inflows. However, he concluded that the quality of education and innovation, important aspects of human capital needed to do business and attract investment, are lagging behind in the GCC countries, and he suggests that this is another location drawback . None of the GCC countries has an advantage in terms of tertiary education which is associated with FDI that is largely capital intensive and oil-related. Interestingly, research and training in all the GCC countries lags behind other regions of the world. As for innovation, all GCC countries lag behind many other countries as far as the availability of scientists and engineers is concerned. Similarly, the quality of scientific research institutions, private spending on research and development, university-industry linkages and the ability to innovate are limited (Mina, 2007). Mina's study reveals that the GCC countries are lagging behind in terms of the availability and quality of human capital. This is a disadvantage when it comes to FDI inflows, and this makes these countries less attractive compared to other countries, with regard to labour-intensive and efficiency-seeking FDI.

2.6.2.4 Political Drivers

In many studies, the risk associated with a particular country was classified as a specific variable in terms of location decisions (Tahir and Larimo, 2005). Agarwal (1994) also found a negative correlation between political instability and FDI. In a study of the post-independence economic transition in the Ukraine, Ishaq (1999) found that FDI flows to

Ukraine are limited, mainly because of the unstable political environment of the country. However, Biswas (2002) argues that the theoretical and empirical results with regard to the impact of political drivers on FDI inflows are limited. In addition, the literature on the impact of the political effect on FDI inflows suggests that most of the empirical work is limited in that it has focused on a few countries (e.g. Stevens, 1969; Weigel, 1970; Root and Ahmed, 1979; Levis, 1979). Other studies have addressed specific political events in these countries (Biswas, 2002). Schneider and Frey (1985) concluded that FDI inflow models will offer better results if political drivers are included in the economic model used in the study, and will show a clearer indication of the locating motivations when it comes to FDI, than models that do not includ political drivers. Stevens (2000) made such an attempt by integrating several non-traditional policies and other economic variables in a standard theory of FDI, based on maximising the expected value of the company concerned. The empirical results show that a generalised model which contains more variables, is superior to the usual model when it comes to explaining US FDI in Argentina, Brazil and Mexico. He found no support for the effect of perceptions of the legality of the government and considerations as to how it came to power (Mossa, 2002).

Many studies have found that political drivers are not effective FDI drivers, and that they rank lower than other drivers (e.g. Green and Cunningham, 1975; Mody and Wheeler, 1992). In addition, the risks in the home markets are often cited as a cause of hesitation with regard to inward FDI (Dunning, 1996). In addition, stability or political risk involves the risk that the host government will suddenly change the "rules of the game" by which companies operate. It also includes the risk of adverse outcomes resulting from political events that can affect the heart of the business environment as it affects FDI (Butler and Joaquin, 1998; Gilmore, O'Donnel, Carson and Cummins, 2003). In addition, Ho and Lau

(2007) showed that FDI is sensitive to political risks when choosing a location for investment, and this affects the attractiveness of a host country with regard to FDI.

FDI investment in a host country usually involves great obligations in terms of capital that can be recovered if the investment launch is successful. However, the recovery period can be many years. A high level of political risk could adversely extend the recovery period or even make the investment critical. Consequently, the amount invested could easily be lost. Schneider and Frey (1985), Bollen et al. (1982) and Mellahi, Gurmat, Frynas, Bortmani (2003) noted that political instability significantly affects the location decision negatively and reduces the inflow of FDI. Aharoni (1966) found that investors point to political instability as being the most important factor that influences their FDI decisions. However, UNCTAD (1998) concluded that political stability is a requirement for FDI to occur, but is not a powerful motive in terms of FDI inflows. Lack of political stability discourages FDI inflows. Mossa (2002) points out that political risk occurs because of unexpected changes in the legal and fiscal framework of the host country. Such changes can transform the expected return of the foreign investor. For example, a decision taken by the host government to enforce restrictions on the repatriation of capital to the country of origin of the investor will have an adverse effect on the cash flows received by the parent company with regard to FDI. Globerman and Shapiro (1999) suggest that the business environment will affect the choice of FDI location. According to Brewer (1993), the policies of the host government with regard to FDI could influence FDI location by changing the relative attractiveness of the host country for FDI purposes compared to other places. If a host country can identify the locating drivers that are of particular importance to FDI, it can use these drivers to influence and attract new FDI (Billington, 1999).

Several studies (Gastanaga, Nugent and Pashmova, 1998; Taylor, 2000; Chakrabarti, 2001; Asiedu, 2002) tested the impact of trade agreements on FDI flows, and all confirm that

agreements are an important driver for FDI inflows, and will affect FDI location decisions positively. Globerman and Shapiro (1999) found that the Canada-US Free Trade Agreement (CUFTA) and the North American Free Trade Agreement (NAFTA) increased both inward and outward FDI, and improved the attractiveness of these countries. Blomstrom and Kokko (1997) explain the effect of regional trade agreements in terms of both drivers. The first is the indirect effect of FDI liberalisation of trade, and the second is the direct effect of changes in investment rules relating to regional trade agreements. Banga (2003) argues the relationship between FDI and trade agreements has become much more complicated because of the WTO regime, in that many developing countries have launched a liberalisation process that significantly reduces transaction costs and encourages international vertical integration and intra-industry trade. With lower trade barriers and the increase in the importance of networks, foreign investors find barriers to entry and less competitive environments less attractive.

Legal stability, legal instability, and bureaucratic and administrative obstacles will discourage FDI (OECD, 1994). According to a World Bank study (World Bank, 2005), the low confidence in the legal system of a host country is a key factor for companies, especially in a country with weak political and economic reforms; therefore, the legal system in the host country will play a major role with regard to FDI inflows. The rule of law, respect for contracts, and protecting property issues of economic exchange rights are (Kaufmann et al., 2000). Best institutional arrangements imply a better enforcement of contracts and the protection of property rights, less corruption and a lower cost of doing business. The empirical evidence supports the importance of institutions: an effective, transparent and enforceable legal and institutional framework is a key determinant of foreign direct investment (Altomonte and Guagliano, 2003; Globerman and Shapiro, 2003; Kahai, 2004). Empirical research shows that both political institutions at the country level

and legal institutions at the international level influence transnational business practices, and when MNEs expand worldwide, the legal system of the host country plays an important role in their operations abroad (Flores and Aguilera, 2007). Henisz and Delios (2001) argued the credibility of the policy of the government of the host country could deter foreign investment. Host countries are likely to have separate policies with regard to trade protectionism, enacting laws to prevent monopolies, and the enforcement of mechanisms to honour contracts. Ramady (2009) insists that banks and other financial institutions operating in any country in the world will operate under the regulations and supervision of a central bank, a monetary authority, or an independent regulatory agency such the Financial Services Authority in the United Kingdom (FSA). Given the importance of the financial sector to the economic wealth of nations and to the public trust, one of the main objectives of banking regulation is to reduce the risk of failure, contagion and systemic risk in the financial system (Corrigan, 1985/1986; Rose, 1999).

According to Blonigen (2005), the legal system in the host country will be an effective driver for FDI inflows as far as developing countries are concerned. This is for many reasons. First, a poor legal system in terms of asset protection will risk investment and can discourage FDI inflows. Second, a poor legal system against FDI operations on the part of the host government will increase the cost of doing business in the host country, and can reduce FDI inflows. Finally, poor infrastructure because of weak institutions can affect the return on investment of FDI and can lead to discouraging inflows of FDI. However, Blonigen (2005) argues there is a difficulty in measuring the impact of the legal system and of incentives for FDI, because there are no accurate measurements of the legal system. While a study of the effect of institutions on FDI exists in many studies, it is normally not the basic factor examined by such studies, and other drivers such as political and economic drivers outweigh those relating to the legal system. UNCTAD (1997), North

(1991) and Sethi, Guisinger, Phelan and Berg (2003) argue that other drivers must be present in the host country before the legal system can affect the flow of FDI. These drivers include a stable economic and political environment, a functioning legal system, good infrastructure, labour quality, low-cost labour, and an open and a stable currency and economy .

Cleeve (2004) insists that the impact of tax incentives on FDI inflow is questionable. Fiscal incentives such as tax incentives provided by the host government may not be effective tools for attracting FDI, and some governments that provide tax incentives to attract FDI, especially in developing countries, risk lost tax revenues associated with FDI when tax incentives do not influence the FDI entry. According to Cleeve (2004), the importance of tax incentives to FDI location depends on three conditions. The first is the source of the FDI; if investing in advanced economies like the United States and European countries, where the country of origin of the companies is offered foreign tax credits, these incentives will not be effective in terms of FDI inflows. The second is with regard to long-term investments such as in mining and agriculture. Little benefit will be obtained from fiscal incentives such as tax holidays. On the other hand, footloose, short-term investments such as those relating to banking and the Internet will benefit the most from fiscal incentives. The third is investment motivation; if the investment is a natural resource-seeking one, fiscal investment will have a minor effect on FDI inflows, with labour costs and the infrastructure of the host country being a greater incentive when it comes to FDI inflows. Mossa (2002) concluded that the incentives offered by the host country would benefit multinational companies that have already made an investment decision on the target location. Otherwise, the effect of the incentives provided by the host country will be limited, and it would be a waste of resources on the part of the host government. Mainly, the business environment in the host country, together with the political, social, and

economic environment, will affect FDI inflows. In addition, incentives only provide an indication of the attractiveness of the host country for FDI, and they will involve a great deal of effort and expense on the part of the host government, with limited effect on FDI location decisions. Agarwal (1980) showed that incentives would affect FDI inflows only at the margin; FDI will examine the returns in the light of the risk associated with their location decisions. Aharoni (1966) and Mossa (2002) argue that deterrence is more powerful than incentives for FDI location decisions. According to Reuber (1973), incentives may influence small companies with limited experience that are contemplating FDI. However, their impact on FDI, in general, is limited.

The collective results of attitudes, actions and inactions on the part of a national government are the most decisive determinants as to whether an investment climate attracts or repels non-extractive multinationals (Cohen, 2007). According to whether or not a government's policies are openly accommodating, neutral, discouraging, negative or indirectly proactively hostile, over time this will affect the volume, quality, size and composition of inward FDI. No foreign investor can ignore the quality of governance, political stability and the presence or absence of the rule of law. Nor can they ignore macroeconomic policies that affect all phases of the economy of a country (Cohen, 2007). Fiscal policy includes the corporate tax rate, and monetary policy includes the establishment cost of borrowing (interest rates) in a country. Lipsey (2000) concluded that countries that are more open to trade, provide and receive more FDI.

Protectionism by the host government may lead to an FDI increase (Mossa, 2002). Blonigen and Feenstra (1996) argued that protectionism can encourage FDI, leading to an increase in investment in the host country to minimize the effect of protectionism on its investment. Mossa (2002) argued that some host governments might use investment strategies to encourage and discourage FDI at the same time. A host government can offer

incentives such as financial and tax incentives and market preferences to stimulate FDI, while discouraging FDI by imposing restrictions on FDI operations. Disincentives can include delays in processing the licences required for investment.

Jones and Wren (2006) and Kang and Lee (2007) argue the policies of the host government towards foreign investment plays an important role in FDI flows. Besides general macro-economic policies and the regulation of the labour market, the host government and its agencies can use explicit incentives of a financial or non-financial nature to attract FDI. Host governments should be cautious when introducing FDI incentives, because they may have a marginal or no effect on FDI flows (Culem, 1988). However, there is significant support that implies that incentives are a insignificant factor in FDI location decisions compared with other location advantages such as market size and growth, production costs, level of skills, infrastructure, economic stability and the quality of the overall regulatory framework (UNCTAD, 1998). In addition, UNCTAD (1998) concluded that if incentives do not rank high among the main determinants of FDI, their impact on the choice of location may be visible at the margin, especially for projects geared towards costs and mobility. Cheng and Kwan (2000) showed that government policies such as the favourable tax treatment, the processes involved in getting governmental approval, the environment for doing business, etc. have a positive effect on the attractiveness of a location for FDI.

Brewer (1993) concluded there are different types of government policies with regard to FDI that may affect the attractiveness of the host country, and these policies can have a positive or negative impact on FDI inflows. Respectively, Banga (2003) found that empirical evidence with regard to the impact of selective government policies on FDI inflows is unclear. Grubert and Mutti (1991), Loree and Guisinger (1995), Taylor (2000) and Kumar (2002) found a positive effect in terms of investment incentives, and a negative

impact in terms of the performance requirements enforced by host governments, on FDI inflows. UNCTAD (1996) argues that the effect level of incentives on attracting FDI will be affected by the type of incentives and the type of investment. Many studies have shown that tax incentives affect location decisions, particularly for export-orientated FDI (Devereux and Griffith, 1998; Hines, 1996; Banga, 2003). However, Contractor (1991) found that policy changes have little influence on location decisions and inflows. In addition, Caves (1996) and Villela and Barreix (2002) concluded that incentives are usually of little importance compared to other traditional location drivers with regard to FDI. This view aligns with that of Hoekman and Saggi (2000), who believe that incentives may attract certain types of FDI, but an important factor will not generalise to the whole economy. In addition, Nunnenkamp (2002) argued that little has changed since the 1980s, and that classical location drivers are always the most important drivers when it comes to attracting FDI.

Government policies as a means of attracting FDI have increased in importance in the new globalised markets (Banga 2003). However, Globerman and Shapiro (1999) concluded that it is difficult statistically to test the effect of specific government policies on FDI, because they are difficult to separate from other FDI drivers, and it is difficult to quantify these policies. Several studies have examined the effect of government policies on FDI flows, such as those of Loree and Guisinger (1995), Kumar (2002) and Zitta and Powers (2003). These studies were based on surveys of a specific time period, and test the impact of policies on a specific country during this period (Banga, 2003). Therefore, these studies have explained the reasons for FDI flows over time but they do not explain the effect of changes in FDI policy for individual countries, and the effect of the attractiveness of the host country for FDI due to these policy changes. FDI will be attracted to a country, not only because it offers new incentives, but also because these incentives are more attractive

for FDI compared to those of other countries. FDI is normally not affected by single political reasons introduced by a host country. Rather, it will depend on a group of incentives offered by the host country, which they will compare with those of other places in terms of attractiveness (Banga, 2003).

Zhou, Delios and Yang (2002) examined 2,933 cases of Japanese investment in China to identify the role that political drivers play in Japanese FDI location decisions in terms of China. The results showed that government incentives on the part of the host country, such as establishing special economic zones and coastal cities, were important drivers for FDI inflow. In an attempt to attract FDI inflow, host countries impose open policies. Restrictive policies such as the widespread nationalisation of foreign partners, can negatively affect FDI inflows (UNCTAD, 1998). If a host country does not have basic economic drivers in place, or if other parts of the investment climate are not satisfactory, the incentives will not affect FDI flows (UNCTAD, 1998). This is because the incentives alone are not an important element in the set of drivers that determine inward FDI. However, when an FDI location decision has been made with regard to a particular country or region, incentives can influence the choice of the particular location within the region or country (UNCTAD, 1998). Attitudes to FDI have improved in recent years, and most countries have liberalised their policies in order to attract FDI (Bloomstrom and Koko, 2003). In addition, the globalisation of the world economy has incentivised host countries to attract greater amounts of FDI

The main reason for the growing importance of FDI incentives is the internationalisation of the world economy (Bloomstrom and Koko, 2003). Global trade liberalisation has made it easier for multinational companies to set up international production networks, so a larger share of production is sent to international customers and to affiliates in other countries, rather than being sold to local customers. This has reduced the impact of the size

of the market and has allowed smaller countries to compete for investment that, decades ago, was automatically directed to the main markets. Regional integration has had similar effects, allowing multinationals to supply all or several member states from a single location in the region (Easson, 2001). Global trade liberalisation through the WTO, or through regional bodies like the EU, NAFTA and other international trade agreements, has led to an increase in market integration and a reduction in the importance of fundamental location drivers such as market size (Bloomstrom and Koko, 2003). Therefore, in today's global market, a small country can now attract FDI when it can offer attractive incentives.

There was a strong consensus in the literature as to why multinationals invest in particular locations (Dunning, 1993; Globerman and Shapiro, 1999; Shapiro and Globerman, 2001). The view was that multinational companies are mainly attracted by solid economic fundamentals in the host countries. The most important of these are the size of the market and the real income of the host country the level of skills in the host country, infrastructure and other resources that facilitate efficient production specialisation, trade policies, and political and macroeconomic stability. This hierarchy of the characteristics of the host countr, widely assume that FDI was market-seeking; foreign investors seeking an export base would be less focused on the size of the local market and more concerned with the relative cost of production. However, investment incentives were considered minor determinants of FDI decisions. While they could tip the investment decision in favour of one of several similar investment locations, the effects were considered marginal (Bloomstrom and Koko, 2003). However, views on the importance of incentives have changed in recent years. One indication is the proliferation of investment incentives worldwide (Bloomstrom and Koko, 2003). By the mid-1990s, over 100 countries had provided various incentives to FDI, and dozens of others are currently implementing such

incentives. Today, few countries are competing for foreign investment with no form of subsidy (UNCTAD, 1996).

Some governments adopt a positive attitude to the attraction of foreign direct investment. This includes specific financial capital grants and quality of life programmes for foreign investors (Ho and Lau, 2007). However, these attitudes can be a way to offset the costs and risks for foreign investors, such as running the business in a less favourable investment environment, including a lack of skilled labour and policy instability. The institutions of the host countries also influence investment decisions because they directly affect the business conditions in which they have to operate . The cost of the investment is not just its economic costs, but also non-economic costs such as corruption and lost time in establishing relationships with local authorities (Campos and Kinoshita, 2003).

2.7 Conceptual Framework

Many academics and researchers have tried to find a better explanation of FDI inflow drivers, including new theories and empirical studies (Galan, Benito and Vincente, 2007). The following are the main theories with regard to the location of FDIs. Theories related to the product cycle (Vernon, 1966; 1979); exchange rates (Aliber, 1971; Blonigen, 1997); process theories of internationalisation (Hirsch, 1976; Johanson and Vahlne, 1977; 1990); risk diversification (Rugman, 1979); agglomeration (Krugman, 1991; 1993; Porter, 1994; 1996); government incentives (Loree and Guisinger, 1995) and location theories (Dunning, 1997; Kuemmerle, 1997; Chen and Chen, 1998). However, even these new theories underestimate the importance of FDI location decisions; they rely mainly on frameworks or models that test the effect of drivers on identifying other drivers that may be of importance, and on the choice of location. None of them however provides an acceptable rationalisation of locating drivers that influence multinational managers when it

comes to taking the final location decision with regard to FDI worldwide (Galan, Benito and Vincente, 2007).

Therefore, it is perhaps not surprising that Chakrabarti (2001) found that most of the locations of FDI drivers are not powerful statistically. Scholars should avoid using general assumptions that explain location motivation FDI globally. The most innovative and forward-thinking studies on drivers with regard to FDI location in the literature have created hypotheses to test location drivers that are important for FDI, and then have tested these hypotheses empirically (Blonigen, 2005).

Many studies provide extensive variations of drivers that influence FDI inflows, or, as Dunning (2008) suggested, provide a shopping list of drivers that fail to provide policymakers with the correct information, and which make recommendations as to the most important drivers that influence FDI inflows to a location. Cleeve (2009) argues that policymakers in host markets should draw up policies that fit their markets by knowing their markets and economies better, because the empirical results are only predictions that work differently for each country under a particular set of conditions.

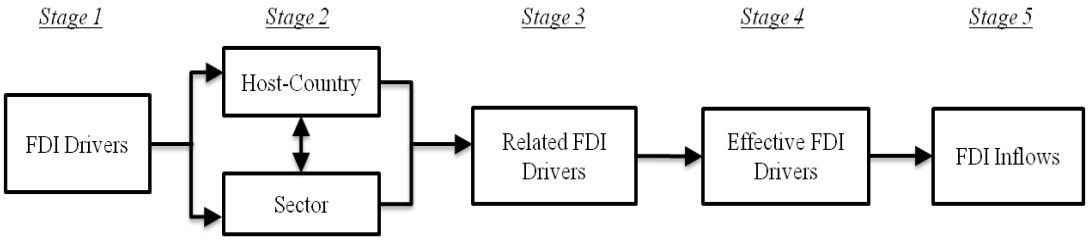
Cohen (2007) believes that the decision to choose a location from the board of a company is decided case by case, and cannot be generalised to other location decisions, because the same location factors may be seen differently by different business leaders, and the relative importance of these drivers varies with the investment concerned and the particular business objectives. According to Dunning (1998), Caves (1996) and Cleeve (2004; 2009), FDI location decisions are affected by investment patterns such as the search for natural resources, market-seeking, efficiency-seeking, and strategic asset-seeking FDI. Market research on the part of the company seeking to initiate FDI will be influenced by the size and growth of the home market, the availability of skilled labour and its costs, the

quality of infrastructure and institutions, agglomeration and support services, and the macroeconomic policies of the host government.

Dunning (1998) suggests that FDI location decisions are influenced by the industry involved in the investment process. In addition, manufacturing FDI would need large sums of money being spent on fixed assets such as equipment, natural resources and land that would serve the FDI. Therefore, the FDI in service industries might not give high priority to natural resources or land in the host country. Mellahi, Gurmat, Frynas and Bortmani (2003) also suggested that the relative importance of location drivers would be affected by the sector to which FDI relates. Bass et al. (1977) found that different industries place different emphases on FDI drivers.

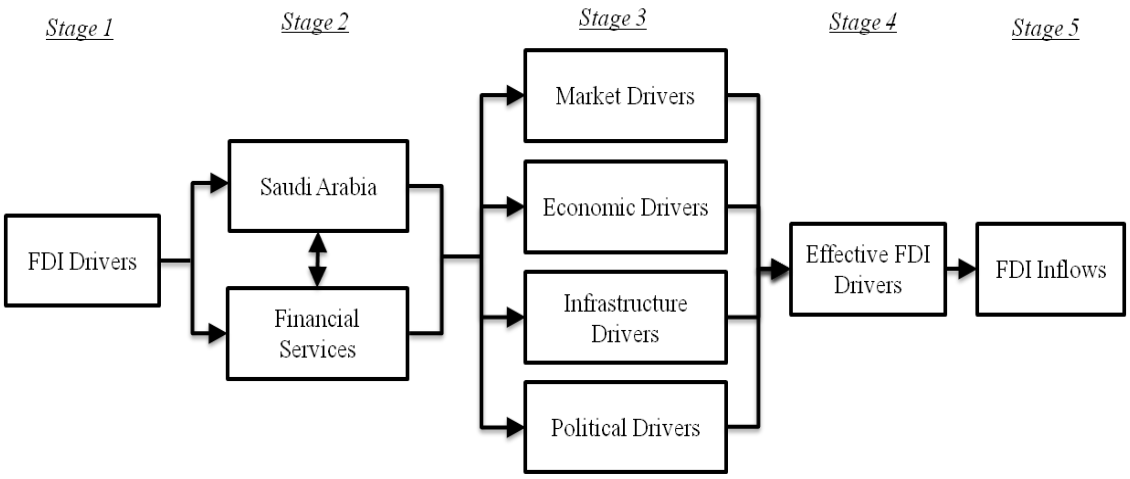
The literature discussed in the previous section shows that there are large number of previous studies that have tested FDI drivers and their effects on FDI inflow. In this section, the researcher has attempted to bring together these various studies in a coherent and structured manner. First, this has allowed a rigorous examination of the research question that is to be explored. Second, the researcher may access the previous studies to develop an initial framework or model that explains FDI behaviour in Saudi Arabia. The researcher believes that a conceptual model will be suitable for studying the effectiveness of the FDI drivers that are of greatest value in terms of attracting FDI inflow.Therefore, this model will be used to allocate government resources to the key drivers in the targeted industry.

Figure 1 General Conceptual Framework



Source: Developed by the author

Figure 2 Applied Conceptual Framework



Source: Developed by the author

The conceptual framework for this paper is built on the location advantages proposed by Dunning (1981) - ownership, location, internationalisation (as per the OLI diagram). The research extends Dunning's model to consider the drawback in the previous studies in terms of explaining the effectiveness of FDI drivers. The research framework is based on Dunning's (1981) eclectic diagram, but focuses on the aspect of location in that diagram. Figure 1 shows the general conceptual framework for this research without applying it to a

sector or host country. On the other hand, Figure 2 illustrates the applied conceptual framework for this study after considering the target sector (financial services) and the host country (Saudi Arabia) and the related drivers (market, economic, infrastructure and political) as they relate to financial services in Saudi Arabia. In the first stage of the framework (Figure 1) is a large number of FDI drivers that are considered by various schools of thought or, as Dunning (2008) stated, a shopping list of drivers that fail to identify the related effective drivers that influence FDI inflows for a specific country and a specific industry. In the second stage, the researcher believes that FDI scholars should consider the host country and the sector associated with FDI, because FDI priority for MNEs will vary when applied to these two aspects. The third stage (related FDI drivers) considers the host country and the targeted sector for FDI. A group of drivers identified in the literature as possibly affecting FDI inflow positively or negatively in a host country (Saudi Arabia) and sector (the financial services sector). In terms of the fourth stage, (effective FDI drivers) after identifying the related FDI drivers from the literature, I then test which of these drivers affect FDI inflow the most. During this stage, I shall use the best methods to identify the effectiveness of FDI drivers on FDI inflows, and remove the drivers that are not effective with regard to FDI inflows. In the fifth stage (FDI inflows) we identify the most affective FDI drivers on FDI inflow. This will allow us to understand which of these drivers explains the FDI inflow in terms of specific countries and specific sectors. This will allow us to make valuable recommendations with regard to policy implementations to the government, to better understand what matters the most with regard to FDI in a specific sector and a specific location. Finally, this framework gives a clear and simple model or framework to better understand the behaviour of FDI inflows in such a way as to clarify the general explanation found in the previous studies on the effectiveness of FDI drivers when applied to country and industry.

The framework used in this study improves on previous studies on FDI drivers in two important ways. First, previous studies have notable benefits in terms of their simplicity, but do not capture the full complexity of FDI driver effectiveness in a particular industry. In this study, a much larger range of potential FDI drivers have been considered for a particular industry (financial services) and country (Saudi Arabia). Second, on a conceptual level, most studies of FDI drivers assume that the effectiveness of FDI drivers could apply to all countries and industries. In this study, I have identified the effectiveness of FDI drivers and have noted that they vary significantly from one industry and country to another, which contrasts with the findings of other studies in the literature

2.8 Summary

In this chapter, I introduced the concept of FDI and discussed the drivers of FDI location, including FDI definitions, reasons to study FDI, types of FDI and the main theories associated with FDI. In addition, I also discussed the general literature on the location drivers of FDI, including the literature on market drivers, economic drivers, infrastructure drivers, and political drivers. Finally, the chapter presented the conceptual framework built on location advantage suggested by Dunning (1981) with regard to ownership, location and internalisation (the OLI diagram), focusing on the aspect of the location in the diagram showing the relationship between selected FDI drivers and FDI inflows in a specific country and with regard to a particular sector.

Chapter Three

FDI and Saudi Arabia

3.1 History of FDI

There have been international organizations engaged in commercial activities as far back as 2500 BC (Ghertman and Allen, 1984). Contemporary multinational enterprises control of overseas production units, or large scale FDI, did not take place until the nineteenth century (Wilkins, 1977). Many have argued that the origins of modern MNEs can be traced to Europe (Jones and Wren, 2006; Dunning and Lundan, 2008). For instance, in the 1600s and 1700s, large UK and Netherlands trading companies engaged in trading activities in parts of Asia, the Caribbean and America. A number of key motivations have been adduced with regard to driving the actions of MNEs that engage in FDI. A key motivator for FDI at that time included the increase in the protectionist behaviour of countries, which in a sense is a product of increased nationalism (Micklethwait and Wooldridge, 2003) and the pursuit of strategic markets which, in turn, should foster the growth of companies. Obviously expansion has also been made easier as a result of the growth in globalisation and improvements in transport and communication, including railroads and the use of the telegraph for communication.

The increase in FDI was interrupted at the turn of the century, both by the destruction caused by the First World War, and by the threat of another war. The two world wars created a hostile business environment leading to discrimination with regard to foreigners by the occupants of many countries (Rugman and Brewer, 2001; Mossa, 2002; Jones and Wren, 2006; Dunning and Lundan, 2008). The First World War resulted in European multinationals selling off their pre-war investments. The upheavals and political changes

during the wars also led to a re-drawing of national and political jurisdictions that had an impact on cross-border activities (Dunning, 1983). It is important to note that, apart from wars, another key hindrance to the growth of FDI was the Great Depression during the late 1920s and the early 1930s, which led to a substantial increase in inflation in Europe (Jones, 1995). However, after World War II, a new wave of FDI emerged, mainly from the US. Improvements in technology and communications systems, greater economic and political stability, the formation of trading blocs, and a more liberalized attitude on the part of host governments led to a period of intense growth in FDI (Hood and Young, 1999).

European multinational companies have also been involved in the spread of FDI, although initially they appeared to have a slow start hampered by a lack of funding from their governments, which at the time were still recovering from the effects of World War II (Dunning and Lundan, 2008). In the period after the war, the US, the United Kingdom, as well as several European companies, all invested in technology that has also facilitated the growth of FDI. The UK has become home to the largest share of US investments, mainly because the two countries had a common language, close historical ties, and could provide access to the Commonwealth market. Note that there were three periods of FDI growth - the late 1970s, the late 1980s, and the late 1990s - although during the period covering 2000 there was a drop in FDI growth. The main reason for the decline was the slowdown in the global economy, which included a recession in the three major economies of the world, and lower stock-market valuations and profits on the part of small businesses. Since 2004, there have been signs of recovery and growth, with increasing FDI flows (UNCTAD, 2002; 2003).

Note that several authors argue that the upward trend with regard to FDI in recent decades has been influenced by the growth in globalization. The effect is seen in the form of increased cross-border commercial activities during the latter part of the twentieth century

(Rugman and Brewer, 2001; Mossa, 2002; Jones and Wren, 2006; Dunning and Lundan, 2008). For Teeple (2000), globalization and FDI are facilitators of international economic integration, or a phenomenon that has been helped by the creation of institutions and organizations such as the United Nations, the International Monetary Fund and the General Agreement on Tariffs and Trade.

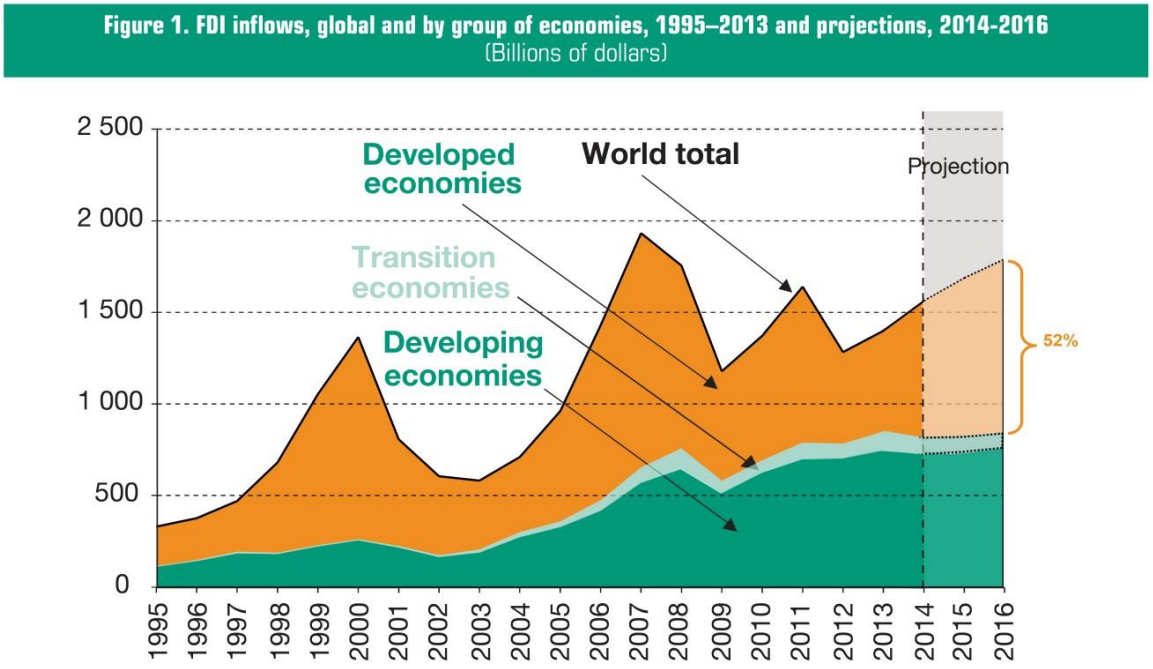
Dunning (2008), on the other hand, attributes the increased growth in FDI to the increase in technological progress, market deregulation and liberalization. He believes that technological improvement is the key to faster globalization, which in turn has led to rapid infrastructure and communication network improvements. The advent or growth in technology has allowed the rapid transmission of information at a lower cost, and has facilitated the transference and dissemination of ideas, and has allowed faster communication between companies in several states. According to Dunning (2008), political reforms, including deregulation and de-monopolization, the privatization of domestic markets, have also led to a setting that encourages globalization and FDI. Domestic policy reforms have led to more competition amongStates, while an enormous amount of global trade liberalization and investment have led to increased rivalry in markets. This improved competition has led to a need for companies to invest abroad in order to compete with their rivals (Rugman and Brewer, 2001; Mossa, 2002; Jones and Wren, 2006).

3.2 Trends Concerning Foreign Direct Investment

The year 2013 saw an influx of FDI flows. Global FDI inflows increased by 9 percent to $1.45 trillion in 2013. Consequently, global FDI stocks increased by 9 percent to $25.5 trillion. This was because all major economic groupings witnessed FDI inflows – industrialised and emerging markets as well as economies in transition. UNCTAD (2014)

forecast that global FDI flows could increase to $1.6 trillion in 2014, $1.75 trillion in 2015 and then $1.85 trillion in 2016. It is expected that investments in developed economies will mainly drive the increase. As their economic recovery takes hold and spreads wider, there are broad concerns about the fragility of some emerging markets. In addition, the risks of political uncertainty or regional conflict may derail the expected recovery in FDI flows (see Figure 3 and Table 1) (UNCTAD, 2014).

Figure 3 FDI Inflows Globally



Source: UNCTAD, 2014

Table 1 FDI Inflow by Region, 2011_2013

Table 1. FDI flows, by region, 2011–2013
(Billions of dollars and per cent)

Region	FDI inflows			FDI outflows		
	2011	2012	2013	2011	2012	2013
World	**1 700**	**1 330**	**1 452**	**1 712**	**1 347**	**1 411**
Developed economies	880	517	566	1 216	853	857
European Union	490	216	246	585	238	250
North America	263	204	250	439	422	381
Developing economies	725	729	778	423	440	454
Africa	48	55	57	7	12	12
Asia	431	415	426	304	302	326
East and South-East Asia	333	334	347	270	274	293
South Asia	44	32	36	13	9	2
West Asia	53	48	44	22	19	31
Latin America and the Caribbean	244	256	292	111	124	115
Oceania	2	3	3	1	2	1
Transition economies	95	84	108	73	54	99
Structurally weak, vulnerable and small economies[a]	**58**	**58**	**57**	**12**	**10**	**9**
LDCs	22	24	28	4	4	5
LLDCs	36	34	30	6	3	4
SIDS	6	7	6	2	2	1
Memorandum: percentage share in world FDI flows						
Developed economies	51.8	38.8	39.0	71.0	63.3	60.8
European Union	28.8	16.2	17.0	34.2	17.7	17.8
North America	15.5	15.3	17.2	25.6	31.4	27.0
Developing economies	42.6	54.8	53.6	24.7	32.7	32.2
Africa	2.8	4.1	3.9	0.4	0.9	0.9
Asia	25.3	31.2	29.4	17.8	22.4	23.1
East and South-East Asia	19.6	25.1	23.9	15.8	20.3	20.7
South Asia	2.6	2.4	2.4	0.8	0.7	0.2
West Asia	3.1	3.6	3.0	1.3	1.4	2.2
Latin America and the Caribbean	14.3	19.2	20.1	6.5	9.2	8.1
Oceania	0.1	0.2	0.2	0.1	0.1	0.1
Transition economies	5.6	6.3	7.4	4.3	4.0	7.0
Structurally weak, vulnerable and small economies[a]	**3.4**	**4.4**	**3.9**	**0.7**	**0.7**	**0.7**
LDCs	1.3	1.8	1.9	0.3	0.3	0.3
LLDCs	2.1	2.5	2.0	0.4	0.2	0.3
SIDS	0.4	0.5	0.4	0.1	0.2	0.1

Source: UNCTAD, FDI-TNC-GVC Information System, FDI/TNC database (www.unctad.org/fdistatistics).
[a]Without double counting.

Source: UNCTAD, 2014

3.3 Foreign Direct Investment in Saudi Arabia

Historically, FDI in Saudi Arabia has contributed to the exploration and refining of oil, and the creation of oil and financial corporations such as the Saudi Arabian Oil Company (ARAMCO) and, recently, the Saudi Arabian Basic Industries Company (SABIC). The national infrastructure and the banking sector have also benefitted from the increased growth of FDI (Abdel-Rahman, 2002). On the legislative front, Saudi Arabia has always encouraged FDI flows by enacting a law in 1956 to encourage FDI. Other laws that were enacted to facilitate FDI were introduced in 1963 and 1978.

Saudi Arabia's economy has grown strongly in recent years. The strong economic results and outputs have encouraged the Saudi government to undertake significant fiscal spending to expand the economic base both parallel and perpendicularly, in order enlarge the "absorptive and productive" dimensions of the domestic market and to boost competitiveness. The government initiatives have had a significant impact in the non-oil industries, led by manufacturing, construction, transportation and trade, which has grown by 6.38% and 5.07% in 2013 and 2014 respectively, while accounting for around 55.7% and 56.5% of real GDP (CADIS, 2014). This continues to give a key lift to the private sector. The thriving economy of Saudi Arabia bodes well for the Saudi population that is young, growing, and increasingly well-educated. It is is projected that the population will expand by 2050, causing a robust local demand for goods, services and infrastructure. Note that 31% of the Saudi population are under 15, and around 64.5% are of working age (15-60 years). Over the last decade, to employ the potential of its fledgling population, the Saudi government has assigned a quarter of its budget to education and human development (SAMA, 2014).

The advantages of FDI in Saudi Arabia that have been obtained from the opening of the market should be considered in terms of the transfer of updated technology, the transfer of knowledge or know-how, jobs for Saudis, and sophisticated management practices, rather than capital inflows in terms of FDI. Based on an interview with King Abdullah of Saudi Arabia (Business Week, 2000), it is clear that there is a need for Gulf states such as Saudi Arabia to become more open economies that encourage foreign investors who bring in capital, and know-how in terms of management and technology (Mellahi et al., 2003). The Saudi government has developed a strategic arrangement to expand its economy from its almost total reliance on crude oil exports to a broader industrial base. The diversification of the country's industries has become a vital part of the economic stratagem of the Saudi

government. The government has encouraged the expansion of a wide variety of industries.

3.3.1 Investment Environment in Saudi Arabia

FDI in Saudi Arabia thrives on three platforms. These are joint ventures, creating investment, and investment-related compensation programmes. The main platform under the new investment law of KSA is joint ventures (see Table 2). 'Greenfield' ventures in new Saudi manufacturing and supply facilities are new, being stimulated by the recent law on investment. Foreign companies do not often go for mergers and acquisitions (M & A) in Saudi Arabia (Abdel-Rahman, 2002). It is argued that the recent investment law is an example of an embedded inclination for 'greenfield investments' related to acquisitions, as it is thought to lead to increased capacity and increased competition (SAGIA, 2013).

It is important to state that Saudi Arabia appeals to investors because of its stable economy and market, especially for investors who can overcome the initial obstacles imposed on foreigners. Despite the political turmoil in some African regions and the Middle East, the economy of Saudi Arabia sustains its robust development with an actual GDP growth of 3.8% in 2013 (SAGIA, 2013).

The Saudi Arabian General Investment Authority was formed in April 2000 by the Council of Ministers, to offer information and help to overseas investors, and to support investment opportunities in energy, transport, and industry-based knowledge (Department of State, 2014)). SAGIA functions under the auspices of the Supreme Economic Council (SEC). SAGIA's tasks include the formulation of government guidelines on investment activities in terms of recommending plans and protocols which help improve the investment environment in Saudi Arabia, and the evaluation and granting of proposals for investment licenses. Before a foreign investor can embank on any project, SAGIA must

first grant a license to such an investor. Investing in some particular industries may need permits from various government establishments such as Saudi Arabian Monetary Agency (SAMA), the Capital Market Authority (CMA), and the Communication and Information Technology Commission (CITC) (ICS, 2014).

In July 2003, SAGIA took significant strides to reduce the tax percentage on overseas business investors to 20%, although, different rates still affect investments in hydrocarbons. The flat tax rate is a replacement of the old tiered structure, with rates as astronomical as 45% (Department of States, 2014). Although this was a timely move towards a more poised management of foreign and Saudi capital, the tax arrangement still emboldened Saudi companies and encouraged joint ventures with Saudi involvement. Homegrown investors do not pay any income tax, nevertheless they are liable to a 2.5% tax, or "zakat," on net current assets (ICS, 2014).

SAGIA is responsible for making data available and offering support to overseas investors. It also encourages the prospect of investment in energy, transport, and knowledge-based businesses. SAGIA also sustains and sporadically assesses the catalogue of activities left out from Foreign Investment. The Saudi government also has an principal conduit for funding investors in the form of the Saudi Industrial Development Fund (SIDF). This is an self-governing unit in the Ministry of Finance (ICS, 2014).

Foreign investors are permitted to become active in all areas of the economy under the foreign direct investment law, with the exception of special activities contained in a "negative" list which currently includes three trade sectors and 13 service sectors. Included in this list is property investment in Makkah and Madinah, some subdivision in printing and publishing, audiovisual and media services, and long-distance land transportation with the exception of rail transport and upstream oil activities.

Note again that SAGIA, which provides a periodic review of the register of omitted foreign investment undertakings, submits its reports to the Supreme Economic Council for approval. It also encourages some level of partnership in a few areas. Foreign investors must take local partners in several areas and, therefore, can possess property for their business activities. They may transfer money from their parent company outside the country and can pay for overseas workers. Depending on the industry and the investment, the start-up capital can be from zero to 30 million Saudi riyals ($8 million).

3.3.2 Investment Regulations in Saudi Arabia

In April 2000, a new law on foreign investment was introduced to start the liberalisation process in order to make the Kingdom more welcoming to businesses and more receptive to FDI. The new law included allowing full foreign ownership of property; eliminating the requirement for joint ventures with local partners; strengthening the rights of foreign investors; and giving foreign investors equal treatment as compared with domestic firms. Some sectors remain closed to private investors, including the exploration of crude oil, drilling, and production. The Kingdom has signed 38 bilateral trade agreements with various partners, including the United States, Canada, Japan and Europe, granting free access to goods and services (Al Mofleh, 2002; Ramady and SAEE, 2007).

Table **2** summarises the key modifications in the Foreign Investment Law passed in 2000 (ICS, 2014).

Table 2 Saudi Arabian Foreign Investment Law: Comparison of Old and New Laws

Feature	New Law	Previous Law
Tax Holiday	• No reference is made to tax holidays and dividends taxes. This and many other details need to be clarified.	• If Saudi share in company is greater or equal to 25% , foreign investors will not pay taxes during the first: - ten years for industrial projects. - five years for services and agricultural projects
Taxing Scheme	• If the corporate profits of a company are less than SR100,000, they are taxed at the rate of 25%; the rate rises to 30% if corporate profits are more than SR100,000 - The new law reduced the tax brackets from four to only two	• If the corporate profits of a joint venture company are: - Less than SR100,000, the tax rate is 25% - More that SR100,000 but less than SR500,000, the tax rate is 35% - More than SR500,000 but less than SR1,000,000, the tax rate is 40%. - More than SR1,000,000, the tax rate is 45%
Financial Losses	• No limitation on the number of future years that financial losses can be allocated to	• Financial losses can only be allocated to next year's operations.
Loans from the Saudi Industrial Development Fund (SIDF)	• Companies fully or partially owned by foreigners can apply for subsidized loans from the SIDF.	• For company to apply for SIDF loans, the Saudi share in equity has to be at least 25%.
Ownership	• Full ownership of the project is granted to the licensed firm (including land, buildings, and housing for employees).	• There must be a Saudi partner/sponsor who would own the land.
Sponsorship	• No Saudi sponsor is needed for the foreign investor. The licensed company will be the sponsor for the expatriate workers.	• The Saudi partner will be the sponsor for the foreign investor and expatriates working in the joint venture company.

Source: SAGIA, 2013

The law on new investment encourages investment, but the Supreme Economic Council has retained an extensive list of sectors, which prohibits foreign investors in the Kingdom. This alleged "negative list" has caused complaints from prospective investors, and SAGIA is committed to resolving these criticisms (Ramady and Saee, 2007). It is important to state that there has been a reduction in the amount of prohibited activities since 2000. The list is now limited to exploration, drilling and production of oil, and the production of military equipment, uniforms, and civilian explosives. In the services sector, foreigners may not invest in the military, security and property in Makkah and Medina, television and radio stations, advertising and public relations (SAMA, 2003). Notwithstanding the "negative list", foreigners can invest in all other sectors in Saudi Arabia. In 2003, the insurance industry was removed from the negative list and is

now a free industry that investors can plunge into. It is argued that all the improvements made so far still does not make Saudi Arabia an attractive and appealing investment choice for foreign companies (SAGIA, 2013).

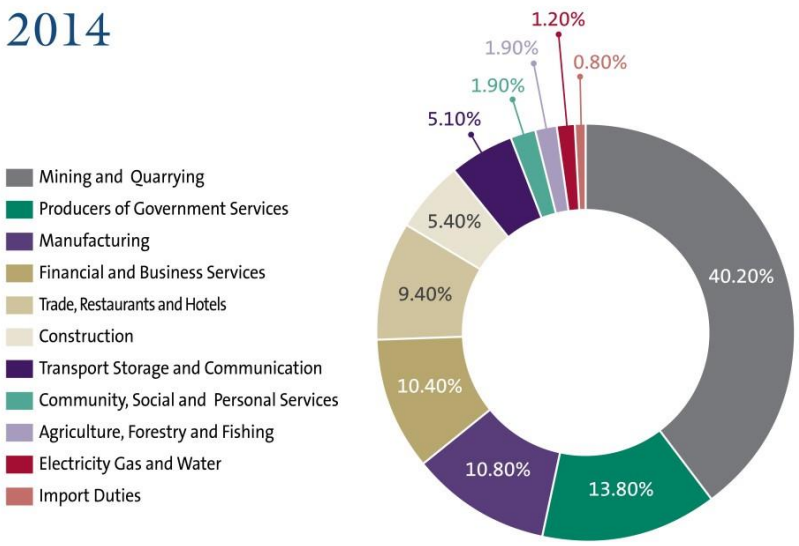
Other measures taken by the government to provide a conducive environment for FDI include signing the New York Convention on Foreign Arbitral Awards in 1995 and adopting the WTO procedures for resolving trade disputes under the Dispute Settlement Understanding (DSU). The Saudi government is revamping its arbitration processes to align with the requirements of developing the capital market. Committees specifically arranged by the Ministry of Justice are 20 articles of the regulations (Political Risk Services, PRS Group, 2008).

3.4 FDI Patterns in Saudi Arabia

With regard to the distribution of inward FDI in terms of the sectors in Saudi Arabia, manufacturing, refined petroleum products and, in particular, financial services have attracted the largest share of foreign investment (see Figure 4 and Figure 5) and comprised 60% of the total FDI stock by 2013. Nearly 40.2% of the FDI with regard to the manufacturing industry has focused on mining and quarrying, while the remainder is distributed among other industries, including government production (13.8%), manufacturing (10.8%), financial and business services (10.4%), and trade, restaurants and hotels (9.4%) (see Figure 4). SAGIA issued 9,262 foreign investment licenses between 2000-2013 (see Figure 5) with building and construction having the largest number of licenses with 3,090 licenses, finance and real estate 1,114 licenses, information and communication 800 licenses, and the manufacturing of metal products 886 licenses. In 2013, Saudi Arabia FDI stock amounted to 781.2 Billon Riyals (see Figure 6). The Saudi population amounts to almost 30 million, with the Saudi males representing 33.9%,

females 33.6%, non-Saudi males 22%, and non-Saudi female 10% (see Figure 7). The employment by foreign companies licensed by SAGIA as seen in Figure 8, shows that the majority of employment is taken up by non-Saudis (expatriates) with Saudis representing only 20% of the workforce employed by foreign companies in Saudi Arabia. As can be seen in Figure 9, foreign investment in Saudi Arabia has been distributed across a wide range of areas, and represents many leading global companies in different sectors. The liberalization of future investments and Saudi Arabia joining the WTO, has led to more FDI flows to Saudi Arabia (SAGIA, 2014).

Figure 4 Sectoral Breakdown of GDP 2014

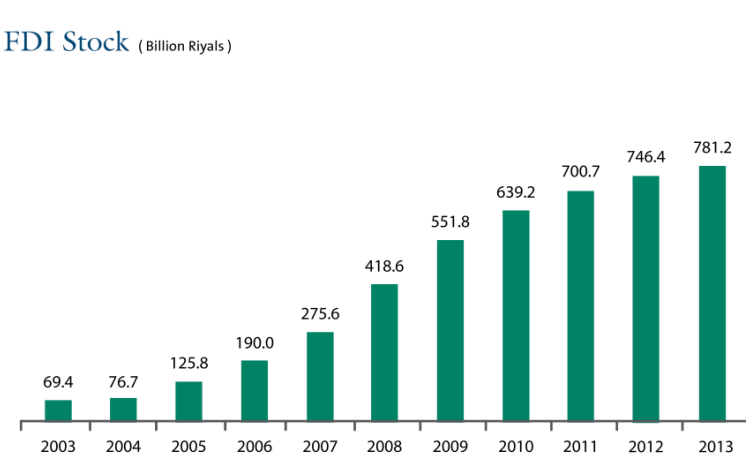


Source: SAGIA, 2013

Figure 5 Investment Licenses Issued by SAGIA (2000-2013)

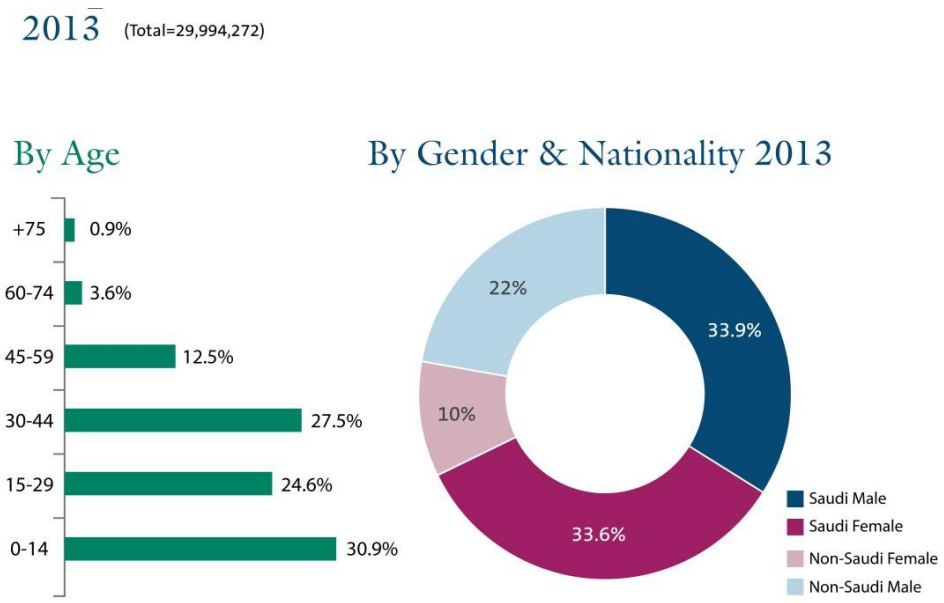
Source: SAGIA, 2013

Figure 6 FDI Stock in Saudi Arabia, 2014



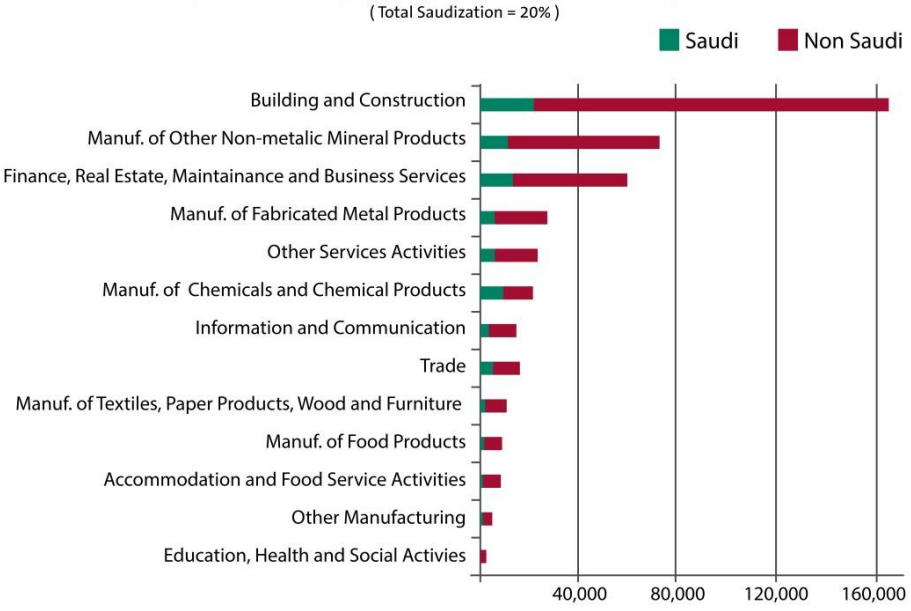
Source: SAGIA, 2013

Figure 7 Saudi Arabia Population, 2013



Source: SAGIA, 2013

Figure 8 Employment by Companies Licensed by SAGIA



Source: SAGIA, 2013

Figure 9 Leading Global Companies investing in Saudi Arabia

Energy and Petrochemicals	Manufacturing	Financial Services	ICT	Other Services
Exxon Mobile	Coca Cola	JP Morgan	Cisco Systems	GE
Shell	Henkel	Merrill Lynch	Microsoft	Oryx
Chevron Phillips	Pepsi	Goldman Sachs	Thales	Boeing
Dow Chemical	Del Monti	HSBC	Wipro	Lockheed Martin
Total	Daimler Chrysler	Mizoho	Raytheon	DHL
BASF	Volvo	Morgan Stanley	Siemens	Maersk West
Somitomo	Nestle	BUPA	Honeywell	Hutchison Port
Samsung	Evergreen	Deutche Bank	TATA	Bechtel
BP	Kimberly Clark	Morgan Chase	Motorola	Halliburton

Source: SAGIA, 2013

3.5 FDI in the Financial Services Industry

3.5.1 History of FDI and the Saudi Financial Services

At the beginning of the last century, some foreign business houses (including the commercial arm of the Algemene Bank, Nederland) and bureau de change financed for the most part, the funding-related services needed to meet the demands of business. The discovery of oil in 1939 saw the inflow of royalties to government reserves as there was an increase in demand and a corresponding increased production of oil (SAMA, 1999). Revenues and government spending grew rapidly, and overseas banks entered the market. For instance, in 1948, the French Banque de L'Indochine and the Arab Bank were launched in Jeddah. Following in their steps in 1950 was the Bank of British Middle East, the National Bank of Pakistan and Bank Misr of Egypt. The local money changers also provided banking services such as deposits and loans (SAMA, 2013).

In October 1952, the government set up the Saudi Arabian Monetary Agency (SAMA). The role of this institution was to create an established monetary system and ensure the stability of the currency. It had agencies in the major towns; however, the government carried on using the services of Al-Khaki and Bin Mahfouz Co., who were established moneychangers to operate as its representative. In 1953, a year after the establishment of the SAMA, the government empowered Al-Khaki and Bin Mahfouz Co. to establish the National Commercial Bank; this was the first commercial bank in the Kingdom (SAMA, 2013).

This was an influx of banks into the Kingdom. 1954 saw the creation and operation of the Banque du Caire (Bank of Cairo), followed by the Banque du Liban et d'Outre Mer (the Bank of Lebanon and Overseas) and the First National City Bank of New York. 1957 and 1958 saw the creation and initial operation of the Riyad and Al-Watany Banks respectively. The gradual launch of 'Pilgrim Receipts' as paper money began between 1950 and 1956, and precious metals and foreign currencies were also introduced as a form of money. The year 1960 saw the stability of the riyal. The government contained inflation, and on record, the riyal was linked to the US dollar at 3.75. This caused an increase in foreign exchange reserves, and the government exchanged all pilgrim receipts for paper currency. The government repaid almost all its debt, a situation that remained for some years (SAMA, 2013).

The 1970s saw a rapid growth in the banking sector. This was to keep up with the substantial increase in revenues and government expenditure, and the funding of the foremost development projects for infrastructure and commerce. There were ten international banks with 29 branches by 1975. On the other hand, in 1976, a 5-year plan was introduced which endorsed a strategy to convert branches of foreign banks into listed companies so that Saudi nationals could become involved in such investments. One of the

objectives of this strategy was to promote the involvement of local investors in an important and budding sector.

It is important to note that the development of a stock market in the Kingdom resulted from the amalgamation and flotation of the shares of these banks, which stimulated broad-based public involvement that also proved significant. It also promoted banking and the tendencies to engage in bank formation among the population. By way of inspiring foreign banks to take large shareholdings in the recently incorporated banks and by proposing management contracts, the locus of the foreign partner was reinforced, as they could exert significant control of the organisation and, at the same time, benefit from the national treatment given to banks owned by Saudis. In 1979, out of the twelve operational banks, only three were non-national banks, and the number of bank branches had increased to 140. Nevertheless, a number of larger towns that were visited and patronized by pilgrims, and several small and distant communities, continued to use moneychangers who offered currency exchange and other monetary services (SAMA, 2013).

Over the past four decades, the banking sector has made solid progress; however, it has had to face a number of . These included the slow growth of the national economy, instability and volatility in international financial markets, the global financial crisis, and conflicts within the GCC community. Throughout this phase, the banking system went through periods of quick growth and protracted recession. It was also challenged by the drop in the quality of its assets and problems with failing borrowers. Furthermore, because of the instability of global market conditions, it underwent a period of falling deposits and . In spite of these, the banks of the Kingdom were not subject to a financial crunch. They have stayed on target and reached their present stable position. Saudi banks are currently well-positioned with respect to their capital holdings, asset quality, and technology,

allowing them to perform a significant role in the middle eastern and international markets (SAMA, 2013).

Financial policies promote the unrestricted movement of private capital and, as a result, money can be shifted in and out of Saudi Arabia (except for restrictions on bulk cash advances). On the other hand, investors from countries that are not part of the Gulf Cooperation Council (GCC) could invest in the stock market by using "swap agreements and exchange traded funds" (ICS, 2014). The Capital Markets Act, enacted in 2003, permits brokerage houses, asset administrators, and other non-bank financial intermediaries to trade in Saudi Arabia. In 2004, the Capital Market Authority was legally established as a watchdog because of the opening of the Saudi stock exchange to public investment. CMA had listed eighty-four firm by the end of 2012. They were granted the license to operate fiscal advising and brokerage facilities in Saudi Arabia. It is important to state that Saudi Arabia has an efficient regulatory scheme controlling portfolio investment (ICS, 2014).

In 2003, the central bank (SAMA) improved and reorganised its 1995 Circular on Guidelines for the Prevention of Money Laundering and Terrorist Financing. The improved guidelines are compatible with the Banking Control Law, the Financial Action Task Force, the nine Special Recommendations on Terrorist Financing, and applicable UN Security Council Resolutions. In 2014 King Abdullah approved a different measure to fight or reduce terrorist activities. The law forbids and criminalises terrorist acts and the sponsoring of terrorists (ICS, 2014).

Generally, there was equal availability of credit facilities to Saudi and overseas commercial organisations. These facilities were allocated to them through commercial banks on market terms (Department of States, 2014). This facility was drastically reduced

to all parties concerned because of the global financial crunch in 2008. Other reasons for this reduction included the $20 billion debt on the part of two Saudi companies and, of course, the debt shakeup in Dubai. All these reasons led to the postponement or termination of various projects. Consequently, in 2011 and 2012, there was availability of credit to some extent. However, more pressing public expenditure stifled the request for private lending. Other than large-scale additional programmes, there was availability of credit from a number of government establishments such as the Saudi Industrial Development Fund (SIDF). They give credit according to criteria established by the government instead of market conditions. In order to meet these criteria, businesses must be established or have a subsidiary in Saudi Arabia. In addition, term loans are available to the private sector such as 'sukuk' –a bond compliant with sharia law. The stock exchange carried on trading, but only to a small extent compared to trading at its peak. For instance, in 2013, there were no more than five IPOs (ICS, 2014).

The government has continued to initiate measures to improve the standing of the Kingdom on the international platform, in order to make Saudi a suitable and viable environment for foreign investors. Such measures include the promulgation of new laws relating to mortgages and the broader fiscal picture. These are the Real Estate Finance Law, Financial Lease Law, Law on Supervision of Finance Companies, Real Estate Mortgage Law, and Execution/Enforcement Law. It is important to state that there are optimistic views on the impact of these laws with regard to boosting mortgage dissemination, and in terms of encouraging more schemes to improve the private housing marketplace and to intensify the total amount of loans. The scope of their effect remains ambiguous. It will be of interest to see how these laws are implemented and enforced, because a key factor that has caused ineffective lending in Saudi Arabia is the issue of enforcing lenders' rights (ICS, 2014).

Another measure taken by the government is the liberalisation of its licensing requirements for foreign investment in financial services as a necessary step to ensure membership the World Trade Organisation (WTO). Furthermore, the government has multiplied the foreign-equity perimeters in financial establishments from 40% to 60% to encourage foreign investment. In recent years, the SAGIA took measures to increase foreign participation in the banking sector by granting operating licenses to foreign banks. In 2012, 11 licenses were granted allowing foreign banks to operate in the Kingdom. These banks include: BNP Paribas, Deutsche Bank, Emirates NBD, Gulf International Bank, JP MorganChase and TC Ziraat Bankasi AS. On August 6, the Cabinet also approved the licensing of a branch of the Chinese Bank of Industry and Trade. (ICS, 2014). The regulatory, legal and accounting systems practiced in the banking sector are in consonance with international standards. SAMA, which supervises and regulates the banking system, gets high marks for its prudent supervision of commercial banks in Saudi Arabia. SAMA and Israel's central banks are the only banks in the Middle East who are members and shareholder of the Bank for International Settlements in Basel, Switzerland. (ICS, 2014).

3.6 Summary

This chapter discussed some the aspects of FDI, including the history of FDI and the global trends regarding FDI. FDI in Saudi Arabia has been considered, starting with the investment environment and regulations, going through FDI patterns in Saudi Arabia and sector distribution, Finally, the chapter presented the facts and history of financial service provision in Saudi Arabia as one of the most important and fast growing industries. Saudi Arabia believes that FDI flows are vital in terms of its economic and social improvements. FDI in Saudi Arabia will lead to greater productivity and higher labour standards, with local companies benefiting from the expertise and technology transfer. It

will lead to a reduction of unemployment among Saudis and capital inflows. In the next chapter, the research methodology used will be discussed.

Chapter Four

Research Methodology

4.1 Introduction

This chapter presents the research methodology. It will describe the methodological approach and justify why such a method was used in this study. It also describes the instruments used in this research, including defining the population, the survey sample, the instrument development, data collection procedures and data analysis techniques. The most suitable methods for a particular piece of research depend on the objectives of the study and the research problems. According to Ghauri and Gronhaug (2005, p.109) research methodolgy is an organised way of collecting data using a historical review and analysis, surveys, experiments and case studies. Furthermore, research techniques refer to the systematic procedure the researcher follows in order to collect and analyse data, and respond to the research questions (Ghauri and Gronhaug, 2005).

4.2 Research Questions and Hypotheses

The central research question developed after reviewing the literature on FDI drivers, involves assessing the effectiveness of FDI drivers in the case of Saudi financial services. In addition, the question examined which one of these drivers plays the most important role in determining FDI with regard to Saudi financial services, and which primary drivers are less effective. The research addresses the following key questions and sub-questions:

Q1: To what extent do FDI drivers affect FDI inflows in the context of Saudi financial services?

Question 1 explores the effectiveness of FDI drivers in terms of Saudi financial services, including market drivers, economic drivers, infrastructures drivers, and political drivers. A key focus of the study was to study the impact of FDI drivers on Saudi financial services. The effectiveness of FDI drivers on FDI inflows with regard to Saudi financial services will vary. Some drivers play an effective role in FDI inflows in terms of Saudi financial services, while others may not be effective. On this basis, the effectiveness of FDI drivers on FDI inflows will differ in terms of Saudi financial services. . Based on this, the next major hypothesis would be tested:

H0: The effectiveness of FDI drivers will vary in the context of Saudi financial services

The key hypothesis has been separated into sub-hypotheses in order to ascertain the effectivness of each major driver in terms of FDI inflows into Saudi financial services. This will allow us to determine which drivers are seen to play an effective role in terms of FDI inflows, and which drivers are seen as ineffective with regard to Saudi financial services. The followings are the sub-hypotheses:

Hypothesis 1:

Market drivers affect FDI inflows in terms of Saudi financial services. These drivers include market size, market growth, market competition, and market familiarity.

H1: Market drivers affect FDI inflows in the context of Saudi financial services.

Hypothesis 2:

Economic drivers affect FDI inflows in terms of Saudi financial services. These drivers include the banking and financial system, economic growth, the tax regime, and exchange rates.

H2: Economic drivers affect FDI inflows in the context of Saudi financial services.

Hypothesis 3:

Infrastructure drivers affect FDI inflows in terms of Saudi financial services. These drivers include quality of transportation (ports, roads, and airports), industrial clustering, staff skills, and communication networks.

H3: Infrastructure drivers affect FDI inflows in the context of Saudi financial services.

Hypothesis 4:

Political drivers affect FDI inflows in terms of Saudi financial services. These drivers include political stability, government policy toward FDI, the regulatory framework, and trade agreements.

H4: Political drivers affect FDI inflows in the context of Saudi financial services.

4.3 Research Methods

4.3.1 Induction Vs Deduction approach

Induction and deduction are routes used to establish factual reality. Empirical evidence is

the basis of induction, while logic is the base of deduction (Ghauri and Gronhaug, 2005). The process of deduction is inclined towards positivism, and induction towards interpretivism (Saunders, Lewis and Thornhill, 2007). The inductive approach follows data and facilitates the researcher in drawing wide-ranging inferences from empirical observations (Saunders, Lewis and Thornhill, 2007). The process goes from making observations towards making inferences which, in turn, strengthen the theory as a result of incorporating observations into existing knowledge (Bryman and Bell, 2007). It is important to note that inductive conclusions are not 100 percent certain because they are based on empirical observations.

Deductive reasoning is a 'top-down' approach. It moves from a general perspective to a more specific stance. An idea is philosophised and then narrowed to a specific theory to be tested. It is the foremost method for research in the natural sciences, where laws are the origin of the explanation for anticipating phenomena, or forecasting their manifestation and, therefore, allow them to be better managed (Saunders, Lewis and Thornhill, 2007). In terms of deduction, conclusions are drawn using logical reasoning. That is, a particular idea might not be true in reality, but it should be logical. Deductive research is based on hypotheses gained from the literature, and can be subjected to empirical . The key concern of researchers when it comes to deductive-led research includes using assumptions built from existing knowledge, and the ability of the researcher to present them in operational terms (operationalization), to demonstrate how data is gathered in order to examine the hypotheses and ideas (Bryman and Bell, 2007). Usually, deductive research is often associated with quantitative research while inductive research is often associated with qualitative research.

4.3.2 Quantitative Research Methods

The procedures used in the research are the main difference between qualitative and quantitative research. In qualitative research, the results have not been arrived at by statistical methods or other quantification procedures (Ghauri and Gronhaug, 2005). Normally, the fundamental distinction between quantitative and qualitative research methods is that, unlike qualitative research, quantitative research employs measurements (Bryman and Bell, 2007). The distinction between each methodological approach is not only an issue of quantification, but also an echo of various views on the knowledge and objectives of a piece of research. An argument for the use of quantitative data is that individual and aggregate information can be gathered and analyzed. Overall, for inductive and exploratory research, qualitative methods are of greater utility because they can lead to building hypotheses and explanations. These qualitative methods use relatively more qualitative techniques, such as conversations and in-depth, unstructured or semi-structured interviews (Ghauri and Gronhaug, 2005). On the other hand, in the case of deductive and descriptive and explanatory research, qualitative methods are best utilised because they can help verify which hypotheses are most effective, and can describe relationships between variables. Therefore, the methodological approach used in this research is quantitative in nature.

4.3.3 Data collection

It is important to highlight the distinction between primary and secondary sources of data. According to Ghauri and Gronhaug (2005) "…secondary data are information already collected and made available by others." On the other hand, primary data are original data gathered by the researcher to investigate an issue. The subsequent sections contain a discourse with regard to these two sources of data.

4.3.3.1 Secondary Data

Bryman and Bell (2007, p.326) see secondary data as "…the analysis of data by researchers who will probably not have been involved in the collection of those data, for purposes that in all likelihood were not envisaged by those responsible for the data collection." Secondary data is important as it sheds light on the research subject or topic, and on the viability of the research questions, methods, literature, or conclusion. This data can be obtained from several sources including books, conference papers, theses, journals, government publications, etc. (Ghauri and Gronhaug, 2005; Bryman and Bell, 2007).

Secondary data offer certain advantages over other types of data. The biggest advantage is its ability to save time and cost. If the researcher needs to collect data quickly, secondary data is the best choice (Ghauri and Gronhaug, 2005; Bryman and Bell, 2007). Among the various sources of secondary data, often data collected by international organisations and governments are viewed highly due to the value and source of the information. Such data is seen as reliable as it will be an official report which may have been collated by experts or actors in their fields of expertise (Ghauri and Gronhaug, 2005; Bryman and Bell, 2007). Additionally, secondary analysis may offer the opportunity to access and analyse data over a long period, or using time series analysis (longitudinal research), which is viewed unfavourably in business and management research, because it involves high costs and takes a long-time to realise (Bryman and Bell, 2007) . Also, secondary data provides the ability to compare data from other countries obtained at a low-cost and which takes less time (Ghauri and Gronhaug, 2005; Bryman and Bell, 2007). In addition, a researcher can filter searches in order to find the best methods and data for a particular part of the research (Ghauri and Gronhaug, 2005). It offers more time for data analysis. As far as data collection is concerned, it is one of the most difficult phases of research, because of the

time and the cost, and these aspects could affect and limit the time spent on analysis (Bryman and Bell, 2007). Besides, re-analysis can provide new interpretations, the thing that allows the researcher to come to new conclusions (Bryman and Bell, 2007). In the opinion of Ghauri and Gronhaug (2005), primary data may not be necessary if credible secondary data is available.

The Saudi Arabian General Investment Authority (SAGIA) provides data on Saudi Arabia's foreign direct investment. A detailed breakdown of FDI by industry and country is available for inward data only. SAGIA was established by the Investment Act of 2000 and is the sole authority responsible for promoting FDI, for approving investments, for supporting and providing assistance to existing and prospective investors, and for collecting data on investment declared by the newly established foreign companies. SAGIA published FDI flows and inward stock data for the first time in 2005 in its Foreign Direct Investment Survey Report. This report was undertaken following the provision of technical cooperation by the Economic and Social Commission for Western Asia (ESCWA) and UNCTAD in 2004. The data reported by SAGIA are mainly based on the International Transactions Reporting System and on enterprise surveys according to the internationally-recognised methodology. On an annual basis, as part of the balance of payment (BOP) calculations, SAGIA sends results of the FDI survey to SAMA. Note that the data from SAMA are often contemporary, as thay are data collected and made available within three months of the reference year. The data is also made public before or within three to four months of the end of the reference period.

4.3.3.2 Primary Data

Primary data is needed when a researcher needs to respond to research questions in a

specific field of study, and there is an absence or shortage of contemporary secondary data (Ghauri and Gronhaug, 2005). What we should seek, ask questions about, depends on our research area. There are a variety of ways in which to collect primary data, including interviews, ethnography, observations, experiments, and surveys. There are several merits associated with using primary data sets. For instance, in the current study, they were specifically gathered. This means they are more reliable and more closely integrated to our research questions and research objectives. However, primary data have certain disadvantages in the sense that collecting such data can be time consuming and expensive. There are also other problems such as the lack of access to the right organisation or people who could provide the data needed (Cresswell, 2008). In addition, it is difficult to access participants who will take part in research in order to answer the research questions, especially when the study focuses on information or working with different cultures in sensitive countries. Moreover, the researcher may find it difficult to find the best tools, methods of research and analysis in order to answer the research questions. At the same time, the methods may not have been used by others and in this way the researcher can jeopardize the reliability and the applicability of the study. Added to that, in the case of primary data collection, the researcher may have limited control over data collection which could lead to the emergence of unexpected drivers that could hinder the effectiveness of data collection. The quality and direction of information collected from primary sources depends on the willingness and ability of the respondents. There may be some respondents who may refuse to participate or cooperate due to a lack of time and a lack of incentives, or fear when it comes to providing sensitive information (Ghauri and Gronhaug, 2005).

4.4 Research Design

The research design is the overall plan to connect the conceptual problem of the research

to relevant and probable empirical research. The search for a research design provides a framework for data collection. It exposes the type of research (e.g., exploratory, descriptive or explanatory) and the priorities of the researcher. Research methods, on the other hand, refer to procedures used to collect data. Empirical studies are embarked on or undertaken to respond to research questions. The strategic choice of the research design should come with an approach that allows the researcher to unravel the problem in the best conceivable manner.

Based on the structure of the problem, we can distinguish between three main categories of research designWhen the research problem is more or less poorly understood, a design involving exploratory research is satisfactory In causal research, the problem under scrutiny is also structured. However, in contrast to descriptive research the researcher faces 'cause and effect' problems (Ghauri and Gronhaug, 2005).

Research strategies can be used for exploratory, descriptive and explanatory research (Yin, 2003). The choice of research strategy will be guided by the research question(s) and objectives, the extent of existing knowledge, the amount of time available, and other resources the researcher might have available, as well as the researcher's own philosophical underpinnings. The strategies that are considered subsequently in researches are: experiment; survey; case study; action research; grounded theory; ethnography; and archival research.

4.4.1 Survey Strategy

The research questions and objectives direct the choice of research strategy (Saunders, Lewis and Thornhill, 2007). However, each procedure may be utilised for exploratory,

descriptive, and explanatory research (Yin, 2003). The strategies that any researcher would consider depend on the research question and the objectives. These include "Experiment, Survey, Case Study, Action Research, Grounded Theory, Archival Research".

The survey approach has been selected as the most appropriate way to gather data for the purposes of this study. This is because the decision to invest abroad, as suggested by Cohen (2007, p.127), is as follows: "Decisions to build foreign subsidiaries ultimately are based on perceptions of a small group of senior executives, not a scientific formula," In addition, sometimes the decision to move to a particular location is the result of the strong preferences of the executives involved. Surveys as an appropriate approach are utilized when asking business executives how they assess the relative importance of locating drivers. These are the best way to understand what is important in terms of location drivers for MNEs (Cohen, 2007). Buckley, Devinney and Louvriere (2007) believe that most empirical studies on the drivers of the location of FDI are based on surveys of the location decisions made by companies when they choose a place for international investment. However, Buckley, Devinney and Louvriere (2007) suggest that these studies contain two restrictions. First, they rely solely on the choice of drivers with regard to FDI location, and they assume that these drivers can apply to all firms. Second, these studies assume that a firm's location decision processes follow a systematic approach. However, different executives may take different approaches when making their decisions about international operations, including location decisions. Galan, Benito and Vincente (2007) insisted that most of the studies of FDI location were apparently written without consideration of the perceptions held by managers within multinational companies. Most companies tend to rely on econometric modelling which is built on secondary data (e.g., Zhou et al., 2002).

The forgoing review of the literature suggests that a survey is a viable tool that can be used as a strategy for solving the problem in this research. Surveys can be used to collect material information for a research study. In undertaking a survey, various research techniques can be used which include questionnaires or interviews (Ghauri and Gronhaug, 2005). Surveys are useful channels for accessing a respondent's feelings, behavioral outlooks, or approaches, as well as exploring the relationship between cause and effect. The survey approach is linked to the deductive approach, which is the traditional research approach used in business and management. (Saunders, Lewis and Thornhill, 2007).

Four survey methods have various strengths and weaknesses that can be compared. First, mail surveys require thes use of a questionnaire that is self-explanatory. The significance of making sure that the survey questions or statements are clear cannot be over-emphasised, given the fact that there will be a variety of respondents reading the questionnaires. The aim of the researcher is to make sure that all respondents understand the survey instrument. In a sense, many have argued that surveys that are undertaken using a post or a mail survey approach are seen as low cost. They are cheaper than using a telephone or face-to-face surveys. On the other hand, the researcher has little control over the order in which respondents answer the questions, or over who fills out the questionnaire. Second, Internet surveys are a popular form of a self-administrated surveys. The two great advantages of an internet survey is that it is cheaper than other forms and appears to enable a faster collection of data. The demerits of using mail and internet survey techniques is that the researcher is unable to see the respondent in order to explore the responses of the respondent. Third, the telephone survey is the most widely-used survey method today, and it is intermediate in cost between mail and face-to-face surveys.

The period of collecting data when using the telephone is far less than most other methods. Telephoning is a quick way to set up contact with a person or household and to make callbacks. However, one of the drawbacks of the telephone surveys is that the questions and responses need to be brief. The fourth type of survey is a situation where both parties – the interviewer and the respondent – meet at a location that is most convenient for the respondent. As a result, both parties, that is the respondent and the interviewer, are together in the same place. The personal interview surveys are the most expensive method of investigation as they involve travel costs, and a longer timescale for gathering the data (Czaja and Blair, 2005).

There are benefits associated with face-to-face surveys (Czaja and Blair, 2005). There tends to be a higher response rate compared to other survey methods. The reason behind the high response rate in face-to-face surveys is that the researcher usually sends a letter in advance, explaining the research or the study, the sponsor, and the confidentiality issues related to the study. In contrast, surveys by personal interview may take longer compared to other methods of survey because it takes place in the preferred place of the respondent, and the responses can be more extended and more detailed. There is the possibility to consult records as the interview takes place in the location of the respondent (Czaja and Blair, 2005).

This research preferred and used a face-to-face survey rather than telephone or mail surveys, because the targeted units of the population are senior executives. However, there are drawbacks with regard to face-to-face surveys (Czaja and Blair, 2005). One is the high cost of running a face-to-face survey compared to other methods of survey, because it involves travel expenses. A personal surveys takes a long time to collect data as it involves

travel, collecting and analyzing data. Respondents may also be hesitant to report individual behaviours or sensitive information in a personal face-to-face survey. Respondents, in addition, are more likely to give socially desirable responses in individual surveys (Czaja and Blair, 2005).

4.4.2 Population Definition

According to Czaja and Blair (2005, p.130), population is "…the group or aggregation of elements that we wish to study, the group to which we want to generalise the results of our study". As discussed in Chapter 3, the Saudi financial industry is one of the most important industrial sectors in Saudi Arabia in terms of foreign investment. The industry has developed rapidly and has played a useful role in terms of Saudi economic development. FDI in financial services has become a vital force in the Saudi financial industry. Therefore, the financial services industry has been selected for this study.

It was difficult to get a comprehensive directory of information on foreign investment in financial services firms in Saudi Arabia. However, without the help of SAGIA and other complementary sources such as business associations and other sources, it would not have been possible to get data for this study (secondary and primary). According to the Saudi Arabian Monetary Agency (2013), the Capital Market Authority (2013) and SAGIA (2013), 314 financial service companies operating in Saudi Arabia with large investments from foreign financial companies. Therefore, 314 financial services companies with foreign participation were defined as the population for this research.

4.4.3 Sample Size

It is often impractical and sometimes undesirable to study the entire population of a target

country. Therefore, the researcher should consider the use of a representative sample. Primarily, sampling is a snapshot of the whole population used when it is not possible or difficult for the researcher to interview all the participants in an organization or population. As in this research, it was difficult to cover the entire population. Although the population of 314 units is not a large numberbut the makeup of those we wished to approach - CEOs and senior executives - made it difficult to explore the situation by survey and for them to welcome the invitation that we sent prior to the face-to-face survey . In addition, the researcher considered the issue of cost and time.

One of the most frequently-asked questions about research methods is the issue of the size of the sample: "How large should the sample be?" (Bryman and Bell, 2007; Czaja and Blair, 2005). According to these authors there is no clear-cut solution to this question, because it depends on several considerations and there is no definitive answer. The size of the study sample is affected by the cost and duration of the study. What really matters regarding the sample size is the absolute sample size, not its size relative to other studies (Czaja and Blair, 2005). The sample size depends on the research design, the variability of key variables, the extent of the differences between the variables and the error of their differences (Czaja and Blair, 2005). In this study, there are 200 financial service companies involved in foreign equity working in Saudi Arabia, that represents 63.69 percent of the population. This was defined as the convenience sample size of this study. In addition, in this study, the sample size was relatively large because the target population were FDI senior executives in the Saudi financial services. Consequently, they were busy and hard to reach, so we targeted a large sample size, to ensure that a reliable and representative sample of the target population was obtained.

4.4.4 Response Rate

When conducting survey research, whether by face-to-face interviews or through the use of self-completion questionnaires, usually some people in the sample refuse to take part in the study. Therefore, the response rate is the proportion of respondents that agrees to take part in the research (Bryman and Bell, 2007). Response rate can also be defined as "…the number of eligible sample members who finish a questionnaire divided by the total number of eligible sample members." (Czaja and Blair, 2005)The response rate reflects the survey quality in that the higher the response rate, the better the quality of the research (Czaja and Blair, 2005).

In this study, 104 firms took part in the research. Therefore, a 52% response rate was achieved, and this represented 33.12% of the entire population. We collected 104 completed survey instruments, representing 104 financial services' FDI from 314 financial services' FDI operating in Saudi Arabia financial services. Because a particular industry (financial services) has been chosen, and specific companies in the same industry identified, and because the participants in each company (senior managers) were limited in number and difficult to reach, there were a limited number of participants in the study. However, the response rate is considered excellent compared to other studies in the same field.

4.4.5 Sampling technique

Sampling techniques help in selecting units from the chosen population. There are two groups of sampling technique in the form of probability and non-probability sampling. An example of non-probability sampling is self-selection sampling. This is based on the judgement of the researcher. In such a case the researcher permits the individual to decide

or indicate their intention to participate in the research.Therefore, in this research, self-selecting sampling was used, and a number of invitations were sent to the targeted population by SAGIA. Those who respond positively and agreed to be part of this research were the units of the sample.

4.4.6 Pilot Study

Pilot testing the research instruments can identify and control most of the problems encountered in questionnaires and interviews (Bryman and Bell, 2007). Undertaking a pilot study makes the researcher certain that the survey questions and instruments work well, and allows them to detect any defect in the questionnaire (Bryman and Bell, 2007). In a pilot study, several interviews or questionnaires are carried out using the same methods planned for the main study. When the cost of the main study is high, or when certain measures are innovative, complex or unknown to the researcher, it is risky to continue with the main data collection without a pilot study (Czaja and Blair, 2005).

There are advantages of using a pilot study (Bryman and Bell, 2007). In the case of interviews, a preliminary study can provide training to the researcher who is to carry out the research interviews. It will give him/her some experience and allow him/her to become confident in terms of conducting interviews. A preliminary study can identify any issues that can be answered the same by all the participants. The researcher can then remove that question or questions from the main study. In a pilot study, the researcher can identify issues that would make respondents feel uncomfortable, such as sensitive questions, and the researcher can then remove these questions from the main study or rephrase them to make them less contentious. Questions that cannot be understood or questions often not answered, would be visible in the pilot study, and could be removed or reformulated in the

main study. A pilot study can help the researcher to decide how the questions and logic should flow (Bryman and Bell, 2007).

In this study, a questionnaire was developed based on the drivers and sub-drivers that affect FDI that emerged from the literature. Three key drivers (market drivers, economic drivers, and political drivers) and ten sub-drivers were identified. The questionnaire was pre-tested with several colleagues to attract comments. This process led to an improvement in the content of the questionnaire, in its design, and in its formulation and clarity. This made completing the questionnaire both easier and more attractive. A full pilot study of the questionnaire was conducted using a face-to-face survey with five executives working in FDI companies in the Saudi financial service. The pilot study provided the researcher with valuable ideas and comments about improving the questionnaire in terms of structure, content, text, questions and adding more drivers to the questionnaire. The results of the pilot study have not been included here because the main objectives of the pilot study were to improve the questionnaire, and to ensure that the tools and instruments used worked well. In addition, the pilot study provided the researcher with valuable information about the survey process, timings and procedures.

4.4.7 Questionnaire design

The advantages and disadvantages of a questionnaire depend on the questions that were asked and how they were phrased. Note that questions could be framed in a closed-ended or open-ended way. The open-ended questions are particularly useful in exploratory studies. Additionally, the questionnaire strategy that is used in this study established a causal relationship between variables that reflected the descriptive purpose of this research. Again, this study utilised questionnaires as a method of collecting data for this

research. The survey design is a process covering all areas and relevant issues and starts by drawing an outline based on the theoretical framework (Czaja and Blair, 2005). In this study, for each factor in the framework, several relevant questions were created. The survey included 16 closed-ended questions to assess the effectiveness of each FDI drivers with regard to financial services' FDI in Saudi Arabia, and dealt with each location factor for FDI compared to the other factors.

After the pilot study, the survey design and contents were improved. A major driver (infrastructure driver) was added with six sub-drivers to the questionnaire. After reviewing the literature on drivers related to FDI in terms of Saudi financial services, and after completion of the pilot study, we chose the following 4 FDI drivers and 16 sub-drivers:

Market drivers – These are made up of the following sub-drivers: market size, market growth, market competition, and market familiarity.

Economic drivers - These are made up of the following sub-drivers: banking and financial system, economic growth, tax regime, exchange rates.

Infrastructure drivers - These are made up of the following sub-drivers: quality of transportation (ports, roads, airports, etc.), industrial clustering, employee skills, and communication networks**.**

Political drivers - These are made up of the following sub-drivers: political stability, government policy towards FDI, regulatory framework, trade agreements.

In designing the current study, questionnaires were distributed to senior executives in financial service companies in receipt of FDI in Saudi Arabia. The selected executives were in leadership positions such as President, CEO, vice president or other senior

executives in FDI enterprises in the financial services sector. Through the use of the questionnaire the participants were asked to rate the efficacy of the 16 drivers on a Likert scale of five points starting from very ineffective to very effective.

In this study, a introduction letter with regard to the survey was sent to the respondents before conducting the survey. This letter introduced the study, and explained the subject of the study to the respondents, its purpose, sponsorship and other details. The main purpose of the introduction letter was to provide the respondents with sufficient information for them to make a decision as to whether or not to take part in the survey.. A cover letter accompanied the questionnaire, which was part of the mail (self-completing) survey. Its aim was similar to that of the introduction letter, adding to it the promise of information confidentiality, the importance of the respondent to the study, and a phone number and address for the researcher if the respondent needed to ask questions (Czaja and Blair, 2005). At the end of fieldwork, a letter was sent to each participating company. The author expressed his gratitude to the respondents for their cooperation and reiterated that the answers would be treated as strictly confidential, and that a summary of the main conclusions would be sent to them on completion of the research.

4.5 Networking Methods for this Study

In recent years an increasing number of researchers have actively led the field in terms of research and have conducted fieldwork. Therefore, managers frequently receive survey questionnaires and invitations to take part in research studies. Usually, executives are not eager to accept invitations to take part in survey research. This is because the approached sample often consists of executives (senior managers) in the targeted firms in financial services that are in receipt of FDI.

In this study, two network approaches were adopted. The first required the assistance of relevant Saudi government bodies such as the Saudi Arabia General Investment Authority (SAGIA). This was necessary because SAGIA has direct contact with senior executives in foreign firms in Saudi Arabia. Second, the use of both network connections and newly developed and existing personal relationships. The author personally contacted the targeted sample in Saudi Arabia on December 2013. SAGIA provided the author with an official letter of introduction to senior executives in financial services firms with foreign stocks in Saudi Arabia. This approach resulted in significant support for the survey.

Approaching and seeking potential respondents to take part in the survey was both difficult and time-consuming. To ensure the success of the fieldwork research, three main approaches were used to get firms to take part in the sample survey; the introduction letter, networking, and using a facsimile telephone approach. The fieldwork began in early January 2014 and was conducted over three months. The networking approach played the most important role in terms of the respondents' participation in the survey.

In this research, it was difficult to use a single data collection method because of the nature and significance of the target population (senior FDI managers) who are difficult to reach. As a result, a combination of two data collection methods was used. First, most of the survey data were collected using face-to-face questionnaires, with a large number of the surveys being conducted during the Competitiveness Forum, organized by SAGIA, in Riyadh, Saudi Arabia in 2014. The forum attracted over three thousand attendees from all over the world, which represent FDI companies worldwide.

To make it straight-forward for the researcher to conduct a face-to-face survey with the targeted population, SAGIA provided the researcher with a list of executives attending the forum, and the representatives of FDI companies in the Saudi financial service. However, the remaining face-to-face surveys were conducted in SAGIA's head office, and at the premises of some senior managers of firms in Saudi Arabia. Second, when the researcher found that it was difficult to conduct face-to-face surveys, self-completed questionnaires were left at the remaining participant's offices to be completed and collected later.

4.6 Validity, Reliability and Confidentiality

Validity (whether internal or external) looks for the veracity of inferences which have been spawned from the study, while triangulation and reliability relate to internal validity. Triangulation in this study was conducted using documents and questionnaires in order to develop a profound understanding of the case. Reliability in this research is set up to authenticate the various processes involved, and to see if the research, if repeated elsewhere, by different researchers and/or at different times, would generate the same results (Thietart et al., 2001: 210). Confidentiality was guaranteed by informing the participants that the information gathered from interviews would not be disclosed to third parties. In addition, the identities of the participants was kept anonymous.

4.7 Summary

In this section, the research methodology used in this study has been presented. The chapter provides an overview of research methods, including a research deductive approach, and justifies the choice of quantitative research and of the survey design. The chapter presented the research design, and how the data were collected, including the research population, sample size, pilot study, questionnaire design, response rates, data

analysis, research questions and formulating assumptions. In other to undertake in-depth research, a combination of data collection methods, including a face-to-face survey and self-administered questionnaires, were used. In this research, 314 financial service companies with foreign participation were defined as the population for this study, and 200 financial services companies involved in FDI in Saudi Arabia and representing 63.69% of the industry population was identified as the sample for this search. In addition, 104 companies participated in this research. This represents a 52% response rate and made up 33% of the entire industry population. This chapter has shown how these methodological constraints were reasonably managed, and how a particular statistical technique was chosen to help extend the data analysis.

Chapter Five

Analysis of the Research Findings

5.1 Introduction

This research aims to explore and test the effects of FDI drivers in terms of FDI inflows in the Saudi financial industry. In furthering the analysis of the study using graphical analysis, all 16 sub-drivers associated with each of the 4 main drivers (market, economic, infrastructure, and political) were presented in the form of frequency tables using Likert scale categories (very ineffective, ineffective, neutral, effective, very effective). This is followed by hypothesis testing analysis through which the effects of each FDI driver on the introduction of FDI in terms of `financial services in Saudi Arabia were tested. Then, in the next section, through non-parametric hypotheses, testing the drivers' ranking in terms of their effectiveness was implemented. The main findings are also summarised at the end of the chapter.

5.2 Empirical model

Following Mina (2007), the following empirical model is estimated:

FDI = f (MARKET, ECONOMIC, POLITICAL, INFRASTRUCTURE)

Where FDI is FDI inflow, market is market drivers (market size, market growth, market competition, market familiarity), economic is economic drivers (banking and financial system, economic growth, tax regime, strong currency), infrastructure is infrastructure drivers (transport level, industrial clustering, staff skills, and communications network) and political is political drivers (political stability, government policy, regularity framework, trade agreements).

5.3 Descriptive Data

The data for the FDI drivers' effectiveness are analysed in Table 3. This includes the main FDI drivers and sub-drivers, the responses scale in numbers and percentages for each driver in the questionnaire, the mean, standard deviation and the number of responses for each driver. Table 3 shows the description of the sub-drivers based on the mean for each FDI driver compared to other drivers.

Table 3 FDI Drivers in the Financial Industry (Mean)

FDI Drivers	Response Scale					Scale Descriptive		
	Very Ineffective	Ineffective	Neutral	Effective	Very Effective	n	Mean	S.D.
Market Drivers								
Market size	0.00% (0)	0.00% (0)	0.96% (1)	26.92% (28)	**72.12% (75)**	104	4.71	0.47
Market growth	0.00% (0)	0.96% (1)	28.85%(3)	33.65% (35)	**36.54% (38)**	104	4.06	0.83
Market competition	1.92% (2)	**25.00% (26)**	48.08%(5)	22.12% (23)	2.88% (3)	104	2.99	0.81
Market familiarity	3.85%(4)	25.96% (27)	**32.69%(34)**	26.92% (28)	10.58% (11)	104	3.14	1.04
Economic Drivers								
Banking and financial system	0.00% (0)	3.85% (4)	16.35% (17)	35.58% (37)	**44.23% (46)**	104	4.20	0.85
Economic growth	0.00% (0)	0.00% (0)	2.88% (3)	40.38% (42)	**56.73% (59)**	104	4.54	0.55
Tax Regime	0.00% (0)	15.38% (16)	33.65 (35)	**40.38% (42)**	10.58% (11)	104	3.46	0.88
Strong currency	0.00% (0)	10.58% (11)	23.08% (24)	**43.27% (45)**	23.08% (24)	104	3.79	0.92
Infrastructure Drivers								
Quality of transporation	6.73% (7)	**32.69% (34)**	26.92% (28)	30.77% (32)	2.88% (3)	104	2.90	1.00
Industrial clustering	8.65% (9)	**34.62% (36)**	31.73% (33)	23.08% (24)	1.92% (2)	104	2.75	0.97
Staff skills	28.85% (30)	**30.77% (32)**	27.88% (29)	11.54% (12)	0.96% (1)	104	2.25	1.03
Communication network	14.42% (15)	27.88% (29)	**28.85% (30)**	26.92% (28)	1.92% (2)	104	2.74	1.07
Political Drivers								
Political stability	0.00% (0)	0.00% (0)	3.85% (4)	32.69% (34)	**63.46% (66)**	104	4.60	0.56
Government policy towards FDI	0.00% (0)	0.00% (0)	5.77% (6)	30.77% (32)	**63.46% (66)**	104	4.58	0.60
Regulatory framework	3.85% (4)	25.00% (26)	23.08% (24)	**32.69% (34)**	15.38% (16)	104	3.31	1.12
Trade Agreements	19.23% (2)	26.92% (28)	**28.85% (30)**	23.08% (24)	1.92% (2)	104	2.62	1.09

Source: Author's Estimations

Four main drivers were used to determine the effectiveness of FDI drivers. These were market drivers, economic drivers, infrastructure drivers and political drivers. In addition, four drivers were used to represent the market drivers. These were market size, market growth, market competition, and market familiarity. The economic drivers contained four sub-drivers in the form of banking and financial system, economic growth, tax regime, and

strong currency. Four sub-drivers constitute the infrastructure and technological drivers. These are in the form of quality of transportation, industrial clustering, staff skills, and communication networks. The political drivers contained four sub-factors in the form of political stability, government policy towards FDI, regulatory framework and trade agreements. The next section discusses in detail the results of each of these main drivers and the sub-drivers related to them.

5.3.1 Market Drivers

Table 4 Market Drivers

Market Drivers	Response Scale					Scale Descriptive		
	Very Ineffective	Ineffective	Neutral	Effective	Very Effective	n	Mean	S.D.
Market size	0.00% (0)	0.00% (0)	0.96% (1)	26.92% (28)	72.12% (75)	104	4.71	0.47
Market growth	0.00% (0)	0.96% (1)	28.85%(3)	33.65% (35)	36.54% (38)	104	4.06	0.83
Market competition	1.92% (2)	25.00% (26)	48.08%(5)	22.12% (23)	2.88% (3)	104	2.99	0.81
Market familiarity	3.85%(4)	25.96% (27)	32.69%(34)	26.92% (28)	10.58% (11)	104	3.14	1.04

Source: Author's Estimates

Table 4 summarises the descriptive data for the market drivers' effectiveness, including the mean, standard deviation, and number of responses for each sub-FDI driver associated with market drivers. The market size of Saudi Arabia was rated by 75 of the participants (representing 72.12% of the respondents) as a very effective FDI driver, with a mean of 4.71, and a s.d. of 0.47. Evidence in Table 4 also shows that market growth in the Saudi Arabia was rated by 38 of the participants (36.54%) as a very effective FDI driver, with a mean of 4.04, and a s.d. of .083. The market competition in Saudi Arabia was rated by 26 of the participants (25%) as an ineffective driver, with a mean of 2.99, and a s.d. of .081. Market familiarity was rated by 34 of the participants (32.69%) as neutral in its FDI effectiveness, with a mean of 3.14, and a s.d. of 1.04.

5.3.2 Economic Drivers

Table 5 Economic Drivers

Economic Drivers	Response Scale					Scale Descriptive		
	Very Ineffective	Ineffective	Neutral	Effective	Very Effective	n	Mean	S.D.
Banking and financial system	0.00% (0)	3.85% (4)	16.35% (17)	35.58% (37)	44.23% (46)	104	4.20	0.85
Economic growth	0.00% (0)	0.00% (0)	2.88% (3)	40.38% (42)	56.73% (59)	104	4.54	0.55
Tax Regime	0.00% (0)	15.38% (16)	33.65 (35)	40.38% (42)	10.58% (11)	104	3.46	0.88
Strong currency	0.00% (0)	10.58% (11)	23.08% (24)	43.27% (45)	23.08% (24)	104	3.79	0.92

Source: Author's Estimates

Table 5 summarises the descriptive data for the economic drivers' effectiveness with regard to each economic sub-driver, including the mean, standard deviation and number of participants. Banking and financial system were rated by 46 of the participants (44.23%) as a very effective driver with a mean of 4.20, and a s.d. of 0.85. Economic growth was rated by 59 of participants (56.73%) as a very effective FDI driver with a mean sore of 4.54, and a s.d. of 0.55. Tax regime rates were rated by 42 of the participants (40.38%) as being an effective FDI driver with a mean of 3.46, and a s.d. of 0.88. Strong currency was rated by 45 of the participants (43.27%) as being an effective FDI driver with a mean of 3.79, and a s.d. of .092.

5.3.3 Infrastructure Drivers

Table 6 Infrastructure Drivers

Infrastructure Drivers	Response Scale					Scale Descriptive		
	Very Ineffective	Ineffective	Neutral	Effective	Very Effective	n	Mean	S.D.
Quality of transporation	6.73% (7)	32.69% (34)	26.92% (28)	30.77% (32)	2.88% (3)	104	2.90	1.00
Industrial clustering	8.65% (9)	34.62% (36)	31.73% (33)	23.08% (24)	1.92% (2)	104	2.75	0.97
Staff skills	28.85% (30)	30.77% (32)	27.88% (29)	11.54% (12)	0.96% (1)	104	2.25	1.03
Communicationnetwork	14.42% (15)	27.88% (29)	28.85% (30)	26.92% (28)	1.92% (2)	104	2.74	1.07

Source: Author's Estimates

Table 6 summarises the descriptive data for each FDI driver related to infrastructure drivers, including the mean, standard deviation, and number of participants for each driver. The quality of transportation (ports, roads and airports) was rated by 34 of the participants (32.69%) as being an ineffective FDI driver with a mean of 2.90, and a s.d. of 1.00. Industrial clustering was rated by 36 of the participants (34.62%) as being an ineffective FDI driver with a mean of 2.75, and a s.d. of 0.97. Staff skills were rated by 32 of the participants (30.77%) as being an ineffective FDI driver with a mean of 2.25, and a s.d. of 1.03. Communication networks were rated by 30 of participants (28.85%) as being a neutral FDI driver with a mean of 2.74, and a s.d. of 1.07.

5.3.4 Political Drivers

Table 7 Political Drivers

Political Drivers	Response Scale					Scale Descriptive		
	Very Ineffective	Ineffective	Neutral	Effective	Very Effective	n	Mean	S.D.
Political stability	0.00% (0)	0.00% (0)	3.85% (4)	32.69% (34)	63.46% (66)	104	4.60	0.56
Government policy towards FDI	0.00% (0)	0.00% (0)	5.77% (6)	30.77% (32)	63.46% (66)	104	4.58	0.60
Regulatory framework	3.85% (4)	25.00% (26)	23.08% (24)	32.69% (34)	15.38% (16)	104	3.31	1.12
Trade Agreements	19.23% (2)	26.92% (28)	28.85% (30)	23.08% (24)	1.92% (2)	104	2.62	1.09

Source: Author's Estimates

Table 7 summarises the descriptive data for the effectiveness of political drivers including the mean, standard deviation, and the number of participants for each driver. Political stability was rated by 66 of the participants (63.46%) as a very effective FDI driver with a mean of 4.60, and a s.d. of 0.56. Government policies towards FDI were rated by 66 of the participants (63.46%) as a very effective FDI driver with a mean of 4.58, and a s.d. of .60. The regulatory framework was rated by 34 of the participants (32.69%) as being an effective FDI driver with a mean of 3.31, and a s.d. of 1.12. Trade agreements were rated

by 30 of the participants (28.85%) as being a neutral FDI driver with a mean of 2.62, and a s.d. of 1.09.

5.4 Testing the FDI Drivers' Effectiveness

5.4.1 Introduction

There are different types of t-test (Pallant, 2007). The first is the independent-samples t-test, that is used to compare the mean scores of two different groups of people or conditions. The second is the paired-samples t-test. This is used when comparing the mean scores for the same group of participants on two different occasions, or when there are matched pairs. In this section the effectiveness of FDI drivers for the FDI inflows with regard to Saudi financial services was tested.

5.4.2 Testing FDI Drivers' Effectiveness

Table 8 summarises the effectiveness of the various sub-drivers in terms of the mean, standard deviation, and standard errors for financial services' FDI inflows in Saudi Arabia. Table 9 summarises the t-test for sub-drivers for FDI inflows in terms of Saudi financial services. These drivers are discussed in detail in the following section.

Table 8 FDI Sup-Drivers Effectiveness Means One-Sample Statistics

Drivers	N	Mean	Std. Deviation	Std. Error Mean
Market size	104	4.7115	.47609	.04668
Market growth	104	4.0577	.83407	.08179
Market competition	104	2.9904	.81842	.08025
Market familiarity	104	3.1442	1.04666	.10263
Banking and financial system	104	4.2019	.85195	.08354
Economic growth	104	4.5385	.55604	.05452
Tax Regime	104	3.4615	.88046	.08634
Strong currency	104	3.7885	.92088	.09030
Quality of transpiration (ports, roads, airports, etc.)	104	2.9038	1.00985	.09902
Industrial clustering	104	2.7500	.97293	.09540
Staff skills	104	2.2500	1.03107	.10110
Communication network	104	2.7404	1.07030	.10495
Political stability	104	4.5962	.56636	.05554
Government policy towards FDI	104	4.5769	.60246	.05908
Regulatory framework	104	3.3077	1.12411	.11023
Trade Agreements	104	2.6154	1.09994	.10786

Source: Author's Estimates

Table 9 FDI Sup-Drivers Effectiveness T-Test One-Sample Test

Drivers	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Market size	36.662	103	.000	1.71154	1.6190	1.8041
Market growth	12.932	103	.000	1.05769	.8955	1.2199
Market competition	-.120	103	.905	-.00962	-.1688	.1495
Market familiarity	1.405	103	.163	.14423	-.0593	.3478
Banking and financial system	14.387	103	.000	1.20192	1.0362	1.3676
Economic growth	28.216	103	.000	1.53846	1.4303	1.6466
Tax Regime	5.346	103	.000	.46154	.2903	.6328
Strong currency	8.732	103	.000	.78846	.6094	.9675
Quality of transporation (ports, roads, airports, etc.)	-.971	103	.334	-.09615	-.2925	.1002
Industrial clustering	-2.620	103	.010	-.25000	-.4392	-.0608
Staff skills	-7.418	103	.000	-.75000	-.9505	-.5495
Communication network	-2.474	103	.015	-.25962	-.4678	-.0515
Political stability	28.741	103	.000	1.59615	1.4860	1.7063
Government policy towards FDI	26.693	103	.000	1.57692	1.4598	1.6941
Regulatory framework	2.791	103	.006	.30769	.0891	.5263
Trade Agreements	-3.566	103	.001	-.38462	-.5985	-.1707

Source: Author's Estimates

Table 10 summarises the effectiveness of the FDI sup-drivers in terms of means, standard deviations, and standard errors. Table 11 shows the t-test for the effectiveness of FDI sup-drivers. From the analysis of all the sub-drivers, an average rating test value of above 3.0 was considered as indicating effective FDI drivers in terms of financial services. The most effective FDI sup-drivers, identified in terms of their relative effectiveness in terms of FDI inflows for financial services, are listed below in decreasing order of effectiveness based on the t-test. These are as follows:

1. Market size
2. Political stability

3. Government policy towards FDI
4. Economic growth
5. Banking and financial system
6. Market growth
7. Strong currency
8. Tax regime

In contrast, the least effective FDI drivers compared to other FDI drivers are listed below in order of their effectiveness. These are as follows:

9. Regulatory framework
10. Market familiarity
11. Market competition
12. Quality of transportation (ports, roads, airports, etc.)
13. Industrial clustering
14. Communication network
15. Trade agreements
16. Staff skills

The next section discusses each driver in detail.

Table 10 Sub-Drivers' Effectiveness Means Priority

Drivers	N	Mean	Std. Deviation	Std. Error Mean
Market size	104	4.7115	.47609	.04668
Political stability	104	4.5962	.56636	.05554
Government policy towards FDI	104	4.5769	.60246	.05908
Economic growth	104	4.5385	.55604	.05452
Banking and financial system	104	4.2019	.85195	.08354
Market growth	104	4.0577	.83407	.08179
Strong currency	104	3.7885	.92088	.09030
Tax Regime	104	3.4615	.88046	.08634
Regulatory framework	104	3.3077	1.12411	.11023
Market familiarity	104	3.1442	1.04666	.10263
Market competition	104	2.9904	.81842	.08025
Quality of transpiration (ports, roads, airports, etc.)	104	2.9038	1.00985	.09902
Industrial clustering	104	2.7500	.97293	.09540
Communication network	104	2.7404	1.07030	.10495
Trade Agreements	104	2.6154	1.09994	.10786
Staff skills	104	2.2500	1.03107	.10110

Source: Author's Estimates

Table 11 Sub-Drivers' T-Test Priority

Drivers	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Market size	36.662	103	.000	1.71154	1.6190	1.8041
Political stability	28.741	103	.000	1.59615	1.4860	1.7063
Economic growth	28.216	103	.000	1.53846	1.4303	1.6466
Government policy towards FDI	26.693	103	.000	1.57692	1.4598	1.6941
Banking and financial system	14.387	103	.000	1.20192	1.0362	1.3676
Market growth	12.932	103	.000	1.05769	.8955	1.2199
Strong currency	8.732	103	.000	.78846	.6094	.9675
Tax Regime	5.346	103	.000	.46154	.2903	.6328
Regulatory framework	2.791	103	.006	.30769	.0891	.5263
Market familiarity	1.405	103	.163	.14423	-.0593	.3478
Market competition	-.120	103	.905	-.00962	-.1688	.1495
Quality of transpiration (ports, roads, airports, etc.)	-.971	103	.334	-.09615	-.2925	.1002
Communication network	-2.474	103	.015	-.25962	-.4678	-.0515
Industrial clustering	-2.620	103	.010	-.25000	-.4392	-.0608
Trade Agreements	-3.566	103	.001	-.38462	-.5985	-.1707
Staff skills	-7.418	103	.000	-.75000	-.9505	-.5495

Source: Author's Estimates

5.4.2.1 Market Drivers' Effectiveness

Table 12 summarises the effectiveness of market drivers including the mean, standard deviation, and standard error for each factor. Table 13 shows the t-test for the effectiveness of market drivers. Market size and market growth are considered as effective FDI drivers in terms of FDI inflows to Saudi financial services, with a mean of more than 3.0. Market completion and market familiarity revealed a mean of less than 3.0, which means that they are considered ineffective FDI drivers in terms of FDI inflows to Saudi financial services.

Table 12 Market Drivers' Effectiveness Means

One-Sample Statistics

Drivers	N	Mean	Std. Deviation	Std. Error Mean
Market size	104	4.7115	.47609	.04668
Market growth	104	4.0577	.83407	.08179
Market competition	104	2.9904	.81842	.08025
Market familiarity	104	3.1442	1.04666	.10263

Source: Author's Estimates

Table 13 Market Drivers' Effectiveness T-Test

One-Sample Test

Drivers	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Market size	36.662	103	.000	1.71154	1.6190	1.8041
Market growth	12.932	103	.000	1.05769	.8955	1.2199
Market competition	-.120	103	.905	-.00962	-.1688	.1495
Market familiarity	1.405	103	.163	.14423	-.0593	.3478

Source: Author's Estimates

The market size driver has a mean score of greater than 3.0 (mean = 4.71). The t-test shows that this is significantly ($p < 0.05$) more than 3.0 ($t_{103} = 36.62$, $p = 0.000$). Hence, the market size driver is perceived to play an effective role in terms of FDI inflows into Saudi financial services. The results are in line with those of Zhou, Delios & Yang (2002) who demonstrated that large markets grant benefits such as scale economies and high

revenue generation. The results also confirm the result of Chakrabarti (2001), Blonigen (2005) and Flores & Aguilera (2007), all of whom support the influence of market size on FDI inflows. Similarly, the results confirm the finding of Moosa and Cardak (2006), who found evidence that supports the effectiveness of market size with regard to FDI inflows. The result is in line with the finding of Frenkel et al. (2004) who found that host country market size is an effective driver in terms of FDI inflows. In addition, Carstensen and Toubal (2004), using panel data on FDI flows from 10 OECD home countries into 7 host Central and Eastern European Countries

(CEEC) in the period 1993–1999, found similar result to those of our study in terms of supportive evidence of the effectiveness of market size on FDI inflows. The results are supported by Head and Mayer (2004) who found that those regions surrounded by large markets tend to attract more FDI. However, the result is in contrast to the findings of Mina (2007), who studied the drivers that influenced FDI inflows into Gulf State countries including Saudi Arabia, Bahrain, Oman, Kuwait, and the United Arab Emirates. He found that the market size of these countries was not an effective driver in terms of FDI inflows. He concluded that, due to the small population sizes of the Gulf countries, economies of scale may not be realized, and FDI inflows may be discouraged. Therefore, the influence of market size on FDI inflows might be ambiguous. In contrast to our findings, Cleeve (2009) has shown that market size has been a critical determent of FDI location in sub-Saharan Africa.

Market growth has a mean score of greater than 3.0 (mean = 4.05). The t-test shows that this is significantly ($p < 0.05$) more than 3.0 ($t103 = 12.932$, $p = 0.000$). Hence, market growth is perceived as having an effective role to play in terms of FDI inflows with regard to the Saudi financial services. The results are in line to those of Billington, (1999), Gilmore, O'Donnel, Carson & Cummins (2003) and Jones & Wern (2006), who concluded

that market growth has an encouraging outcome in terms of FDI inflows, and that the pressure to expand into other markets to achieve greater sales or a greater market share, have influenced MNEs when it comes to entering new large markets as a means of overcoming the maturity of home markets. Therefore, market growth may affect FDI inflows, as firms will enter markets in which they can grow. However, the result is in contrast to the findings of Scaperlanda and Mauer (1969) who found that the growth rate of the market in a rapidly growing countrydoes not affect FDI inflows.

Market competition has a mean score of less than 3.0 (mean = 2.99). The t-test shows that the mean score is significantly ($p < 0.05$) less than 3.0 ($t103 = -.120$, $p = 0.905$). Hence, market competition is not perceived as being an effective driver in terms of FDI inflows with regard to Saudi financial services. The results confirm the findings of Buckley, Devinney & Louvriere (2007) who concluded that competition in the host market is amongst the least effective drivers with regard to FDI inflows. However, the results are different from those of Caves (1996) and Dunning (1998), who concluded that competition in the host market would play an effective role in determining FDI inflows. The results are in contrast with those of The Economist Intelligence Unit (2002) who studied the drivers that are most effective in terms of affecting MNE executives' location decisions with regard to FDI, and found that competition in the host country is one of the most effective drivers in terms of FDI inflows in the coming years.

The market familiarly driver has a mean score of greater than 3.0 (mean = 3.1442). However, the t-test shows that this is statistically not significantly ($p > 0.05$) in that it is less than 3.0 ($t103 = 1.405$, $p = 0.163$). Hence, the market familiarity driver is not perceived to be an effective driver in terms of the FDI inflows with regard to Saudi financial services. The results confirm the findings of Buckley, Devinney & Louvriere (2007) who found that establishing a relationship and the ability to achieve market

familiarity in the host country are among the least effective FDI drivers when choosing a host-country. However, the results are different from the findings of Ramady & Saee (2007) who studied FDI inflows into Saudi Arabia between 1984 and 1997, and found that the fear on the part of foreign companies with regard to entering the Saudi market alone, or on the part of those who were unfamiliar with the Saudi market, negatively affected FDI inflows and played a key role on FDI location in Saudi Arabia. Similarly, the results are in contrast with those of Cleeve (2004; 2009) who found that familiarity and knowledge of the host country act as effective drivers in terms of FDI inflows. The results are different from those of Randoy & Dibrell (2002) who concluded that location familiarity would play an effective role in the choice of a host-country for MNEs, and if managersare of the opinion that a particular location is unfamiliar, they may not choose that location for their investment.

5.4.2.2 Economic Drivers' Effectiveness

Table 14 summarises the effectiveness of economic drivers, including the mean, standard deviation, and standard error for each driver. Table 15 shows the t-test for the economic drivers' effectiveness. The effectiveness of economic drivers based on the t-test are listed below:

Banking and financial system

Economic growth

Tax regime

Strong currency

Table 14 Economic Drivers' Effectiveness Means

One-Sample Statistics

Drivers	N	Mean	Std. Deviation	Std. Error Mean
Banking and financial system	104	4.2019	.85195	.08354
Economic growth	104	4.5385	.55604	.05452
Tax Regime	104	3.4615	.88046	.08634
Strong currency	104	3.7885	.92088	.09030

Source: Author's Estimates

Table 15 Economic Drivers' Effectiveness T-Test

One-Sample Test

Drivers	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Banking and financial system	14.387	103	.000	1.20192	1.0362	1.3676
Economic growth	28.216	103	.000	1.53846	1.4303	1.6466
Tax Regime	5.346	103	.000	.46154	.2903	.6328
Strong currency	8.732	103	.000	.78846	.6094	.9675

Source: Author's Estimates

All the economic drivers received an average response rate of more than 3.0, which indicates that they are considered to be effective drivers in terms of FDI inflows into the Saudi finance industry. These drivers include banking and financial system, economic growth, the tax regime in Saudi Arabia and a strong currency.

The banking and financial system driver has a mean score of greater than 3.0 (mean = 4.2019). The t-test shows that this is significantly ($p < 0.05$) more than 3.0 ($t_{103} = 14.387$, $p = 0.000$). Hence, the banking and financial driver is perceived to play an effective role in terms of FDI inflows into Saudi financial services. The result confirms the findings of Ho and Lau (2007) who conluded that the business environment in the host country with regard to FDI will be greater when the investor plans to expand their market share in the host country. Otherwise, when the target markets are outside the host country where the

investment is located, the business environment of the host country will have a minimal effect and will have low priority in terms of FDI inflows. This result is in line with Ramady (2009) who insists that banks and other financial institutions operating in the host country want to operate under regulations and supervisions that are applied by a central bank, a monetary authority, or an independent regulatory agency in the host country.

The economic growth factor has a mean score of more than 3.0 (mean = 4.53). The t-test shows that the mean score is significantly ($p < 0.05$) more than 3.0 ($t103 = 28.216$, $p = 0.000$). Hence, the economic growth driver is perceived to be an effective driver in terms of FDI inflows into Saudi financial services. The results confirm the study by Lim (2001), who argued that FDI inflows are positively affected by the economic growth of the host country. The results are also in line with the findings of Wheeler & Mody (1992) and Aliber (1993) who argued that a strong macroeconomic policy is a key driver that would affect FDI inflows. They also believed that there was positive relationship between the rate of growth of the host country and the FDI inflow. However, the results are in contrast to the findings of Ho & Lau (2007) who believed that the effectiveness of economic growth in the host countries in terms of FDI inflows, will be greater when the investor plans to expand their market share in the host country in which their investment is located. Otherwise, when the target markets are outside the host country in which the investment is located, the economic growth of the host country will have only a minimal influence, and will have low priority in terms of FDI location decisions. The results also differ from the findings of Abdel-Rahman (2002) who indicated that economic growth is not a significant factor with regard to FDI inflows into Saudi Arabia.

The tax regime driver has a mean score greater than 3.0 (mean = 3.46). The t-test shows that this is significantly ($p < 0.05$) more than 3.0 ($t103 = 5.346$, $p = 0.000$). Hence, the tax

regime driver is perceived to play an effective role in terms of FDI inflows into Saudi financial services. The results confirm the findings of many scholars such as Coughlin (1991), Hines (1996), Cassou (1997), Billington (1999), Mossa (2002) and Jones & Wern (2006), whose studies examined the effect of taxes on FDI inflows, and who found that high tax rates can have a negative influence on FDI inflows, as they reduce potential profits. The results also support the findings of UNCTAD (1998) which argued that corporate and personal tax rates would have an effect on FDI inflows, and a host country with lower corporate tax rates will be more attractive than one with higher rates. However, the results are in contrast with those of Ho & Lau (2007) who concluded that while there is some agreement among scholars about the impact of non-tax factors on FDI location decisions, the results concerning the influence of tax factors on such decisions are contradictory and questionable. The results are also in contrast with those of Cheng & Kwan (2000) who claimed that export-oriented FDI will be affected by the taxes of the host country, but FDI targeting local market, taxes of the host counntrywill have a low effect on FDI location. The results are also different from those of Cleeve (2004) who suggested that fiscal incentives such as tax incentives provided by the host government may not be effective tools when it comes to attracting FDI inflows, and some governments that provide tax incentives to attract FDI, especially in developing countries, may lose tax revenue as a result of FDI when, in reality, the fiscal incentives do not influence the FDI inflow. The results are also in contrast with those of Blonigen (2005) who believed that MNEs face tax rates at a variety of levels in both the host and the parent countries, and policies to deal with double taxation can substantially alter the effects of these taxes on an MNE's incentive to invest. Therefore, a credit system to deal with double taxation by MNE makes taxation in the host country relatively ineffective.

The strong currency driver has a mean score greater than 3.0 (mean = 3.78). The t-test shows that this is significantly ($p < 0.05$) more than 3.0 ($t103 = 8.73$, $p = 0.000$). Hence, the strong currency driver is perceived to play an important role in terms of FDI inflows into Saudi financial services. The results confirm the findings of Aliber (1970), Zitta & Powers (2003) and Gilmore, O'Donnel, Carson & Cummins (2003) who concluded that FDI inflows are affected by a strong currency in the host country. The result also supports the findings of Froot & Stein (1989) who believed that a devaluation of the host country's currency will have a positive impact on FDI profitability, and may influence FDI inflows. However, the results are in contrast with those of UNCTAD (1998) which concluded that the effect of interest rates on FDI location destinations is not significant. The result also in contrast with the findings of Mmieh and Owusu-Frimpong (2004) who argue that there is no evidence to support the view that FDI inflows will be influenced and affected by the high purchasing power of the currency of the host country.

5.4.2.3 Infrastructure Drivers' Effectiveness

Table 16 summarises the effectiveness of infrastructure drivers, including the mean, standard deviation, and standard error for each driver. Table 17 shows the effectiveness of the infrastructure drivers. All of the infrastructure drivers received an average response rate of less than 3.0, which indicates that they are considered ineffective drivers in terms of FDI inflows into Saudi financial services. This driver included the quality of transportation (ports, roads, airport, etc.), the extent of industrial clustering, staff skills and communications networks in Saudi Arabia.

Table 16 Infrastructure Drivers' Effectiveness Means

One-Sample Statistics

Drivers	N	Mean	Std. Deviation	Std. Error Mean
Quality of transporation (ports, roads, airports, etc.)	104	2.9038	1.00985	.09902
Industrial clustering	104	2.7500	.97293	.09540
Staff skills	104	2.2500	1.03107	.10110
Communication network	104	2.7404	1.07030	.10495

Source: Author's Estimates

Table 17 Infrastructure Drivers' Effectiveness T-Test

One-Sample Test

Drivers	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Quality of transporation (ports, roads, airports, etc.)	-.971	103	.334	-.09615	-.2925	.1002
Industrial clustering	-2.620	103	.010	-.25000	-.4392	-.0608
Staff skills	-7.418	103	.000	-.75000	-.9505	-.5495
Communication network	-2.474	103	.015	-.25962	-.4678	-.0515

Source: Author's Estimates

The quality of transportation driver has a mean score of less than 3.0 (mean = 2.90). The t-test shows that the mean score was significantly ($p < 0.05$) less than 3.0 ($t103 = -971$, $p = 0.334$). Hence, the quality of transportation is not perceived to be an effective driver in terms of FDI inflows into Saudi financial services. The results confirm the findings of Asiedu (2001), who found that transportation quality in Africa is not considered an effective enough factor to attract FDI inflows. The results is in line with Ho and Lau (2007) who noted the effectiveness of the infrastructure level in terms of FDI inflows will differ according to the type of industry under consideration, and that each industry has a different priority when it comes to the quality of infrastructure. For example, heavy industries such as oil-related industries will need a high quality of infrastructure in the host

countries to get their products to world markets, while a service industry such as the financial services will not less be concerned about the quality of the country's infrastructure as they serving their clients directly.

However, the results are in contrast with the findings of Jones & Wern (2006) and Ho & Lau (2007) who concluded that the quality of transportation in the host country plays an important role with regard to FDI inflows. The results are also different from those of Biswas (2002) who studied FDI in the US from 44 countries during the period 1983 to 1990, and concluded that the quality of transportation in the host country is one of the most effective drivers of FDI inflows. The results are also in contrast with the findings of the Economist Intelligence Unit (2002) which studied the most effective drivers that affect FDI inflows, and indicated that the quality of transportation in the host country is one of the most effective drivers that will influence FDI inflows in the coming years. The results are different from the findings of UNCTAD (1996) and Nunnenkamp (2002) who concluded that new drivers have become more effective concerning FDI inflows, among them the quality of transportation in the host country. The results are different from those of Mina (2007) who studied FDI inflows in the GCC countries and how the location drivers help attract FDI inflows, and found that the quality of transportation attracts FDI inflows.

The industrial clustering driver has a mean score of less than 3.0 (mean = 2.75). The t-test shows that the mean score was significantly ($p < 0.05$) less than 3.0 ($t103 = -2.62$ $p = 0.010$). Hence, an industrial clustering driver is not perceived to be an effective driver in terms of the FDI inflows for Saudi financial services. The results of the study do not align with the findings of Jones & Wern (2006) who argued that a high industrial concentration in the host country is an effective driver when it comes to attracting FDI, as the level of industrialisation is expected to be associated with a high level of FDI, since a country or

region that is highly industrialised will have a large number of firms and a clustering of specific industries, which potentially increases the possibility of beneficial spillover. However, this analysis may be true when applied to the manufacturing industry, but not to service industries. Different from these results, the studies by Wheeler and Mody (1992), Billington (1999), Wei et al. (1999) and Campos and Kinoshita (2003) all found a significant positive effect of high industrial concentration (clustering) on FDI inflows, which they attribute to agglomeration economies. The results are in contrast to the study by Ng & Tuan (2003), Devereux (2003) and Jones & Wern (2006) who also suggested that firms tend to locate near other firms in the same industry to benefit from the spillover of the agglomerations effect. They showed in their study that agglomeration economies will significantly affect FDI inflows.

The staff skills driver has a mean score of less than 3.0 (mean = 2.25). The t-test shows that the mean score was significantly ($p < 0.05$) less than 3.0 ($t103 = -7.418$ $p = 0.000$). Hence, a staff skills driver is not perceived to be an important driver with regard to FDI inflows into Saudi financial services. The results support the findings of Achoui (2009) who believed that most of the Gulf countries, including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, are very rich in natural resources such as oil and gas. However, surprisingly, all these countries experience a shortage of skilled and unskilled workers, which has led to a high dependence on foreign labour due to the low population size, and an insufficient educational system in these countries. Therefore, the availability of a well-qualified workforce in these countries is not an effective driver for FDI inflows, as MNEs rely on expatriate workers for their operations. The results also support the result obtained by SAGIA (2014) which concluded that most of the employees in the private sector in Saudi Arabia are preedominantly expatriates, since they make up 80% of the labour force employed by companies licensed by SAGIA. Therefore, the

availability of a well-qualified workforce is not important in terms of FDI in Saudi Arabia. The results also confirm those of Ramadi (2005), who concluded that the private sector in Saudi Arabia prefers to employ expatriates to Saudis nationals, and normally companies in receipt of FDI satisfy their needs for workers from specialists from outside the host country. However, the results are different from those of Mina (2007) who studied the FDI location motivation in the GCC countries, and showed that the availability and quality of labour are important concerning FDI inflows. The results are also different from those of Jones & Wern (2006) who stated that the availability of a well-qualified work force in a host country is expected to have a positive effect on FDI inflows, because a host country with a higher availability of skilled workers will provide foreign investors with a group of workers to choose from. The results are in contrast to those of Haaland &Wooton (2003) who examined the effect of the availability of a well-qualified workforce on FDI inflows, and revealed that this is a strong positive driver in terms of FDI inflows.

The communication network driver has a mean score of less than 3.0 (mean = 2.74). The t-test shows that the mean score was significantly ($p < 0.05$) less than 3.0 ($t103 = -2.474$ $p = 0.015$). Hence, a communications network driver is not perceived to be an important driver in terms of FDI inflows for Saudi financial services. This result is different from the findings of Ho and Lau (2007) and Kang and Lee (2007), who concluded that public services in a host country, for example communication networks, are an effective driver in terms of FDI inflows.

5.4.2.4 Political Drivers' Effectiveness

Table 18 summarises the effectiveness of political drivers, including the mean, standard deviation, and standard error for each driver. Table 19 shows the effectiveness of these drivers. Political drivers including political stability and government policy towards FDI

are considered effective drivers in terms of FDI inflows in terms of Saudi financial services, in that they received a mean of more than 3.0. However, despite the fact that the regulatory framework driver received an average response rate of more than 3.0, the t-test shows that it is considered to be an ineffective driver in terms of FDI inflows with regard to Saudi financial services. Furthermore, as far as trade agreements are concerned, and average response mean of less than 3.0 means that it is considered to be an ineffective driver in terms of FDI inflows in terms of Saudi financial services.

Table 18 Political Drivers' Effectiveness Means

One-Sample Statistics

Drivers	N	Mean	Std. Deviation	Std. Error Mean
Political stability	104	4.5962	.56636	.05554
Government policy towards FDI	104	4.5769	.60246	.05908
Regulatory framework	104	3.3077	1.12411	.11023
Trade Agreements	104	2.6154	1.09994	.10786

Source: Author's Estimates

Table 19 Political Drivers' Effectiveness T-Test

One-Sample Test

Drivers	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Political stability	28.741	103	.000	1.59615	1.4860	1.7063
Government policy towards FDI	26.693	103	.000	1.57692	1.4598	1.6941
Regulatory framework	2.791	103	.006	.30769	.0891	.5263
Trade Agreements	-3.566	103	.001	-.38462	-.5985	-.1707

Source: Author's Estimates

The political stability driver has a mean score of greater than 3.0 (mean = 4.59). The t-test shows that this is significantly ($p < 0.05$) more than 3.0 ($t103 = 28.741$, $p = 0.000$). Hence, the political stability driver is perceived to play an important role in terms of FDI inflows into the Saudi financial industry. The results confirm the findings of many studies that

have mostly focused on FDI in developing countries, which have found political stability to be a critical determinant of FDI (e.g., Basi, 1963; Stevens, 1969; Weigel, 1970; Root and Ahmed, 1979; Levis, 1979; Schneider and Frey, 1985; Wei,1997). Results from this study are also in line with those of Dunning (1996) who argued that risks in host markets, especially political stability, is commonly cited as a cause of the restriction of FDI inflows. The results are also in line with those of Schneider and Frey (1985), Bollen et al. (1982) and Mellahi et al. (2003) who noted that political instability significantly affects FDI destinations negatively, and reduces the inflow of FDI. The results also confirm the findings of Mossa (2002) who indicated that a lack of political stability in the host country discourages inflows of FDI. However, the results are different from those of Green and Cunningham (1975) and Mody and Wheeler (1992) who found that political stability, which is among the political drivers, is not an effective FDI driver, and they rank it lower than other FDI drivers. The results are also different from those of UNCTAD (1998), which concluded that political stability is a requirement for FDI, but is not a strong motive for inward FDI.

The government policy towards FDI drivers has a mean score of more than 3.0 (mean = 4.5). The t-test shows that this is significantly ($p < 0.05$) more than 3.0 ($t103 = 26.693$, $p = 0.000$). Hence, government policy towards FDI drivers is perceived to play an effective role in terms of FDI inflows to the Saudi financial industry. The results confirm the findings of Jones & Wern (2006) and Kang & Lee (2007) who argue that host government policies towards foreign investment play an effective role in terms of FDI inflows. The results are also in line with those of Cheng & Kwan (2000) who showed that government policies concerning such processes as getting government approval, the environment for doing business, etc., would have a positive effect on FDI inflows. The results confirm the findings of Grubert and Mutti (1991), Loree and Guisinger (1995), Taylor (2000) and

Kumar (2002) who found a positive effect in terms of benign environmental legislation for FDI on the part of the host governments, on inward FDI flows. Similarly, Devereux and Griffith (1998), Hines (1996) and Banga (2003) found that fiscal incentives do affect FDI inflows, especially for export-oriented FDI, and that government policies to attract FDI have increased in importance in the new globalized markets. The results are in line with those of Zhou, Delios & Yang (2002) who examined 2,933 cases of Japanese investment in China in order to identify the role that policy factors play on the location decisions of Japanese FDI in China, and found that government incentives on the part of the host country, such as the setting up of special economic zones and opening coastal cities, were very effective drivers in terms of FDI inflows. The result also supports UNCTAD (1998) which concluded that restrictive policies on the part of host governments, such as the widespread nationalization of foreign partners, could negatively affect FDI inflows. The results are in line with those of Cohen (2007) who concluded that the collective results of attitudes, actions, and inactions by a national government, is the most decisive determinant concerning whether or not an investment climate attracts or repels non-extractive MNEs.

However, the results are in contrast with those of Contractor (1991), Caves (1996), and Villela and Barreix (2002), who found that policy changes have a weak influence on FDI inflows and that inflow incentives on the part of the host country are generally ineffective compared to other classical drivers when it comes to FDI. The results are different from those of Hoekman and Saggi (2000), who believed that incentives may attract some types of FDI, but it will not be an effective driver when generalized to the whole economy. The results are different from those of Bloomstrom & Koko (2003) who concluded that investment incentives on the part of the host government are seen as relatively minor determinants of FDI decisions, and while they might tilt the investment decision in favour

of one of several otherwise similar investment locations, the effects were considered to be only marginal.

The regulatory framework driver has a mean score of more than 3.0 (mean = 3.30). However, the t-test shows that this is statistically not significantly ($p > 0.05$) greater than 3.0 ($t103 = 2.791$, $p = 0.006$). Hence, the regulatory framework driver is not perceived to be an effective driver in terms of the FDI inflows with regard to Saudi financial services. The results are in contrast with those of the World Bank (2005) which concluded that low confidence in the legal system of the host country is a key driver for FDI inflows, especially in a country with few political and economic reforms. As a result, the legal system in the host country will play a major role in terms of FDI inflows. The results are different from those of Altomonte and Guagliano (2003). The results are also in contrast with those of Flores & Aguilera (2007) who indicated that country-level political and legal institutions influence cross-national business practices, and when MNEs expand around the world, the host country's legal system plays an important role in their operations abroad. The results are also different from those of Mina (2007) who concluded that the rule of law, contract enforcement, and the protection of property rights play an important role in attracting FDI inflows in GCC countries. The trade agreements driver has a mean score of less than 3.0 (mean = 2.61). The t-test shows that the mean score was significantly ($p < 0.05$) less than 3.0 ($t103 = -3.566$ $p = 0.001$). Hence, a trade agreements driver is not perceived to be an effective driver in terms of FDI inflows with regard to Saudi financial services. However, the results are different from a number of studies (e.g. Gastanaga, Nugent and Pashmova, 1998; Taylor, 2000; Chakrabarti, 2001 and Asiedu, 2002) who tested the impact of trade agreements on FDI inflows. All confirm that trade agreements are an effective driver for FDI inflows, and will affect FDI inflows positively. The results are also in contrast with those of Globerman and Shapiro (1999) who found that the

Canada-U.S. Free Trade Agreement (CUFTA) and the North American Free Trade Agreement (NAFTA) increased both inward and outward FDI, and improved the attractiveness of these countries. The results are in contrast with those of Bloomstrom & Koko (2003) who concluded that global trade liberalization through the WTO, or regionally, through organisations such as the EU and NAFTA and other international trade agreements, has led to an increase in market integration which makes international trade agreements an effective driver in terms of FDI inflows.

5.5 Analysis

5.5.1 Hypotheses

The analyses of the effects of FDI drivers with regard to FDI inflow to the Saudi financial industry was implemented through descriptive analyses, 2-tailed binomial testing for checking whether observed drivers and their components are effective or not for FDI inflow, and non-parametric Related-Samples Friedman's Two-Way Analysis of Variance hypothesis testing for the drivers' ranking in terms of their effectiveness. During the descriptive analysis, the main attention was paid to the frequency distributions of the companies' answers about the main drivers and sub-drivers with regard to FDI inflow. The binomial test is useful for determining if the proportion of companies in one of the two categories is different from a specified amount. For example, whether or not the proportion of companies with effective market drivers is different from the proportion of companies with ineffective market drivers. This is identical to the following hypothesis: the proportion of companies with effective market drivers =0.5. Therefore, for two-tailed hypotheses, the null hypothesis is H0: $\pi=0.5$, and the alternative hypothesis is H1: $\pi\neq0.5$. If the null hypothesis is rejected, this means that for the given driver being effective is statistically different from it being ineffective. After rejecting the null hypothesis, the

observed proportions (which will be presented in a test output) of companies with effective drivers is compared with the observed proportion of ineffective drivers,and based on this comparison, a final conclusion is drawn about the effectiveness of a particular driver (SPSS, 2014).

To be able to implement the binomial tests, initial ordinal sub-drivers (and drivers) should be recoded into binomial variables. In the current study, the following recoding procedure is used (see Table 20):

Table 20: Sub-drivers' recoding procedure

Initial sub-driver categories	**Recoding into binomial variable**
Very Ineffective (1) Ineffective (2)	Ineffective (-1)
Neutral (3)	Missing (Neutral category doesn't provide useful information in the context of research hypotheses) (.)
Effective (4) Very Effective (5)	Effective (1)

Source: Author's Estimates

Each driver is then computed using the following approach:

The initial driver indicator was computed as an average of the sub-driver categories (1; 2; 3; 4; 5). The following recoding procedure was used then to generate a binomial variable for each driver (see Table 21).

Table 21: Sub-drivers' binomial variable

Initial sub-driver categories	**Recoding into binomial variable**
<2.999	Ineffective (-1)
=3	Missing (Neutral category doesn't provide useful information in the context of research hypotheses) (.)
>3.001	Effective (1)

Source: Author's Estimates

The Friedman test of non-parametric hypotheses testing for the drivers' ranking by their effectiveness is used to test differences between groups when the dependent variable being measured is ordinal. This test is the non-parametric alternative to the one-way ANOVA (SPSS, 2014). In the context of the current research, Friedman's test result will show sub-drivers and driver rankings in terms of FDI inflow effectiveness levels. One of the main advantages of this technique is that it uses drivers with their initial formats (Likert scale).

To implement hypothesis testing, all 16-sub drivers were recoded into binomial variables using the approach, described in the statistical methodology section. The hypothesis testing was implemented through a binomial testing approach, and the results of 2-taled binomial tests are given in Table 22 and Table 23.

Table 22: 2-tailed binomial tests for the market drivers

Drivers	Category	N	Observed Prop.	Test Prop.	Exact Sig. (2-tailed)
Market Size	Effective	103	1.00	0.50	0.000
	Ineffective	0	0		
	Total	**103**	**1.00**		
Market Growth	Effective	73	0.99	0.50	0.000
	Ineffective	1	0.01		
	Total	**74**	**1.00**		
Market Competition	Effective	26	0.48	0.50	0.892
	Ineffective	28	0.52		
	Total	**54**	**1.00**		
Market Familiarity	Effective	39	0.56	0.50	0.403
	Ineffective	31	0.44		
	Total	**70**	**1.00**		
Market Driver	Effective	92	0.95	0.50	0.000
	Ineffective	5	0.05		
	Total	**97**	**1.00**		

Source: Author's Estimates

As can be seen from the table, three of the five null hypotheses are rejected. This means that the effectiveness proportions of market size, market growth and overall market driver

are at a 95% confidence level (with a significance of less than 0.05) which is statistically different from 0.5. This means that on average the respondents are sure about the influence of those factors on FDI inflows. From the distributions of those factors, it also becomes obvious that they contribute positively to the increase in FDI inflow.

The null hypotheses in the other two cases are not rejected. This means that the effectiveness of market competition and market familiarity, variables are not statistically different from 0.5 at a 95% confidence level, so the respondents are not sure about the significant effects of these factors in terms of FDI inflows (Table 22).

Table 23: 2-tailed binomial tests for the economic drivers

Drivers	Category	N	Observed Prop.	Test Prop.	Exact Sig. (2-tailed)
Banking And Financial System	Effective	83	0.95	0.50	0.000
	Ineffective	4	0.05		
	Total	**87**	**1.00**		
Economic Growth	Effective	101	1.00	0.50	0.000
	Ineffective	0	0.00		
	Total	**101**	**1.00**		
Tax Regime	Effective	53	0.77	0.50	0.000
	Ineffective	16	0.23		
	Total	**69**	**1.00**		
Strong Currency	Effective	69	0.86	0.50	0.000
	Ineffective	11	0.14		
	Total	**80**	**1.00**		
Economic Driver	Effective	98	0.97	0.50	0.000
	Ineffective	3	0.03		
	Total	**101**	**1.00**		

Source: Author's Estimates

All five observed null hypotheses are rejected. This shows that the effectiveness of all economic sub-drivers and overall economic driver are significantly (at the 0.01 significance level) different from 0.5, so the respondents are sure about the influence of those factors on FDI inflows. From the distributions of these factors, it also becomes

obvious that they have a significant positive contribution to the increase of FDI inflows (see Table 23).

Table 24: 2-tailed binomial tests for infrastructure drivers

Drivers	Category	N	Observed Prop.	Test Prop.	Exact Sig. (2-tailed)
Quality of transportation (ports, roads, airports, etc.)	Effective	35	0.46	0.50	0.567
	Ineffective	41	0.54		
	Total	**76**	**1.00**		
Industrial Clustering	Effective	26	0.37	0.50	0.032
	Ineffective	45	0.63		
	Total	**71**	**1.00**		
Staff Skills	Effective	13	0.17	0.50	0.000
	Ineffective	62	0.83		
	Total	**75**	**1.00**		
Communication Network	Effective	30	0.41	0.50	0.130
	Ineffective	44	0.59		
	Total	**74**	**1.00**		
Infrastructure Driver	Effective	32	0.33	0.50	0.001
	Ineffective	64	0.67		
	Total	**96**	**1.00**		

Source: Author's Estimates

The test results for this group of variables show that the proportions of industrial clustering, staff skills and overall infrastructure driver group are at a 95% confidence level and are statistically different from 0.5. However, unlike the previous cases, these drivers are significantly ineffective factors when it comes to FDI inflow. The proportion of quality of transportation and communication network sub-drivers are not at a 95% confidence level and statistically different from 0.5. This means that the respondents are not sure about the effectiveness or ineffectiveness of these factors in terms of FDI inflows (see Table 24).

Table 25: 2-tailed binomial tests for political drivers

Drivers	Category	N	Observed Prop.	Test Prop.	Exact Sig. (2-tailed)
Political stability	Effective	100	1.00	0.50	0.000
	Ineffective	0	0		
	Total	100	1.00		
Government policy towards FDI	Effective	98	1.00	0.50	0.000
	Ineffective	0	0		
	Total	98	1.00		
Regulatory framework	Effective	50	0.63	0.50	0.033
	Ineffective	30	0.38		
	Total	80	1.00		
Trade Agreements	Effective	26	0.35	0.50	0.014
	Ineffective	48	0.65		
	Total	74	1.00		
Political Drivers	Effective	88	.95	0.50	0.000
	Ineffective	5	.05		
	Total	93	1.00		

Source: Author's Estimates

Finally, all observed null hypotheses are rejected: the results for political drivers show that the proportions of all sub-drivers and the overall political driver group are significantly different from 0.5, so the respondents are sure about the influence of those factors on FDI inflow. Moreover, the distribution of those factor proportions illustrate that respondents think that only trade agreements is an ineffective driver (the ineffectiveness proportion is 65%), and all other sub-drivers and overall the political driver group are effective drivers for FDI inflows. Summarizing all the hypotheses testing results, one can conclude that three of four drivers (Market drivers, Economic drivers and Political drivers) are effective for FDI inflows, and the Infrastructure driver is ineffective in terms of FDI inflows (Table 25).

5.5.2 Correlation Analysis

In Table 26, the correlation coefficients between all observed drivers are presented, according to which overall the Market driver has a significant positive correlation (at the 0.01 significance level) with Economic driver (0.469), Infrastructure driver (0.388) and Political driver (0.231, which is significant at the 0.05 level. The Economic driver have the highest positive correlation (at the 0.01 significance level).

Table 26 Correlation coefficients between the drivers

		Market Driver	Economic Driver	Infrastructure Driver	Politic Driver
Market Driver	Pearson Correlation	1	.469**	.388**	.231*
	Sig. (2-tailed)		.000	.000	.018
Economic Driver	Pearson Correlation	.469**	1	.605**	.251*
	Sig. (2-tailed)	.000		.000	.010

Source: Author's Estimates

5.5.3 Hypothesis Testing

The research question asks about the effectiveness of FDI drivers with regard to FDI inflows in terms of Saudi financial services from the point of view of senior executives. To address this question, a repeated measurements analysis of variance was performed concerning the average responses to the items on the questionnaire with regard to the four FDI drivers (Sheskin 2007, p.1021). The four response variables were the average scores on the part of the executives for the items pertaining to each of the four drivers. The single predictor variable was the variable reflecting the identities of the four categories.

5.5.3.1 Statistical Significance

A test of statistical significance allows the analyst to estimate how confident he or she can be that the results deriving from a study based on a randomly selected sample is generalisable to the population from which the sample is drawn (Bryman & Bell, 2007).

5.5.3.2 Testing the Hypotheses

There are four main hypothesis used in this study. These are as follows:

H1: Market drivers affect FDI inflows in the context of Saudi financial services.

H2: Economic drivers affect FDI inflows in the context of Saudi financial services.

H3: Infrastructure drivers affect FDI inflows in the context of Saudi financial services.

H4: Political drivers affect FDI inflows in the context of Saudi financial services

Table 27 summarises the effectiveness of the major drivers, including the mean and standard deviation for each driver. To test this hypothesis, the t-test procedure is used. Here I tested the null hypothesis that the mean effectiveness score is above 3. The t-test results are summarised in Table 28.

Table 27 The Effectiveness of the Major FDI Drivers

One-Sample Statistics

Drivers	N	Mean	Std. Deviation	Std. Error Mean
Market Mean	104	3.726	.5938	.0582
Economic Mean	104	3.998	.5772	.0566
Infrastructure Mean	104	2.661	.8177	.0802
Political Mean	104	3.774	.5740	.0563

Source: Author's Estimates

Table 28 One-Sample t-test for the Effectiveness of the Major FDI Drivers

One-Sample Test

Drivers	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Market Mean	12.468	103	.000	.7260	.610	.841
Economic Mean	17.627	103	.000	.9976	.885	1.110
Infrastructure Mean	-4.227	103	.000	-.3389	-.498	-.180
Political Mean	13.751	103	.000	.7740	.662	.886

Source: Author's Estimates

H1: Market drivers affect FDI inflows with regard to the Saudi financial services.

Hypothesis H1 predicts that market drivers play an effective role for FDI inflows in terms of Saudi financial services when foreign firms chose Saudi Arabia for their operations. The market drivers have a mean score of 3.726. The "t" test shows that this is significantly ($p<0.05$) more than 3.0 ($t103 = 12.468$, $p=.000$). Hence, market drivers are perceived to play an effective role in FDI inflows with regard to Saudi financial services. Therefore, hypothesis H1 is confirmed by the analysis. The results agree with a number of empirical studies on FDI driver inflows (e.g. Cunningham, 1975; Swedenborg, 1979; Dunning, 1980; Scaperlanda et al., 1983; Papanastassiou & Pearce, 1990; Zitta & Powers, 2003; Head & Mayer, 2004; Tahir & Larimo, 2005) who all conclude that the market potential of the host country has a significant and positive effect on attracting FDI and has a major impact on FDI inflows. However, the results are in contrast to the findings of Mina (2007) who studied the drivers that affect the inflows of FDI in Gulf State countries including Saudi Arabia, Bahrain, Oman, Kuwait and the United Arab Emirates. He found that market drivers in these countries were ineffective in terms of FDI inflows. He concluded that, due to the small population sizes in the Gulf countries, economies of scale may not be realized, and FDI inflows may be discouraged. Therefore, the influence of market size on FDI

inflows can sometimes be ambiguous. Our findings are also different from those of Cleeve (2009) who concluded that the significance of market drivers on FDI inflows is declining, as other variables such as policy variables are becoming more effective in terms of FDI inflows. The results are also different from the findings of Nunnenkamp (2002) who confirmed that the relative effectiveness of FDI drivers has changed due to globalization. Furthermore, as he claimed, the effectiveness of traditional FDI drivers had not diminished because of globalization. The result contrasts with the findings of Cleeve (2009) who concluded that the significance of market size and growth rates has become less important in recent years with regard to FDI location.

H2: Economic drivers affect FDI inflows with regard to Saudi financial services.

Hypothesis H2 predicts that economic drivers play an effective role in terms of FDI inflows with regard to Saudi financial services, when foreign firms choose Saudi Arabia for their operations. The economic drivers have a mean score of 3.998. The "t" test shows that this is significantly ($p<0.05$) more than 3.0 ($t103 = 17.627$, $p=.000$). Hence, economic drivers are perceived to play an effective role in FDI inflows with regard to Saudi financial services. Therefore, hypothesis H2 is confirmed by the results and analysis. The results support the findings of Dunning (2004) who pointed out that FDI inflows will be affected by the host country's economic conditions, and that the economic drivers have an effective role to play in shaping FDI inflows globally. The result is also in line with the findings of Ho & Lau (2007) who concluded that the effectiveness of economic drivers in the host countries will be greater when investors plan to expand their market share in the host country in which their investment is located. Otherwise, when the target markets are outside the host country where the investment is located, the economic environment of the host country will have a minimal influence and low priority in terms of FDI inflows. The results also confirm the findings of Abdel-Rahman (2002) who indicated that economic

drivers affect the FDI inflows in Saudi Arabia. However, the result are in contrast with the findings of UNCTAD (1998) who suggested that economic drivers will have a negative impact on FDI inflows, and the host countries that have economic drivers will attract foreign investors if other location drivers accommodate their needs. Therefore, economic drivers are necessary but not sufficient drivers for attracting FDI, and must be accompanied with other FDI drivers to play an essential role in terms of FDI inflows.

H3: Infrastructure drivers affect FDI inflows with regard to Saudi financial services.

Hypothesis H predicts that infrastructure drivers are effective drivers for FDI inflows in terms of Saudi financial services when foreign firms choose Saudi Arabia for their business. Infrastructure drivers have a mean score of less than 3.0 (2.661). The "t" test found that the mean score is significantly ($p<0.05$) less than 3.0 ($t103 = -4.227$, $p=.000$). Thus, infrastructure drivers are not perceived to be effective drivers in terms of FDI inflows with regard to Saudi financial services. Therefore, hypotheses H3 is not supported by the results and the analysis. The results confirm the findings of Ho & Lau (2007) who stressed that the effectiveness of infrastructure drivers in terms of FDI inflows depends on the type of industry under consideration, as each industry has different priorities concerning infrastructure levels. For example, the financial services industry will require a low level of infrastructure in the host country as they don't have products that they have to transport to global markets. Consequently, infrastructure drivers are not effective drivers in terms of this industry. The result is in line with Cheng and Kwan (2000) who concluded that if the products are for export, production costs and the cost and reliability of transport in the host country are more crucial, but if the target market is the host market, infrastructure drivers would be less effective in terms of FDI inflows. However, the results contrast with the results of Jones & Wern (2006) who concluded that infrastructure drivers are a potential attractor concerning FDI inflows, as it improves the distribution of goods

and services and the ability of the company to recruit labour and to communicate with suppliers and purchasers.

H4: Political drivers effect FDI inflows with regard to Saudi financial services.

Hypothesis H4 predicts that political drivers play an effective role in terms of FDI inflows in the Saudi financial services when foreign firms choose Saudi Arabia for their operations. The political drivers have a mean score of 3.774. The "t" test shows that this is significantly ($p<0.05$) more than 3.0 ($t103 = 13.751$, $p=.000$). Hence, political drivers are perceived to play an effective role in FDI inflows in terms of Saudi financial services. Therefore, hypothesis H3 is confirmed by the results and the analysis. The results confirm the studies of researchers such as Basi (1963), Stevens (1969), Weigel (1970), Root & Ahmed (1979), Levis (1979), Schneider & Frey (1985) and Wei (1997) which have mostly focused on FDI in developing countries. These studies have found political drivers to be critical when it comes to FDI inflows. The results are in line with the findings of Ho & Lau (2007) who showed that FDI is sensitive to political drivers when companies choose their location for investment, thus affecting the attractiveness of a host country in terms of FDI. FDI investment in a host country normally involves large obligations in terms of the capital that could be recovered if the investment is launched successfully, and the payback period takes many years. A high level of political risk could negatively extend the payback period, or even make the investment critical, as all the invested capital could easily be lost. However the results are different from the findings of a number of studies (e.g., Green and Cunningham, 1975; Mody and Wheeler, 1992) who concluded that political drivers are not effective for FDI inflows, and that they rank lower than other drivers. The result is in contrast with Agarwal (1994) who found a negative correlation between political drivers and FDI inflows.

5.6 Summary

From the data analyses of the research, it is possible to conclude that economic drivers are critical influences with regard to FDI inflows in the financial industry in Saudi Arabia. Market drivers and political drivers are also important factors in terms of an increase in FDI inflow. More than 90% of the respondents are sure that these three groups of variables are effective drivers for attracting FDI to the Saudi financial industry. Nevertheless, there are some sub-drivers within these groups which the companies are not sure about with regard to the effects on FDI inflow; for example, market competition and market familiarity. There is also one sub-driver within the political driver group, trade agreements, which a significantly high proportions of the respondents thought of as an ineffective driver in terms of FDI inflows. For the infrastructure driver group, respondents are not sure about the effects, and they think that this driver group is the least effective driver when it comes to attracting FDI to the Saudi financial industry. With regard to separate sub-drivers of this group, companies also have negative opinions about their effectiveness. The effectiveness of the quality of transportation and communication networks factors could not be proved through the hypotheses testing. Therefore one can conclude that companies are not sure about the positive impact of these factors on the overall FDI attractiveness. The next chapter will discuss the conclusions, and the implication of the research findings.

Chapter Six

Conclusions and Implications

6.1 Introduction

The focus of this research was to investigate the effectiveness of FDI drivers with regard to FDI inflows in terms of Saudi financial services. This research has discovered that the most effective FDI drivers as they apply to Saudi financial services are market drivers, economic drivers and political drivers. A fascinating result of this research is that infrastructure drivers, which in earlier studies have been found to be effective drivers for FDI inflows, have not been found in this research to be so. The chapter reviews the major empirical results of this research with respect to FDI driver effectiveness in terms of Saudi financial services. The research limitations and future research implications are also discussed in this chapter.

6.2 Research Results

6.2.1 FDI Drivers Effectiveness

In this section, the results of this research are presented briefly, including the FDI drivers' ranking and the effectiveness of each driver. The priority of FDI drivers based on their effectiveness with regard to FDI inflows as they apply to Saudi financial services is presented below, based on the t-test:

Economic drivers

Political drivers

Market drivers

However, the least effective FDI driver in terms of FDI inflows as it applies to Saudi financial services is:

Infrastructure drivers

The most effective FDI drivers identified in terms of their relative effectiveness are as listed below in decreasing order of effectiveness based on the t-test:

Market size

Political stability

Government policy towards FDI

Economic growth

Banking and financial system

Market growth

Strong currency

Tax regime

In contrast, the least effective FDI drivers compared to other FDI drivers are listed below in order of their effectiveness:

Regulatory framework

Market familiarity

Market competition

Quality of transportation (ports, roads, airports, etc.)

Industrial clustering

Communication network

Trade agreements

Staff skills

Market, economic and political drivers all received a mean greater than 3.0, and the t-test showed that they are significantly above 3.0 concerning other major FDI drivers. This indicates that they are considered to be effective drivers for FDI inflows to Saudi financial services. However, the infrastructure drivers are significantly below 3.0. This indicates that they are considered ineffective drivers when it comes to FDI inflows with regard to Saudi financial services.

Market size and market growth are considered to be effective FDI drivers in terms of FDI inflows in terms of Saudi financial services, with a mean of more than 3.0. Market competition and market familiarity revealed a mean of less than 3.0, which means they are considered ineffective FDI drivers in terms of FDI inflows with regard to Saudi financial services.

All economic drivers received an average response rate of more than 3.0, which indicates that they are considered effective drivers in this context. These drivers include the banking and financial system, economic growth, the tax regime in the Saudi Arabia and a strong currency.

All of the infrastructure drivers received an average response rate of less than 3.0, which indicates that they are considered ineffective drivers in this context. This driver included quality of transportation as it applies to ports, roads, airport, etc., industrial clustering in Saudi Arabia, staff skills in the host country, and the communications network in Saudi Arabia.

Political drivers, including political stability and government policy towards FDI, are considered effective drivers in terms of FDI inflows into Saudi financial services, in that they received a mean of more than 3.0. However, despite the fact that the regulatory framework driver received an average response rate of more than 3.0, the t-test shows that it is considered to be ineffective driver. Furthermore, trade agreements received an average

response mean of less than 3.0, which means that it is considered to be an ineffective driver.

The results of this study confirm the points made by Cohen (2002) who argued that companies will not pay a great deal of attention to a single driver when choosing a host country, but more to a group of drivers that are related to one host country in particular. As a result of the author study , the most effective FDI drivers in terms of Saudi financial service are: market drivers, economic drivers and political drivers. Moreover, the infrastructure driver has been identified by this study as being ineffective as an FDI driver.

Therefore, based on this study, the FDI policy makers in Saudi Arabia are now able to identify which drivers are the most effective in terms of FDI inflows as they affect Saudi financial service, and which drivers are the least effective. Therefore, the Saudi government can use this information to attract more FDI inflows to that industry, and avoid wasting valuable resources on FDI drivers that are not critical when it comes to attracting FDI inflows.

6.2.2 The Research Questions and Hypothesis Analysis

The research question asks about the effectiveness of FDI drivers on FDI inflows in the Saudi financial services industry including market drivers, economic drivers, infrastructure drivers, and political drivers. To answer the question, the null hypothesis was tested and found that if the mean effectiveness score is above 3, the driver under consideration is considered to be an effective FDI driver in terms of Saudi financial services.

Hypothesis H1 predicts that market drivers play an effective role in terms of FDI inflows into Saudi Arabia when foreign financial services firms choose Saudi Arabia for its operations. The market drivers have a mean score of 3.726. The t-test shows that this is significantly ($p<0.05$) more than 3.0 ($t103 = 12.468$, $p=.000$). Hence, market drivers are

perceived to play an effective role in this context. Therefore, hypothesis H1 is confirmed by the analysis.

Hypothesis H2 predicts that economic drivers play an effective role for FDI inflows into Saudi Arabia when foreign financial services firms choose Saudi Arabia for their operations. The economic drivers have a mean score of 3.998. The t-test shows that this is significantly ($p<0.05$) more than 3.0 ($t103 = 17.627$, $p=.000$). Hence, economic drivers are perceived to foster FDI inflows into Saudi financial services.

Hypothesis H3 predicts that infrastructure drivers are effective drivers for FDI inflows in terms of Saudi financial services when foreign firms choose Saudi Arabia for their business. Infrastructure drivers have a mean score of less than 3.0 (2.661). The t-test found that the mean score is significantly ($p<0.05$) less than 3.0 ($t103 = -4.227$, $p=.000$). Thus, infrastructure drivers are not perceived to be effective drivers with regard to FDI inflows in terms of the Saudi financial services. Therefore, hypothesis H3 is not supported by the results and the analysis.

Hypothesis H4 predicts that political drivers play an effective role for FDI inflows in terms of Saudi financial services when foreign firms choose Saudi Arabia for their operations. The political drivers have a mean score of 3.774. The t-test shows that this is significantly ($p<0.05$) more than 3.0 ($t103 = 13.751$, $p=.000$). Hence, political drivers are perceived to play an effective role in terms of FDI inflows with regard to Saudi financial services. Therefore, hypothesis H4 is confirmed by the result and analysis.

This research identified the effectiveness of FDI drivers in terms of FDI inflows as they impact on Saudi financial services. The results of this research conclude that market drivers, economic drivers and political drivers play an effective role in FDI inflows this context. However, infrastructure drivers are considered to be ineffective.

6.3 Research Limitations

The study is limited in several ways: For instance, the Saudi government has very recently embarked on investment reforms in different sectors of the economy in order to attract significant FDI inflows into the country. Thus, this research should have looked at other sectors of the economy instead of concentrating only on FDI flows to the Saudi financial services context. Second, this study was based on a specific period and only gives a critical perspective of FDI inflows as they affect Saudi financial services. Therefore, future investigations should focus on FDI drivers in Saudi Arabia generally, should take into consideration the changing environment, and examine those FDI drivers that best fit the situation at the time. Third, the study is limited to FDI in Saudi Arabia. However, because this study in quantitative in nature it can be generalized to countries with similar characteristics. Finally, the research has a limited sector focus as the population of this research is only from the financial services industry. Therefore, the findings of this research can only be used to explain the FDI driver's effectiveness on FDI inflows as they affect Saudi financial services, and may not be representative of other sectors in Saudi Arabia, as well as similar sectors in other countries.

6.4 Research Recommendations

The importance of location in the case of a prospective host country is a crucial decision for multinational companies when it comes to selecting an appropriate environment for their operations. On the other hand, a host nation might struggle to attract FDI because of the difficulty of recognizing the FDI drivers that shape FDI inflows. A primary economic focus of Saudi Arabia is to intensify and increase the inflow of FDI in order to ensure sustained economic growth. The Saudi government has a strategic goal of shifting from the current reliability on crude oil export revenue, by strengthening other existing industries

such as the financial services sector, as well as creating new industries that can boost the economy, create jobs, and lead to the transfer of know-how and sophisticated management practices. In recent years the diversification of Saudi industry has become a crucial part of Saudi government economic strategy.

Saudi Arabia now ranks third after Turkey and the UAE as a leading FDI beneficiary in western Asia. The sum of inward FDI into Saudi Arabia amounts to 28% of Saudi GDP in 2013. The financial sector is the second largest industry in terms of attracting FDI, with 17.5% of the total FDI stock in 2013 (UNCTAD, 2014). The objective of this study is to bridge the gap left by previous research, and to identify the effectiveness of FDI drivers in relation to a specific industry (financial services) and a specific country (Saudi Arabia), to know what matters the most in terms of FDI inflow. This was achieved successfully through the use of comprehensive survey data. Previous studies on FDI drivers mostly focused on one or a few drivers, without taking into consideration the host country or the industry concerned. As (Chon) 2007 argues, despite forty years of theoretical development, researchers cannot generalize about the strategic location of a company in terms of global expansion. However, the framework established by this study overcomes this limitation by identifying the FDI drivers for a specific country and a specific industry with the intention of allowing policy makers to adjust policy in order to attract more FDI inflows. The framework established by this research provides a platform that can easily be adapted to other industries in the same country in order to understand the most effective FDI drivers as they affect such industries and allows government policy to be adapted in order to attract more FDI to those industries.

6.5 Future research implications

Given the fact that this study is novel, it opens a new vista with regard to fresh ideas and studies in this area. It thus gives the opportunity for scholars to further extend this work by examining FDI drivers' effectiveness with regard to FDI inflows into the Saudi financial services industry, into other industries and into other countries. Hence, this research opens up several avenues for future research with regard to FDI drivers' effectiveness. These are as follows.

First, it would be interesting to make an a evaluation of the results of this study in terms of other industrial sectors in Saudi Arabia, as well as financial services and other sectors in other countries. Such a contribution would be both useful and significant. Second, research should take into account the need for adapting FDI drivers in order for them appropriate to a specific industry. Finally, it would be useful if future research and analysis of FDI drivers could be done utilising the framework used in this study, but with a much larger sample size, and to apply a more sophisticated statistical analysis to validate the findings of this research.

6.6 Research Contributions

The primary objective of this study was to identify the effectiveness of FDI drivers in relation to a particular industry by creating a conceptual framework that can act as a model with which to examine the effectiveness of FDI drivers in a selected host country and selected industry. Another aim was to influence the FDI policy makers in the Saudi financial sector by identifying what matters the most in the context of Saudi Arabia Financial services. It is safe to say that this study has successfully met these objectives and has been able to bridge the gap and contribute to the existing knowledge in many ways:

- First, the conceptual framework applied to this study has successfully bridge the research gap from the existing literature and act as a model with which to examine the effectiveness of FDI drivers in a selected host country and selected industry. The framework used in this study improves on previous studies on FDI drivers in two important ways.

1) Previous studies had notable benefits about their simplicity, but did not capture the full complexity of the FDI driver's effectiveness in a particular industry. In this study, a much larger range of potential FDI drivers are considered for industry (financial service) and country (Saudi Arabia).
2) On a conceptual level, most studies on the FDI drivers assume the effectiveness of FDI drivers could apply to all countries and industries. In this study, I have identified the effectiveness of FDI drivers and noted that they vary significantly from one industry and country to another, compared to other studies in the literature. This study provides an advanced and strong framework for the measurement of FDI drivers' effectiveness for a specific industry and country that can easily be applied to other locations and industries.

- Second, As far as this research contributes to the existing literature; it provides policy recommendations to the Saudi government, and offers a better understanding of the behaviour of MNEs in a specific country and industry. It is safe to state that this research will be beneficial to developing economies in general, and particularly to Saudi Arabia. It will illuminate their understanding of which FDI drivers matter the most in terms of FDI inflows. This study will create a model to examine the effectiveness of FDI drivers as they relate to Saudi financial services. It is hoped that it will be the starting point for subsequent studies and will offer some valuable understandings, policy

implications, and recommendations for the Saudi Arabian government, global firms, and the international business community.

- Third. This research builds on the existing literature and makes these contributions to a better understanding of FDI drivers as they affect Saudi financial services. It advances a new methodology that provides an in-depth analysis and a clear approach to overcoming the general classifications of Dunning's OLI paradigm. This research also overcomes general approaches used in the literature when analysing the FDI drivers' effectiveness on FDI inflows without paying attention to the different needs of different industries and different country.

It is safe to state that this study has helps to develop and improve our understanding of why Saudi Arabian financial services attracts FDI and what drivers are effective in the industry. The findings of this study are critical, not only as far as policy makers in Saudi Arabia are concerned, but also to policy makers in other counties wishing to attract FDI to their financial services industry.

6.7 Summary

The prospect of determining the effectiveness of FDI drivers with regard to FDI inflows to the Saudi financial services sector has been the focus of the study. Essentially, this study shows the ranking and effectiveness of each FDI driver. Moreover, by analysing the research question and the hypotheses, this research has identified the effectiveness of such FDI drivers. The results of this research conclude that market drivers, economic drivers and political drivers play an effective role with regard to FDI inflows to the Saudi financial services sector. However, infrastructure drivers are considered to be ineffective drivers in this same context. In addition, focusing in one sector of the economy (financial services) is

one limitation of this study, in addition to its time horizon and geographic limitations. This will guide us when it comes to recommending future work in this area.

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Appendices

Survey

Foreign Direct Investment (FDI) Drivers in the Saudi's Financial Service

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Dear Sirs/Madam,

I am a PhD student at Brunel University, Business School, U.K., currently writing my thesis in Management with the title (**Foreign Direct Investment Drivers in the Saudi's Financial Services**) with SAGIA (Saudi General Investment Authority) partnership. The purpose of this study is to identify the effectiveness of FDI drivers in relation to financial service industry in Saudi Arabia. I would be thankful if you give me your valuable time and answer a number of questions in this survey. Given the amount of foreign companies present in Saudi Arabia and the essential of your view, your participation is of great valuable to me. I insured you that your name and your frim information are unidentified in the survey for your confidentiality.

I am grateful for your participation.

Kind regards,

Rima Binsaeed

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Brunel UNIVERSITY WEST LONDON

Saudi Arabian General Investment Authority
SAGIA

Please mark the appropriate answers in the boxes below. Please choose only one answer for each question.

Please rate the following FDI drivers based on its effectiveness on choosing Saudi Arabia for your operation:

With 1 = Very Ineffective, 2 = Ineffective, 3= Neutral, 4 = Effective, 5= Very Effective

FDI Drivers	Very Ineffective	Ineffective	Neutral	Effective	Very Effective
1. Market Size					
2. Market Growth					
3. Market Competition					
4. Market Familiarity					
5. Banking and Financial System					
6. Economic Growth					
7. Tax Regime					
8. Strong Currency					
9. Transportation Level (Ports, Roads, Airports, etc.)					
10. Industrial Clustering					
11. Staff Skills					
12. Communication Network					
13. Political Stability					
14. Government Policy Towards FDI					
15. Regulatory Framework					
16. Trade Agreements					

Thank you for your time and support and hope you and your firm a successful investment future in Saudi Arabia!

Saudi General Investment Authority (SAGIA) Letter

Saudi Arabian General Investment Authority
SAGIA

Ref. No.:
Date: / /
Attachments:
7000 87 38 07

To Whom It May Concern,

Dear Madam/ Sir,

The Saudi Arabian General Investment Authority (SAGIA) is the authority that oversees investment affairs in the kingdom, including foreign investment.

Mrs. Rima Binsaeed approached us to support her towards the completion of her Doctor of Philosophy degree. Her research title is "Foreign Direct Investment Drivers in the Saudi Financial Services". This research is close to SAGIA's operations and related to FDI drivers in Saudi Arabia. We have carefully examined her research proposal and found it very interesting and promising to SAGIA's strategy.

We do hereby reaffirm that we will provide her with all types of support from SAGIA including primary sources of data that is derived from direct SAGIA research and other national and international secondary sources.

Kind Regards,

Khaldon Mahasen
Jun 2014

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