

EVALUATION OF ECONOMIC LIBERALIZATION POLICIES IN INCREASING FOREIGN DIRECT INVESTMENT IN SAUDI ARABIA (Case: Tourism Sector)

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ABSTRACT

This study evaluates the economic liberalization policies implemented by Saudi Arabia in an effort to increase foreign direct investment (FDI) in the tourism sector, a sector that is a key focus in Vision 2030. Saudi Arabia, which has been dependent on the oil industry, has launched various reforms to diversify its economy and reduce its dependence on oil revenues. Through liberalization policies, including easing regulations, simplifying licensing, and providing incentives for foreign investors, the government seeks to attract more FDI to support the development of the tourism sector. This study analyzes the effectiveness of these policies using a case study approach and qualitative methods. The results of the analysis show that these policies have succeeded in attracting foreign investors, although there are still significant challenges, such as the perception of political and economic risks, as well as the need to improve infrastructure and the readiness of the local workforce. The findings of this study provide important insights for policymakers in developing further strategies to strengthen investment attractiveness in the tourism sector and ensure the success of sustainable economic diversification.

Keywords: Economic, Investment, Liberalization, Tourism

INTRODUCTION

Saudi Arabia's efforts to transform the economy through liberalization policies aimed at increasing foreign direct investment (FDI), especially in the tourism sector. Since the launch of Vision 2030, Saudi Arabia has made great efforts to diversify its economy, which has been heavily dependent on the oil and gas industry. However, these natural resources are limited and can be exhausted at any time. Coupled with the fact that the availability and income of Saudi Arabia's petroleum will no longer be enough to cover the needs of the growing population. Since May 2014, oil prices have continued to decline from US\$ 111.05 per barrel to US\$ 108.17 per barrel or decreased by US\$ 2.88 per barrel (Ministry of Energy and Mineral Resources of the Republic of Indonesia, 2014). This is what then prompted Saudi Arabia to launch Vision 2030. The main goal of this vision is none other than to end Saudi Arabia's dependence on oil and gas to support its economy (Hikmah, 2019).

The Saudi government realizes that the tourism sector has great potential to become an alternative source of income and strengthen the country's economy. To support the development of this sector, economic liberalization policies, such as easing regulations, providing incentives for foreign investors, and opening various new tourist destinations, have been implemented. However, despite various efforts, there are still challenges in attracting significant foreign investment. Therefore, this study was conducted to evaluate the extent to which the economic liberalization policies implemented by the Saudi Arabia government are effective in increasing FDI in the tourism sector, as well as to identify factors that support or hinder the success of these policies.

Economic liberalization is the process of opening a country's market to international trade and foreign investment. This policy involves the reduction or elimination of various barriers such as customs tariffs, import quotas, and regulations that restrict foreign business activities. The main goal of economic liberalization is to improve economic efficiency, encourage economic growth, and integrate a country's economy into the global economy.

The impact of economic liberalization on FDI is significant. When a country opens its market, it creates a more attractive business environment for foreign investors. With the reduction of barriers, foreign investors can more easily enter the domestic market, establish businesses, and conduct business activities.

Vision 2030 is designed as a blueprint to reduce such dependence by encouraging the growth of other sectors, including tourism, which have great potential to become one of the country's main sources of revenue. Economic liberalization policies, which include easing regulations and creating a more attractive investment climate, are a strategic move to attract foreign direct investment into the tourism sector. With the growing global interest in cultural and religious tourism in Saudi Arabia, as well as major initiatives such as the development of the futuristic city of NEOM and other tourism projects, this policy evaluation has become particularly relevant to understand the effectiveness of the measures that have been taken and determine the necessary strategies going forward. This research can provide important insights for policymakers to ensure that economic diversification efforts can be carried out successfully, supporting inclusive and sustainable growth in line with the country's long-term vision.

The Kingdom of Saudi Arabia describes the features of effective governance, transparency and accountability, fostering a culture of performance, empowering human resources and energy, preparing the necessary environment for its citizens, and making the business and non-profit sectors responsible in facing challenges and seizing various opportunities (Adriansah, 2021).

Economic cooperation between Indonesia and Saudi Arabia is actually still quite minimal. However, in Vision 2030 in the Foreign Direct Investment (FDI) agenda, Saudi Arabia has made Indonesia one of its investment destination countries. Even King Salman said that Indonesia is one of the important partners in realizing Saudi Arabia's Vision 2030. The long-standing diplomatic relations between Saudi Arabia and Indonesia are of course inseparable from the fact that Indonesia is the country with the largest Muslim majority population in the world even though officially Indonesia is not an Islamic country (Sianturi, 2017).

LITERATURE REVIEW

The Concept of Economic Liberalization

Economic liberalization is an economic reform process that aims to create a freer and more open economic system. In this context, "free" means reducing government intervention in economic activities, while "open" means increasing a country's economic interaction with other countries. In other words, economic liberalization is an effort to reduce obstacles that hinder economic activity, both domestically and at the international level.

a. The main objectives of economic liberalization

1) Improve economic efficiency

By reducing government intervention, it is hoped that business competition will be healthier and encourage companies to become more efficient.

2) Driving economic growth

Liberalization is expected to attract foreign investment, create jobs, and increase productivity.

3) Reducing poverty

The economic growth resulting from liberalization is expected to reduce poverty levels.

4) Increase competitiveness

By opening the domestic market to global competition, domestic companies are expected to become more competitive.

b. Challenges and risks of Economic Liberalization

1) Increase in unemployment rate

The adjustment process to liberalization can lead to layoffs in several sectors.

2) Increasing inequality

Liberalization can widen the gap between rich and poor.

3) Vulnerability to global economic crises

Over-reliance on global markets can make a country vulnerable to international economic shocks.

Foreign Direct Investment

According to Krugman (1991), what is meant by Foreign Direct Investment (FDI) is an international capital flow where a company from one country establishes or expands its company in another country. Therefore, not only does there be a transfer of resources, but there is also the imposition of control on companies abroad. Todaro (2000) argues that Foreign Direct Investment is investment funds that are directly used to carry out business activities or set up production tools or facilities such as buying land, opening factories, bringing in machinery, buying raw materials, etc. Meanwhile, according to the Law of the Republic of Indonesia Number 1 of 1967, the definition of investment only includes direct foreign investment which is carried out based on the law and the owner of the capital directly bears the risk. The definition of PMA in Law number 1 of 1967 is as follows:

- a. ACT. PMA provides the possibility for companies to run with full foreign capital.
- b. The decision-making power is exercised by foreign parties with the approval of the Indonesia government and does not violate existing regulations.
- c. It is a combination of Indonesia and foreign capital owners.
- d. It is a form of cooperation between national companies and foreigners.

Article 2 of the Foreign Investment Law provides details of the foreign capital in the form of:

- a. A foreign means of payment that is not part of the wealth of the state of Indonesia, with the approval of the government which is used to finance companies in Indonesia.
- b. Equipment for expansion, including new inventions belonging to foreigners and materials imported from abroad into Indonesia.

Company profits are used to finance the company

Foreign direct investment can also be said to be the reinvestment of the company's income and the provision of short- and long-term loans between the parent company and its subsidiaries or affiliates. Usually, FDI is related to the investment of productive assets, for example the purchase or construction of a factory, the purchase of land, equipment or buildings, or the construction of new equipment or buildings carried out by foreign companies.

Foreign Direct Investment

The development of technology is very rapid, nowadays where all activities can be done remotely. With technology, it can benefit all sectors, especially in the tourism sector. Tourism is a form of the tourism industry that has recently become the destination of most people. Tourism provides the enjoyment of everything that can be felt, such as the beauty of everything made by nature or humans (Enden, 2021). Tourism can also be used as a catalyst for sustainable development (permanent and non-permanent). Meanwhile, according to the Ecotourism society in (Enden, 2021), Tourism is an activity of traveling to natural areas that is carried out with the aim of conserving the environment and preserving the lives and welfare of local residents.

In (Nugroho, 2018) according to the Tourism Pendit can also be called the activity of a person traveling for a short period of time, leaving all his activities, work by visiting tourist attractions with different purposes. In addition, in (Pradini, The Influence of Tourism Destination Parts, Service Quality on Destination Loyalty through Tourism Satisfaction in Rangunan Wildlife Park, 2017) it is stated that tourism is an activity or activity outside the

environment with different goals. In this era, tourism is very developed following the era where all the things needed for activities carried out by tourists can be accessed and searched indirectly or online.

Economic Liberalization and FDI in the Tourism Sector

Economic liberalization is a policy that aims to open a country's market to foreign investment and international trade. This policy involves the reduction or elimination of various barriers, such as customs tariffs, import quotas, and regulations that restrict foreign business activities. Economic liberalization in the tourism sector can encourage FDI inflows by creating a more conducive business environment for foreign investors.

The relationship between economic liberalization, FDI, and the tourism sector can be explained as follows:

- a. Economic liberalization creates a more attractive investment climate for foreign investors in the tourism sector, thereby encouraging the entry of FDI.
- b. FDI in the tourism sector can bring the capital, technology, and management expertise needed to develop the tourism industry in the investment destination country.
- c. The development of the tourism sector driven by FDI can increase state revenue, create jobs, and improve people's welfare.

METHODS

In this study, the author will use policy as a unit of analysis, in this case the implementation of the Economic Liberalization Policy in Increasing Foreign Direct Investment in Saudi Arabia which the author will use as a unit of analysis. In this study, the author uses qualitative data, because the data that the author will collect are data expressed in the form of words and images obtained from documents, observations and transcripts. In the qualitative research method, there are several data collection techniques, such as interviews, observations, document studies, and focused group discussions.

The data analysis technique used by the author is a qualitative analysis technique, which is a data analysis that is carried out by describing the data that has been obtained and then drawing a final conclusion after the author has finished collecting and processing data. Triangulation techniques can be carried out using different methods such as interviews, observations and documentation that will be useful in investigating the validity of the researcher's interpretation of the data. Therefore, to check the validity of the data that the author has obtained, the author compares using triangulation of data sources.

RESULTS AND DISCUSSION

Overview of Saudi Arabia's Tourism Sector

Saudi Arabia is the second biggest tourist destination in the Middle East with over 16 million visiting in 2017 (UNWTO, 2018). Although most tourism in Saudi Arabia still largely involves religious pilgrimages, there is growth in the leisure tourism sector. As the tourism sector has been largely boosted lately, the sector is expected to a significant industry for Saudi Arabia, reducing its dependence on oil revenues. This is proved as tourism sector is expected to generate \$25 billion in 2019 (Bridge, Sam, 2019). Potential tourist areas include the Hijaz and Sarawat Mountains, Red Sea diving and a number of ancient ruins.

According to the World Travel and Tourism Council (WTTC), in 2018, Travel and tourism in Saudi Arabia added 9% to the Kingdom's total economy which is worth \$65.2 billion.

In December 2013, Saudi Arabia announced its intention to begin issuing tourist visas for the first time in its history. Council of Ministers entrusted the Ministry of Tourism with visa issuing on the basis of certain regulations approved by the Ministries of Interior and Foreign Affairs (Tourist visas to be introduced, 2015). On 27 September 2019, Saudi Arabia formally announced the issuance of the tourist visa to visitors from 49 countries for a fee of \$80. The visa can be either obtained online (eVisa) or on arrival (Saudi Arabia to offer tourist visas for the first time, 2019). Ten days after the implementation of instant tourist visas, 24,000

foreign visitors entered Saudi Arabia. China visitors topped the list, with the UK and the US in second and third (24,000 visitors to Saudi Arabia within 10 days of new tourist visa system, 2019). Popular places to visit in Saudi Arabia are Makkah, Medina, Mada'in Salih, Yanbu, Tabuk, Jeddah and Riyadh.

Arriving in Saudi Arabia can be through 13 international airports served by various global airlines. There are also 15 domestic airports connecting the country regions and cities. For moving within the country, there are budget airlines like Flynas, Fyadeal, Nesma Airlines, in addition to Saudi Airlines and SaudiGulf Airlines.

Analysis of Liberalization Policy

An analysis of liberalization policies in Saudi Arabia that can increase foreign direct investment in the tourism sector covers various important aspects that have been implemented by the government. This policy involves major reforms in business regulations, such as easing foreign ownership requirements, simplifying licensing procedures, and providing attractive fiscal incentives for foreign investors. In addition, the government has also made efforts to improve supporting infrastructure, such as the construction of airports, hotels, and world-class tourist facilities, in order to make the tourism sector more competitive in the global market. This liberalization policy aims to create a more open and transparent business environment, which is expected to attract more foreign investment and accelerate non-oil and gas economic growth.

This analysis must also consider the challenges faced, such as adaptation to regulatory changes, investor perception of political and economic stability, and the readiness of local workers to support the development of the tourism industry. By evaluating the extent to which these policies have been successful and identifying areas that need improvement, this analysis can provide a comprehensive picture of the effectiveness of economic liberalization in Saudi Arabia in achieving its long-term goals.

Saudi Arabia Tourism Policy Strategy

In the last five years, the condition of the Saudi economy can be said to be unstable, especially at the end of 2019 until the beginning of 2020, where that year was a phase of declining Saudi income in the economic sector caused by the pandemic from Covid-19 (Sutrisno, 2021). In the Saudi economic sector, oil export activities are the main support for state revenue, but in minimizing this dependence, the best Saudi alternative in helping the economy and state revenue is in the tourism sector. In this case, Saudi economic activities in both the oil and tourism sectors require a strategy in building and increasing state revenue during the downturn phase such as during the Covid-19 pandemic, thus this is evidenced by the drastic decrease in the number of tourists in Saudi Arabia due to lockdowns in almost most countries in general (Kassem, 2021).

In 2020 Saudi Arabia's tourism revenue was recorded to decline to 5 million USD, this decline is also a bad record for Saudi Arabia compared to the decline in the previous six years in 2014 (DATA, 2020). However, it can be seen that the increase in Saudi tourism revenue in previous years was very fast, the Saudi tourism sector is fairly easy and fast in increasing state revenue. The decline from 2019 to 2020 was caused by the Covid19 pandemic in which most governments around the world issued policies related to restricting people from going abroad and traveling (Lockdown) which aimed to reduce social interaction in anticipation of transmission related to the pandemic (Kassem, 2021), approximately a year after the pandemic the Saudi government took measures to normalize the recovery tourism through strategies in the Saudi Vision 2030 (Wolff, 2020). These strategies include the government's program in granting visas for foreign tourists, the opening of cinemas, the construction of the largest amusement park in Saudi Arabia (The Mukaab) and the latest policy on allowing staycations for unmarried tourists (of the opposite sex) (Haryanti, 2019). The issuance of these policies such as sustainable development and visa policies can be considered that these policies can be categorized as a public diplomacy

strategy for relationship building because they are considered to be long-term policies (Leonard, 2002).

Visa-related policies are also part of Saudi strategy in the tourism sector, it is said that because visas are part of instruments related to foreign tourists classified in the tourism sector (Aulaqi, 2014). This visa policy is a policy and rules issued for foreign tourists where with a period of sixty days or about a period of approximately two months for the visa use period, this policy makes foreign tourists to be able to stay longer in Saudi which of course is more free and satisfied in visiting places and traveling in Saudi Arabia, especially in carrying out the Hajj and Umrah pilgrimage (Riza Aksamilani Soumena Firm, In this case, these things such as the development of the potential of tourist attractions in Saudi Arabia and the policies that take care of visas are part of Saudi Arabia's tourism policy strategy which is classified as a relationship building strategy because it is long-term (Leonard, 2002).

CONCLUSION

The conclusion of this study shows that the economic liberalization policy implemented by Saudi Arabia has had a positive impact in increasing foreign direct investment in the tourism sector, although the results have not been fully optimal. This policy has succeeded in creating a more attractive business environment for foreign investors through regulatory reforms and various incentives, which in turn contributes to the growth of the tourism sector as part of the economic diversification strategy in Vision 2030. However, the success of these policies is also faced with various challenges, including the perception of political risks, the need for better infrastructure development, and increasing the capacity of the local workforce. Therefore, continuous efforts are needed to improve existing weaknesses and ensure that these policies can continue to encourage investment growth and tourism sector development, thus supporting the long-term goal of diversifying Saudi Arabia's economy.

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