

The Impact of Sustainable Trade Practices on Economic Transformation in Saudi Arabia: Lessons for Developing Economies

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Abstract: The trade practices in Saudi Arabia include farming, date exports, and trade generated by pilgrims. There was less economic growth. However, the oil exports and earnings from the oil sector generated funds for economic development, which helped international trade to flourish in the Kingdom of Saudi Arabia (KSA). The present study sheds light on the economic transformation of the KSA due to its sustainable trade practices. A qualitative methodology approach of the resource-based view was carried out in the international context. The present study discussed KSA's initiatives to boost international business, including the Future Investment Initiative and the creation of small and medium-sized enterprises (SMEs). The study will evaluate the international business practices and economic transformation in KSA. This study will present the Saudi business environment and the government's contribution to the country's economic transformation.

Keywords: Economic Transformation, International Business Practices, Saudi Arabian government, World Trade Organization.

1 INTRODUCTION

Saudi Arabia has experienced significant economic transformation in recent years, driven by strategic shifts in its trade practices. From 238 new international firms established in 2018 to 305 in the fourth quarter of 2019, the country has seen a rapid expansion in construction, manufacturing, and information and communication technology (ICT) sectors [1]. These industries have been integral to the Kingdom's infrastructure development, resulting in increased demand for international partnerships and investments.

The Saudi Arabian General Investment Authority (SAGIA) has played a vital role in attracting foreign investors. In 2019, SAGIA signed 150 investor agreements spanning various sectors, from value-added manufacturing to tourism. This surge in international business activities reflects the Kingdom's overall economic growth, which saw a 54% increase in new companies founded in 2019 compared to 2018. Key markets such as the UK and US also showed a notable increase, with 82 new firms launching in 2019 alone, up from 24 the previous year [1].

Building on this momentum, the current study analyzes the trade practices that have driven this economic transformation. By examining Saudi Arabia's key sectors and export partners, the study aims to highlight these practices' critical role in supporting the Kingdom's ongoing economic growth and integration into the global market. The objectives of the current study are:

1. To examine the demographic characteristics, government structure, and international trade statistics of Saudi Arabia.
2. To identify the export partners, Major Export and Import Countries, Major Export and Import Goods, and trade practices of Saudi Arabia that played a significant role in the Saudi Economy.
3. To find out what impact trade practices created on economic growth in Saudi Arabia

2 LITERATURE REVIEW

Most nations prioritize economic development as their primary objective [2]-[4]. Economic development is crucial for boosting employment, luring domestic and foreign businesses to trade and invest in a particular nation, and enhancing inhabitants' quality of life [3]-[4]. The employment rate and other important economic indicators are significantly influenced by economic development through improved healthcare and education systems, including government agencies [5]. According to research by Frankel and Romer, international trade practices positively impacted the nation's economic transition [6].

Ghirmay et al. examined how exports affected economic growth [7]. Mamun and Nath examined the connection between Bangladesh's exports and economic expansion [8]. Felbermay examined the relationship between commercial practices and economic expansion [9]. Narayan et al. investigated the connection between them [10]. Rahman investigated the effects of the ARDL cointegration method on developing countries between 1976 and 2006 [11]. He concludes that exports may have a short-term beneficial influence on economic production in Bangladesh and India. Jenkins and Katircioglu discovered that Cyprus's economic expansion, financial development, and international trade cointegrated [12]. A study by Fetahi and Vehapi et al. in ten Southeast European countries found that economic growth is initially influenced by per capita income [13]. Trade openness boosts economic growth for nations with high foreign and domestic investment and income levels.

Baharumshah and Rashid reported that Malaysia's exports, imports, and Gross Domestic Product (GDP) variables were cointegrated [14]. According to their findings, imports are one of Malaysia's key economic development sources. In a recent study, Shahbaz et al. examined the relationship between China's trade openness, energy consumption, and financial development [15]. During his research, he found that trade opening and economic expansion have a positive bidirectional causality. In a study, Rani et al. observed that trade openness has a positive, bidirectional causal relationship [16].

Ridzuan et al. demonstrated that more trade openness boosts Singapore's economic growth [17]. Fayyaz et al. have examined how international commerce affects Middle East and North Africa (MENA) nations' economic growth for the ASEAN-5 countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand), especially for Gulf Cooperation Council (GCC) nations [18]. In his analysis, between 1990 and 2008, he examined how economic growth influenced international trade in Jordan and how international trade practices contributed to positive spillover effects on economic growth. He found that trade openness affects economic growth, and the variables are cointegrated. According to his findings, the group of countries under study saw favorable spillover effects from international trade policies, trade openness favoring economic growth, and the Johansen cointegration approach to make their discovery. Additionally, they found that trading practices helped Oman's economy expand. According to Omri et al., trade practices and economic growth are related in both directions in 12 MENA nations.

As Alhowaish discovered, exports have both a positive and a negative impact on economic output [19]. Using the same techniques and variables as Altaee et al. employed [20], Rehman et al. demonstrated a unidirectional causal relationship linking Saudi Arabia's economic growth with trade openness [21]. Toward a sustainable future, Trade openness appeared to be correlated with economic growth and environmental quality, two indices of sustainable development.

Based on the above review of related studies, most studies that used cross-sectional data found an association between trade practices and economic growth. Accordingly, the current study aims to identify successful international business practices that led to economic transformation in KSA.

3 METHODOLOGY

A qualitative methodology approach of the resource-based view (RBV) was carried out in the international context. The KSA has undergone substantial economic transformation over the past few decades, largely due to its strategic implementation of sustainable trade practices. One of the primary drivers behind this shift has been the diversification of the country's economy, which historically relied heavily on the oil sector. As part of Vision 2030, Saudi Arabia has shifted its focus toward non-oil sectors, fostering growth in tourism, entertainment, and renewable energy. The country's proactive involvement in international trade organizations, such as the World Trade Organization (WTO) and the Gulf Cooperation Council (GCC), has allowed it to broaden its trade horizons, building solid partnerships with major global economies (Table 1).

Table 1. Government Structure [22]

S. No.	Type of Government	Details
1.	Government type	Monarchy
2.	Legal system/judicial system	The Islamic legal system (Sharia') incorporates socio-cultural elements.
3.	Administrative divisions	Each province has a governor and deputy governor, and there are 13 provinces in the country. Thirteen provinces (mintaqat, singular - mintaqah): Al 'Asir, Ha'il, Jazan, Makkah (Mecca), Najran, Tabuk.
4.	Councils' and international organizations' membership	United Nations (UN) World Trade Organization (WTO) Organization of Petroleum Exporting Countries (OPEC) Gulf Cooperation Council (GCC) Arab League (AL) Organization of Islamic Cooperation (OIC)

Introducing free-trade zones and promoting SMEs have also played a pivotal role in driving Saudi Arabia's economic growth. These initiatives encourage entrepreneurship and innovation, essential to developing a more robust and diversified economic landscape. Furthermore, the Saudi government's concerted efforts to enhance the ease of doing business by implementing policies that streamline procedures for foreign investors have significantly improved the investment climate. This is evident from the rise in foreign direct investment (FDI) flows into the country, signaling the growing confidence of international investors in Saudi Arabia's economic prospects (Table 2).

Table 2. Saudi Arabia’s top export partners [23]

S. No.	Country	Percentage of total exports
1.	China	13.03%
2.	Japan	13.01%
3.	US	12.09%
4.	South Korea	10.01%
5.	India	8.09%
6.	Singapore	4.01%

Moreover, the role of the SAGIA cannot be overstated. Through high-profile campaigns and global outreach, SAGIA has successfully raised awareness about the diverse investment opportunities in Saudi Arabia. As a result, numerous multinational companies have established a presence in the country, contributing to the expansion of critical industries such as construction, ICT, and manufacturing. These developments have not only accelerated economic growth but also created a significant number of jobs for Saudi nationals (Table 3).

Table 3. Demographic Characteristics of Saudi Arabia [24]

S. No.	Demographic Characteristics	Figure
1.	Population (million)	35.46
2.	GDP (billion USD)	792.97
3.	GDP per capita (USD)	23,139
4.	GDP per capita PPP (USD)	49,040
5.	Purchasing Power per dollar (compared to the US)	215%
6.	% of the population living in urban areas	76.61%
7.	% of GDP added by agriculture– industry–services	17.76%–27.48%–55.17%
8.	Inflation Rate	2.6%
9.	Labor force (2019)	14.38 million
10.	Key industries	The production of crude oil, the process of refining petroleum, basic petrochemicals, sodium hydroxide, rebuilding of commercial ships, providing repairs to commercial aircraft, construction

The diversification and expansion of international trade practices have also positively impacted the Saudi economy. Saudi Arabia has positioned itself as a central player in the global trade ecosystem by opening up its markets to international investors and fostering global partnerships. The country's export portfolio, which includes oil and mineral fuels, plastics, and organic chemicals, has expanded to cater to emerging markets in Asia, Europe, and the Americas (Table 4 to Table 6). This diversification in export destinations and goods is a testament to Saudi Arabia's evolving role in global trade and its ambition to maintain a sustainable economic future.

Table 4. Saudi Arabia International Trade Statistics [25]

S. No.	International Trade (2019-2020)	Statistics
1.	Total Exports (2019)	\$251,800,016,999
2.	Total Imports (2019)	\$144,334,467,853
3.	Trade Balance (2019)	\$107,465,549,146
4.	Exports of goods and services (% of GDP) (2020)	26.34%
5.	Imports of goods and services (% of GDP) (2020)	24.26%

Table 5. Major Export and Import Countries [25]

S. No.	Country	Export Value	Country	Import Value
1.	China	\$9,339,877,775	China	\$27,066,620,079
2.	United Arab Emirates	\$4,376,210,124	United States	\$17,097,552,364
3.	India	\$3,773,446,446	United Arab Emirates	\$10,364,169,114
4.	Singapore	\$3,413,547,283	Germany	\$7,003,812,674
5.	Turkey	\$1,993,493,356	Japan	\$6,545,793,104
6.	Belgium	\$1,820,512,545	India	\$6,489,006,999
7.	Egypt	\$1,687,134,902	France	\$5,028,292,001
8.	Kuwait	\$1,623,892,592	Italy	\$4,304,810,656
9.	Malaysia	\$1,361,497,277	South Korea	\$4,027,286,330
10.	Jordan	\$1,355,523,016	United Kingdom	\$3,084,799,511

Table 6. Major Export and Import Good [25]

S. No.	Exporting Goods	Value	Importing Goods	Value
1.	Oil & Mineral Fuels	\$202,377,264,824	Industrial Machinery	\$16,847,687,927
2.	Plastics	\$18,978,155,475	Motor Vehicles & Parts	\$14,968,892,989
3.	Organic Chemicals	\$12,664,392,952	Electrical Machinery	\$14,363,752,295
4.	Inorganic Chemicals	\$2,379,654,428	Itemsnesoi	\$8,641,418,578
5.	Aluminum	\$2,126,405,619	Ships & Boats	\$5,492,359,639
6.	Fertilizers	\$1,132,164,289	Pharmaceuticals	\$5,308,533,563
7.	Dairy Products	\$1,113,480,408	Iron & Steel	\$4,165,390,164
8.	Electrical Machinery	\$724,517,731	Oil & Mineral Fuels	\$3,890,963,153
9.	Precious Stones& Metals	\$705,653,111	Iron & Steel Articles	\$3,795,639,802
10.	Iron & Steel	\$699,042,628	Precision Instruments	\$3,765,253,562

4 TRADE PRACTICES ADOPTED BY SAUDI ARABIA

- Role Played by the Saudi Arabian Government:** The government monitors and controls all business activities in Saudi Arabia. They are focusing on the diversification of the country's economic growth. Government departments have recently been transformed by the introduction of online services and increased automation, reducing bureaucracy at all levels. A central component of development plans is the construction of "economic cities. The government has launched several projects to establish new cities throughout the country. In addition to being hubs for petrochemical, mining, and logistics industries, these cities will also be hubs for knowledge-based economies. Furthermore, the Saudi government is trying to improve the business climate and make it easier for small and medium-sized companies to access finance.
- Role Played by SAGIA:** To raise awareness of Saudi Arabia's diverse and valuable investment opportunities, SAGIA launched high-profile campaigns at key global events.
- International Trade Practices adopted in Saudi Arabia:** The Saudi Arabian market is gradually opening to international investors, technology companies, and human resources. KSA Organized many international trade shows. In 2019, Saudi Arabia established 69% of new international companies with full foreign ownership and 31% with joint ventures with local investors.

5 CONCLUSIONS

Saudi Arabia's economy depends on the international oil and petroleum industry. There is an abundance and self-sufficiency of petroleum within the borders of Saudi Arabia, the world's top petroleum exporter, making it the largest petroleum exporter in the world. The results show that concurring with the RBV, many international trade practices in Saudi Arabia have influenced the country's development of a strong economy. Especially the significant contribution of the private sector's gross domestic product (GDP). Government. Incentive schemes encouraged trade and commerce in the country. Participation of KSA in the WTO provided greater access to Saudi products in global markets, creating job opportunities and encouraging foreign investment. The formation of free-trade zones in KSA and neighboring countries boosted commercial activity. To accelerate the integration of the economy into the global economy, the Saudi Vision 2030 development plan was developed. This reform process has had a global impact: Saudi Arabia was ranked number one among world improvers and reformers by the World Bank in its Doing Business 2020 report, rising 30 places. There was a 54% increase in new companies in Saudi Arabia in 2020, despite the pandemic. In a recent UN Conference on Trade and Development report, Saudi Arabia had a positive performance regarding FDIs. As a result of regulatory changes, it also contributed to the decline.

A recent study showed that FDI flows were up 7% between 2018 and 2019, amounting to \$4.6 billion. Moreover, the Kingdom's ranking in the 2020 Doing Business Report increased by 30 places from the previous year. The Kingdom also increased by 30 places from the year before in the World Bank's 2020 Doing Business Report. Of all 190 economies, it ranked 62nd and made the most progress. A comparative study of internal trade practices among developing and developed economies could be conducted. To transform the country's economy, a conceptual model could be developed that suggests the most effective trade practices.

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ETHICS STATEMENT

This study did not involve human or animal subjects and, therefore, did not require ethical approval.

STATEMENT OF CONFLICT OF INTERESTS

The authors declare no conflicts of interest related to this study.

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