


Chapter 4

Other Determinants of Economic Growth in Saudi Arabia

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ABSTRACT

The resource-rich economy of Saudi Arabia has done well in terms of improving economic growth over the last several decades. Several factors could explain the phenomenal growth experience of Saudi Arabia. However, the research evidence regarding the true determinants of economic growth is scarce on Saudi Arabia. Amid this backdrop, this chapter tries to highlight the role of natural resources, education, trade openness, investment and inflation rate in the economic growth of Saudi Arabia. Data for the chosen variables are gathered from credible sources for the period 1990-2023. For analysis, the Autoregressive Distributed Lag (ARDL) modeling approach is utilized. Our results indicated that natural resources, education and trade openness have contributed positively in enhancing the pace of economic growth of Saudi Arabia. Moreover, domestic investment has negatively but insignificantly impacted the economic performance. Furthermore, the inflation rate has negatively impacted economic performance but insignificantly.

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1. INTRODUCTION

Saudi Arabia is trying hard like all other countries to accelerate the pace of economic growth as higher economic growth is indirectly associated with improved quality of life which is desirable. Achieving higher economic growth has become a top priority of policymakers and governments in the modern globalized world (Jan et al., 2021, Shah et al., 2021, Tahir and Azid, 2015) as higher economic growth is directly linked with improved quality of life. All economic activities across the globe are aimed to enhance the quality of life. In this regard, the Saudi Arabia's policymakers have also realised the importance of the quality of life and are trying to attain the highest quality of life. Higher economic growth is one of the powerful instruments for poverty reduction and enhancing the quality of life as evident not only from cross-country studies but also from individuals case studies (Shah et al., 2022). Improving the quality of life of the masses is indeed one of the main challenges in recent times for all economies of the World including Saudi Arabia. Generally, high income economies can improve the quality of their population as they have huge resources. Required resources for the improving the quality of life of the people is only possible with better economic performance of the economies. In other words, better economic performance is indeed needed to generate sufficient resources for improving the quality of life of the people. Improved economic performance depends on several important elements. These include improved human capital, local investment, trade liberalization, research, stability in policies, resources abundance and development and innovations. However, it is also a fact that the factors of growth are not uniform across economies. Some factors may be playing more dominant role in some economies and less dominant in some other economies.

The economic performance of Saudi Arabia is remarkable during the last few decades as evident from the macroeconomic indicators. Saudi Arabia has performed relatively better on several economic fronts during the last several decades. All economic indicators of Saudi Arabia have improved considerably in recent times. The better economic performance in Saudi Arabia is the reflection of effective policymaking and macroeconomic stability. According to World Development Indicators (WDI, 2025), per capita income which is a pre-requisite for improved quality of life has reached to 23331.770 USD (Constant Prices) in 2023. Inflation rate remained relatively low in Saudi Arabia, and it reached to 1.687 percent in 2024. Low inflation rate is generally believed to be an important indicator of economic stability. The degree of trade openness has reached to 62.127 percent of the GDP. It means that the trade policy remained relatively open in Saudi Arabia historically. Restrictions on trade have gradually declined due to which the volume of trade has increased enormously. Similarly, Saudi Arabia also paid attention to improve the quality of life. The value of "Human Development Index (HDI)" is 0.875 in 2022

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