



# Harmonising Legal and Sharia Principles in Foreign Investment: The Regulatory Framework of Subsidiaries in Saudi Arabia

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Article	Abstract
<p><b>Keywords:</b> Foreign investment; Sharia; Subsidiaries; Investment; Saudi Arabia.</p> <p><b>Article History</b> Received: Sep 2, 2025; Reviewed: Oct 8, 2025; Accepted: Mar 10, 2026; Published: Mar 16, 2026.</p>	<p><i>This paper examines how Saudi Arabia's updated investment regime (2024-2025) and Sharia principles jointly shape the legal and economic environment for establishing subsidiaries. Using a mixed-methods research design, the study combines doctrinal analysis of primary legal sources: the investment laws of 2024 and the implementing regulations of 2025 the 2022 Companies Law. We also considered relevant macroeconomic determinants that inform the foreign direct investments and empirical assessments that adopted the time series data for the period 1960 to 2023. As a finding, this research found that the new Investment Law guarantees equal treatment for domestic and foreign investors and shifts most activities from a licensing model to a streamlined, registration-based entry system, while maintaining approval requirements for sensitive sectors. The 2022 Companies Law enhances structural flexibility by permitting single-member LLCs, modernising governance rules, and removing earlier constraints on shareholder numbers. These changes collectively support holding-company and subsidiary formation.</i></p>



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## INTRODUCTION

Foreign Direct Investment (FDI) is defined as the capital that investors have provided to acquire ownership of a portion or unit in a business within a foreign economy or country. It may also be referred to as the movement of intangible materials

and assets from one country to another, where they will be utilised to produce wealth and profits under partial or full control of the assets. The capital transactions in this context include the transfer of users and ownership from the original owners to the host country; that is, the host country also entails the relocation of intangible assets, such as control or access to global markets. Further, the transfer of expertise and technology from the original investor's home to the new investors or host country is intended for wealth production (Schroeder et al., 2019).

However, the definitions of FDI provided by most international institutions are rather broad, placing greater emphasis on the host country and the investor's management of investments therein. The United States Model Bilateral Treaty (2004) defines FDI as "every asset that has features of investments." Similarly, the World Trade Organization (WTO) Secretariat defines it as a state "when an investor based in a country of domicile can acquire assets in another country (host) with an intention of managing and taking control of the same assets (Rhetha et al. 2024).

The current investigation is important, as it uniquely situates foreign investment in the Saudi context by examining the harmonisation of legal and Sharia principles governing subsidiary establishment. While prior studies focused on macroeconomic or managerial dimensions, this research contributes novelty through a doctrinal and comparative legal analysis that bridges regulatory and ethical governance frameworks informed by Sharia jurisprudence and statutory reform.

There are many aspects and concepts of legal Sharia frameworks in investments that investors who intend to engage in Islamic markets or economies should understand. Islamic finance is embedded in Sharia law and sets provisions for an alternative or a substitute to the traditional financial system, considered as a modern finance system. Islamic law is derived from the Quran and based on moral principles that emphasise transparency, fairness, and the equitable distribution of resources and wealth, as set out in the Sharia law (Alotaibi, 2021). Mostly, Islamic law is practised and much appreciated in Muslim states, as the name suggests, including the United Arab Emirates, Nigeria, Malaysia, and Saudi Arabia (Sari et al. 2022).

However, more countries have been integrating Islamic Finance and the products in their systems and economies to serve Muslim populations. This integration is also evident in non-Islamic countries, such as South Africa, Luxembourg and the United Kingdom, to name a few. In this case, the following basic warnings should guide all Islamic finance transactions;

1. *Haram* (Forbidden): It is an Arabic word meaning unlawful or not allowed. Some businesses and investments are not allowed under Islamic law and in Islamic states; as such, one cannot invest in such businesses in Saudi Arabia. These businesses involve pork sale and production, alcoholic drink distributions, gambling, and other businesses that violate Islamic laws and principles. This

prohibition indicates that promotion of ethical investments and socially responsible financial behaviours is required.

2. *Maisir* (Speculation): The Sharia law is against the void transactions, as they are considered gambling, which heavily relies on chance and speculation as opposed to effort and work. Islamic laws promote the conduct of genuine economic business and activities or investments not relying on speculation. This would guide any investors when investing in Saudi Arabia or other Muslim countries.
3. *Gharar* (Uncertainty): Islamic finance is strongly against businesses that involve uncertainty. This means that the individuals involved in such a business should be fully informed about or demonstrate full knowledge of the details of the transactions. Furthermore, consent should be mutual, and the parties should be aware of what they are involved in.
4. *Riba* (Interest): In Islamic finance, money is considered an asset that cannot generate profits. Money serves as a medium of exchange and therefore there is no way of generating interest out of it because Islamic law forbids it. This practice exacerbates social inequality, as one party is not exposed to risk-sharing but remains entitled to the benefits.
5. Loss and profit sharing: This basic principle requires the parties in a contract to share risks, profits, and losses. In this case, the financier has an obligation to ethically and legally share and assume the commercial risks resulting from the transaction activities.
6. Asset-backed or Asset-based: Islamic law requires all parties to base their transactions on tangible assets. The main methods of financing should involve the application or utilisation of money as backing for the execution of transactions.

Some previous studies investigate the same or related issues, including research conducted by Alanazi, K., & Basir, S. M. on *Legal Treatment of Foreign Direct Investment in Saudi Arabia*, focusing on the legal treatment and protection mechanisms for foreign investors in Saudi Arabia. This study discusses licensing requirements, investor rights, dispute resolution, and how Saudi investment law integrates international investment standards with domestic regulations. It also highlights the importance of ensuring that investment regulations do not conflict with the Kingdom's broader legal framework, which is influenced by Islamic legal principles (Alanazi, K., & Basir, S. M., 2021).

Another study by Alhagas, W. K., & Alhenaki, M. A. on *The Implementation of Foreign Investment Law in Saudi Arabia* found that Saudi Arabia implements its Foreign Investment Law and examines its impact on economic development and business activities. It highlights the role of government policies, regulatory frameworks, and the Vision 2030 agenda in improving the investment environment and facilitating the operations of foreign businesses in the Kingdom (Alhagas, W. K., & Alhenaki, M. A., 2023).

Alkahtani, F., in his research on *The Legal Protection of Foreign Direct Investment in Saudi Arabia*, analyses the legal mechanisms that protect foreign investment in the Kingdom, including dispute resolution systems, regulatory frameworks, and the role of Sharia as the primary source of law in the Kingdom. It also examines how Saudi legal reforms attempt to improve the investment climate while staying consistent with Islamic legal principles (Alkahtani, F., 2010).

All these previous studies differ from this paper, given its aim of analysing the strategies used by international firms to establish subsidiaries in Saudi Arabia. This study also investigates the factors that influence changes in foreign direct investment in the Saudi Arabian economy. The main concern of the study is the investigation of the relationship between foreign investment in Saudi Arabia and its influence on legal and Sharia law, specifically among subsidiaries established in Saudi Arabia. The investigation is based on the following research questions: what are the legal and Sharia-compliant methods of foreign investment, and why do firms establish headquarters in global markets such as Abu Dhabi before entering Saudi Arabia.

## **METHODS**

This study using a mixed-methods research design (Al-Fatih, S., 2023), the study combines doctrinal analysis of primary legal sources: the investment laws of 2024 and the implementing regulations of 2025 the 2022 Companies Law. Further, the results and findings were analysed using various data analysis techniques, including descriptive statistics, diagnostic tests, and inferential statistics. The descriptive statistics present the features and characteristics of the data used in the study, while the diagnostic statistics and tests comprise the correlation statistics and diagnostic tests. Finally, the inferential statistics analysed the data using the ordinary least squares regression model.

## **RESULTS AND DISCUSSION**

### **The Legal Framework for Foreign Investment in Saudi Arabia**

The new investment laws in Saudi Arabia are intended to protect and promote foreign investment by treating foreign and local investors equally and guaranteeing the protection of their investments. This effort aims to provide access to a broad range of sectors while applying restrictions in several areas of strategic importance and in industries sensitive to national security (Boateng et al., 2025). These activities, among others, are aimed at ensuring diversification of the Saudi economy and providing high-level incentives for global investors to join the domestic economy and invest. Some of the key points in the Saudi Investment Law include equal treatment, opportunities, and access to investment for foreign and local investors (Swandewi et al., 2020). In terms of investment freedom, both local and foreign investors are given the right to change and engage in different sectors, unless they fall under the prohibited list, which includes specific real estate in Mecca, Military equipment manufacturing or trade in the same,

and certain security services. In terms of simplified procedures, the legal framework provides for both foreign and domestic investors, streamlining and simplifying the registration process and requiring the use of the same investment licenses. Protection, dispute resolution mechanisms, and arbitration are in place to resolve disputes between investors and the government, providing access to local courts and alternative dispute resolution (Alotaibi, 2025).

The Kingdom adopted a new Investment Law in August 2024 (effective 2025 with Implementing Regulations). The law expressly guarantees equal treatment of local and foreign investors under similar circumstances, strengthens protection against unlawful expropriation, and shifts the model from licensing to a registration-based system for most activities subject to exclusion/approval lists. Administration is led by the Ministry of Investment (MISA), which has replaced the former SAGIA nomenclature in law and practice. These changes aim to simplify entry, enhance transparency, align with the National Investment Strategy, and retain safeguards for strategic sectors. Investors should therefore plan market entry by assuming registration processes (via MISA), with activity-specific approvals where required, rather than the legacy “foreign investment license” approach.

MISA, the competent authority superseding the former “Saudi Arabian General Investment Authority (SAGIA), operates unified investor services, maintains the registration/exclusions framework, and coordinates with other regulators for sectoral approvals where applicable. MISA is tasked with following up, assessing investment performance, and alleviating investment-related difficulties. MISA is responsible for granting investment licenses to foreign entities and allowing them to operate legally in the Saudi Arabian economy (Wang, 2019).

Thus, Companies Law 2022, which began to be effective in 2023, allows for more flexibility. The new Companies Law (Royal Decree No. M/132 of 1/12/1443H) explicitly permits single-member LLCs and removes the previous 50-shareholder cap. There is no fixed numerical limit on the number of LLC shareholders, subject to governance and other statutory requirements. The Law also facilitates holding/subsidiary structures, streamlines incorporation, and modernises corporate governance. First, having a subsidiary and an investment in Saudi Arabia requires registering the business activity with the local authority. (Zainon et al., 2020). Second, one should be able to obtain a foreign investment license, which is a basic requirement for a foreign business to establish a subsidiary in Saudi Arabia. Third, a trader should be able to register with the Saudi Arabian General Investments Authority (SAGIA) and acquire a commercial registration license. To allow a business to operate, it is also important to secure a local location or physical setting.

The trader or subsidiary should draft an article of association that contains information on the operating location and subsidiary structure. It is also necessary for the subsidiary to have a local bank account for its transactions within the Saudi Arabian

economy and obtain the necessary permits to conduct the business locally with the relevant authorities, based on the industry; other permits may also be required beyond commercial requirements. Furthermore, the subsidiary should register with the tax authority, have local sponsors who are citizens of Saudi Arabia, and obtain residency permits for key personnel, especially if foreign employees are needed to start the subsidiary's operations. However, it is also important to appreciate that the Saudi Arabian legal framework can be compared significantly with those of neighbouring countries, given both striking similarities and differences.

The difference is also evident in the taxation regime. In Saudi Arabia, the law states that companies from other countries are liable for a 20% income tax on net adjusted profits when they prepare their annual financial statements at the end of the financial year. However, this depends on the shareholders' financial structure (Saudi Arabian General Authority of Zakat and Tax). It is prudent to note that Saudi Arabia does not impose personal income tax on foreign and local individuals and workers. There are no inheritance taxes and stamp duty taxes or any gift taxes imposed as well. This is one of the key tax features benefitting foreign investors and expats in Saudi Arabia as a tax-free country (Schroeder, 2019).

The tax treaties and agreements between the two countries provide significant advantages for subsidiaries and firms trading between the two economies. Therefore, if there are tax treaties and tax avoidance agreements between Saudi Arabia and a certain country, traders seeking to invest in Saudi Arabia can benefit from this policy, as they are not burdened with double taxation arising from existing double tax agreements (DTAs). This is because these treaties might cover a range of tax provisions, such as value-added taxes, inheritance taxes, income taxes, and other taxes as may have been agreed between the two nations in their bilateral talks. Saudi Arabia has the largest economy in the Middle East, with a humongous GDP driven by oil wealth and revenues (Rahman et al., 2022).

However, considering the need to diversify investments and support economic growth even further, the Government introduced the Value Added Tax (VAT) system in 2018, which marked a paradigm shift in fiscal policy across the country and its regions. Tax compliance has significant fiscal benefits for any economy, as the revenues collected are pivotal to shaping the nation's fiscal landscape. Tax compliance by different market players increases economic growth and ensures fairness among those operating in the economy and among citizens.

### **Sharia Perspectives on Foreign Investment: How Islamic Law Guidance Influences Saudi Arabian Law**

In Saudi commercial practice, both Islamic and conventional financing exist. Contracts are valid so long as they do not conflict with the law or public order. For Sharia-compliant financing, deal terms avoid *riba*, *maysir*, and *gharar* by using recognised structures, including: *Murābahah*/commodity *tawarruq* (cost-plus sale to create Sharia-

compliant cash flows); *Ijārah/ijārah muntahiyah bi-tamleek* (lease/lease-to-own); *Mushārahakab* (equity partnership/profit-and-loss sharing); *Muḍārahah* (silent partnership); and *Sukūk* (asset-based certificates). Saudi regulators (e.g., SAMA) require Sharia governance frameworks for Islamic windows and full-fledged Islamic banks (e.g., a Sharia committee, internal Sharia audits, product approval, and disclosure) to improve transparency and consumer protection.

Sharia law is significantly applied in Saudi Arabia, especially when it comes to foreign investments and regulations. Even though the government is making efforts to attract foreign investment, some measures remain in place to guide business dealings in Saudi Arabia, particularly for foreign businesses and investors. Some of these measures include the application of arbitration in dispute resolution, contracts guided by Islamic principles, especially regarding ownership structures, ethical conduct within the investment landscape, and interest rates (*Riba*). All these guidelines are applied to interpret Sharia principles, thereby striking a balance between modern business practices and religious guidelines (Gujarati, 2021).

Saudi law accommodates Sharia-aligned contracts through governance and disclosure rather than by voiding all interest-bearing arrangements across the economy. Investors opt for Islamic finance, product documentation and cash-flow mechanics, which are vetted through institutional Sharia governance, with SAMA rulebook models and standards widely used in retail and corporate products (e.g., *murabahah*, *ijārah*). Further, there have been recent reforms put in place by Saudi Arabia, stating that, even though Sharia remains central to the legal system, there are efforts to modernise the laws governing investments and investors. These efforts include introducing greater transparency and aligning processes under investment laws to attract more foreign capital into the domestic economy.

Islamic law, known as Sharia, is derived from the Quran and the teachings of the Prophet Muhammad and is based on ethical standards and morality in day-to-day life. On the other hand, conventional laws refer to more secular legal systems and standards used in other non-Muslim countries, and focus on legal statutes without the same level of integration of religious practices as Sharia. Some of the main differences include the scope of regulations regarding personal conduct, authority, sources, and the integration of legal concepts, such as inheritance, marriage, and interests.

Tax avoidance and tax evasion are slightly different: one is legal and therefore allowed, while the other is illegal. While tax evasion is considered immoral in Islamic law, it might be overlooked or allowed when the taxes evaded are applied to a good cause, such as helping the community in various sectors. Islamic law states that all Muslims have a moral obligation to pay taxes, including *zakat*, to support the government and those in need. Secondly, there is also the issue of the taxation system in Islam, which is partially voluntary. However, this is subject to whether it is adequate for the government. In line with Islamic economic justice, shifting debt can also be

applied to reduce tax avoidance and contribute to a more equitable distribution of resources.

In relation to ethical considerations, Islamic law is based on the teachings of the Holy Quran, which addresses the morality of dealings between the parties. It also considers the principles of honesty, compassion, and justice. Some of the main ethical principles include fairness, justice as a universal principle, mercy from the Quran as an ethical principle, goodness, and honesty. There are also other ethical considerations such as charity, forgiveness, patience, respect for parents and elders, keeping of promises, anger management, love of God, and those who are loved by God and finally loving the Prophet Muhammad and his believers. Islamic law is defined by Allah s.w.t who is all-knowing and who knows what is best for all mankind. Good values and principles are based on Islamic sources (Comincioli et al., 2022).

### **Understanding Investment Trends in Saudi Arabia: Challenges and Opportunities**

Table 1 presents a descriptive and statistical summary of the research variables related to foreign direct investment in the Saudi Arabian economy. The estimation in the following summary was intended to assess the characteristics and features of the variables used in this study. The results show that the mean for foreign investments was 2.8109, as shown in the table below, while the standard deviation was estimated at 5.9709. This indicates that a change or decrease from the mean leads to a 5.9709 change in the foreign direct investments. The gross domestic product for the Saudi Arabia economy was estimated to have an average value or coefficient of 14179.09 with a deviation from the mean of 9583.120. This also indicates that when there is a variation in gross domestic product, the same applies, with a tune of 9583 towards the upper or lower side. The results of this statistical summary are important for the study, as they provide the necessary features of the variables investigated. It shows how changes in foreign investments in subsidiaries and other macroeconomic factors shift due to dynamics in foreign investments within the Saudi economy.

**Table 1. Investment Trends in Saudi Arabia**

	<b>Foreign Direct Investment</b>	<b>Gross Domestic Product</b>	<b>Inflation</b>	<b>Interest Rates</b>	<b>Political Stability</b>	<b>Population</b>	<b>Unemployment</b>
Mean	2.8109	14179.09	6.707032	4.651639	13.77289	13932907	2.890279
Median	4.3608	11847.17	3.867212	4.500000	0.000000	10640691	0.000000

Maximum	2.8110	34454.20	150.6319	7.000000	55.55556	33264292	7.6600
Minimum	-3.7309	717.7966	-21.441	2.000000	0.000000	2435403	0.0000
Std. Dev.	5.9709	9583.120	21.5434	1.9123	17.6798	10311987	3.0150
Skewness	2.5543	0.1998	4.949529	0.013117	0.732070	0.534455	0.1365
Kurtosis	9.845139	2.0258	33.986	1.3048	2.0443	1.7990	1.1553
Jarque-Bera	185.4252	2.8178	2689.402	7.3054	7.7700	6.5698	8.8388
Probability	0.0000	0.2444	0.0000	0.0259	0.0205	0.0374	0.0120
Sum	1.7111	864924.7	409.1290	283.7500	840.1465	8.5008	176.3070
Sum Sq. Dev.	2.1421	5.5109	27847.09	219.4098	18754.51	6.3815	545.3974
Observations	61	61	61	61	61	61	61

Source: Authors, 2026

The correlation and the linear relationship are presented in Table 2, showing a positive correlation between the foreign direct investment and the gross domestic investment, with a correlation of 0.5978. Further, the correlation between foreign direct investment and inflation was 0.08289, indicating a positive, statistically significant positive relationship between the two variables. The interest rates and the foreign direct investments were found to have a positive correlation coefficient of 0.54225. This value shows a positive, statistically significant correlation. Political stability in Saudi Arabia was found to be statistically significantly and positively correlated with foreign direct investment. This was evidenced by the correlation coefficient at 0.3408. The correlation coefficient between the population of Saudi Arabia and the population was 0.5766, indicating a statistically significant correlation between the two variables. Further, unemployment and foreign direct investment variables were estimated to have a correlation coefficient of 0.3288. This value demonstrates a statistically significant positive correlation, suggesting that a change in unemployment contributes to a positive change in foreign direct investment.

**Table 2. Investment Factors and Statistics in Saudi Arabia**

	Foreign Direct Investment	Gross Domestic Product	Inflation	Interest Rates	Political Stability Factor	Population	Unemployment
Foreign Direct Investment	1	0.5978	- 0.0829	- 0.5423	0.340 81	0.5766	0.3288
Gross Domestic Product	0.5978	1	0.0686 1	- 0.8219	0.506 31	0.7864	0.53154
Inflation	-0.0829	0.0686 1	1	0.032 75	- 0.0684	-0.1137	-0.1195
Interest Rates	-0.5423	-0.8219	0.0327 5	1	-0.393	-0.6642	-0.2798
Political Stability Factor	0.34081	0.5063 1	- 0.0684	-0.393	1	0.76679	0.69887
Population	0.57663	0.7864	- 0.1137	- 0.6642	0.766 79	1	0.81643
Unemployment	0.32885	0.5315 4	- 0.1195	- 0.2798	0.698 87	0.81643	1

Source: Authors, 2026

The results of the unit root test are presented in Table 3, showing that the probability coefficient was at 0.0010. This value was not greater than the critical value (0.05 units), indicating that the unit root was not statistically significant. In other words, we accept the null hypothesis that foreign direct investments have a unit root. Therefore, we proceeded with additional analytical tests without applying transformations such as differencing, since the series was stationary.

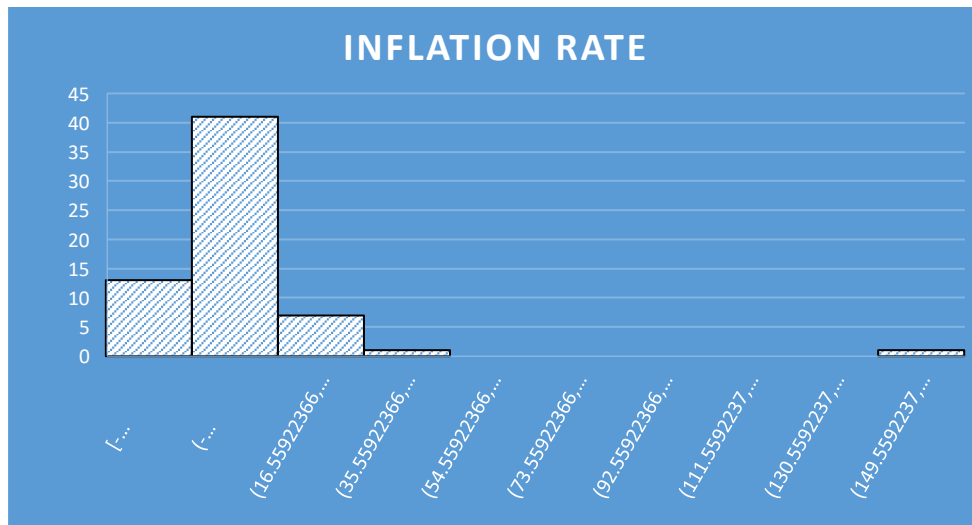
**Table 3. Foreign Direct Investment Unit Root in Saudi Arabia**

Null Hypothesis: Foreign Direct Investment has a unit root		
Exogenous: Constant		
Lag Length: 0 (Automatic - based on SIC, maxlag=10)		
	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-4.2929	0.0010

Test critical values:	1% level	-3.5384		
	5% level	-2.9084		
	10% level	-2.5918		
*MacKinnon (1996) one-sided p-values.				
Augmented Dickey-Fuller Test Equation				
Dependent Variable: D (Foreign Direct Investment)				
Method: Least Squares				
Date: 02/19/25 Time: 17:50				
Sample (adjusted): 1961 2023				
Included observations: 63 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
Foreign Direct Investment (-1)	-0.484	0.11276	-4.2929	0.0001
C	1.4409	7.0708	2.02933	0.0468
R-squared	0.23202	Mean dependent var		0.1235
Adjusted R-squared	0.21943	S.D. dependent var		3.321
S.E. of regression	5.1209	Akaike info criterion		47.5836
Sum squared resid	1.6021	Schwarz criterion		47.6517
Log likelihood	-1496.9	Hannan-Quinn criter.		47.6104
F-statistic	18.4287	Durbin-Watson stat		2.0633
Prob(F-statistic)	6.4305			

Source: Authors, 2026

**Figure 1. Inflation Rate Trend in Saudi Arabia 1960-2023**



Source; Authors, 2026

The diagram above shows that Saudi Arabia had a very high interest rate in the 1960s. This rate continued to increase for the next few years. However, this was observed to decrease significantly over the past two or three decades, reaching a single digit. This trend has brought the issue of a good working environment for investors to the forefront and, as such, increased the number of investors, especially foreign ones. The reduced inflation over the years, maintained at a single digit by the Saudi Arabian economy, serves as a haven for foreign investors, leading to an increase in foreign direct investment.

**Table 1. Regression Model**

Dependent Variable: Foreign Direct Investment				
Method: Least Squares				
Date: 02/19/25 Time: 17:47				
Sample: 1960 2023				
Included observations: 61				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
Gross Domestic Product	213990	145131	1.47446	0.1462
Inflation	-22107	3207	-0.7011	0.4863
Interest Rates	2.76001	6.89121	0.39994	0.6908
Political Stability Fact	-45607	5.607	-0.7373	0.4641

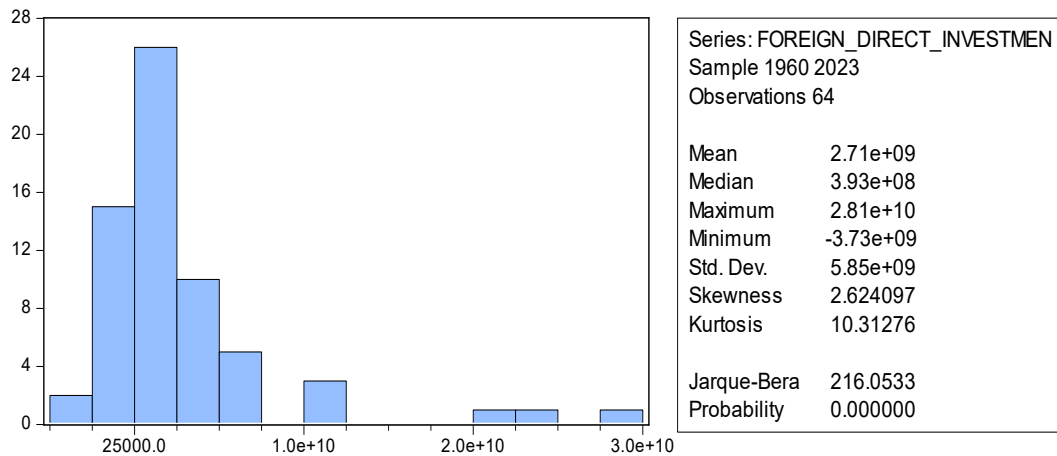
Population	431.471	190.295	2.26738	0.0274
Unemployment	-7.1435	4.50661	-1.5882	0.1181
C	-4.7486	4.95111	-0.9587	0.342
R-squared	0.43298	Mean dependent var		2.81891
Adjusted R-squared	0.36998	S.D. dependent var		5.97141
S.E. of regression	4.74471	Akaike info criterion		47.5037
Sum squared resid	1.21222	Schwarz criterion		47.746
Log likelihood	-1441.9	Hannan-Quinn criter.		47.5987
F-statistic	6.87254	Durbin-Watson stat		1.74566
Prob(F-statistic)	1.9555			

Source: Authors, 2026

Population and unemployment were among the explanatory variables regressed on foreign direct investment (FDI). The population had a positive coefficient of 431.4706, indicating that as the population increases, FDI also rises. This is likely due to increased demands for goods, services, and labour, which drives economic growth and attracts investment. Conversely, unemployment showed a negative relationship, with a coefficient of -7.1408, suggesting that higher unemployment discourages FDI. This reflects broader economic instability, which investors typically avoid. Political instability also demonstrated a negative impact on FDI, with a coefficient of -41,556,331. Increased instability deters foreign investors concerned about risk and policy unpredictability. On the other hand, GDP shows a positive effect, with a coefficient of 213,989.8, implying that economic growth attracts more FDI due to rising demand and better market opportunities.

Inflation had a negative coefficient of -21,090,626, implying that higher inflation reduces FDI, while lower inflation encourages it by improving investment predictability. Interest rates, with a positive coefficient of 2.7608, suggest that higher expected returns attract investors, making Saudi Arabia more appealing when interest rates rise. The model's R-squared was 0.4329, meaning the independent variables explained about 43.29% of the variation in FDI. With a p-value of 0.000, the model was statistically significant, indicating a good fit and confirming a strong relationship between the explanatory variables and FDI.

Figure 2. Normality Results



Source: Authors, 2026

The normality tests above show that the series adopted for the study had a slightly normal distribution, while it was also positively skewed to the right (5.8509). It was also established that the kurtosis coefficient was 10.31276. While global FDI cycles have softened in recent years, Saudi Arabia's reforms aim to raise quality, transparency, and investor protection, complementing macro-level efforts to attract sustainable inflows. The UNCTAD World Investment Report 2024 suggests that Foreign Direct Investment in Saudi Arabia was USD 12.3 billion in 2022, down from USD 28 billion a year earlier. This represents a 56% reduction (USD 215.5 billion in total stock). The largest share of Saudi Arabia's foreign direct investments was held by the manufacturing sector at about SAR 259 billion (29% of the total). This is closely followed by the wholesalers and retail trade coupled with the motorcycle and motor vehicle repairs with about SAR 135 billion (15% of the total). This was followed by insurance and financial activities, which ranked third with SAR 112 billion (12%). In the Saudi Arabian economy within the UAE, the country was estimated to have the largest FDI in the UAE (SAR 152 billion), followed by Luxembourg with SAR 105 billion and France with SAR 65 billion, while the Kingdom recorded SAR 54.3 billion.

Saudi Arabia joined the World Trade Organization in 2005. This was seen as a major advantage, since it immediately improved the climate for foreign investment in the Kingdom. Some of the major macroeconomic activities that work perfectly for the Kingdom include economic stability; the significantly large world oil reserves give the Kingdom a good position in OPEC, supported by a large economic market with significant spending power and a huge population in the economy (about 35 million). This provides the necessary labour and the market or demand for goods and services. Working and established economic diversification (Saudi Arabia vision, 2030), Consolidated infrastructure, Sound infrastructure and well-regulated banking system.

Investors should map their activities to the registration vs approval/excluded lists, align company form with governance needs (e.g., a single-member LLC for speed; a JSC for broader equity raising), and plan for Sharia governance where Islamic financing is intended. It is important to note that, even though there are good opportunities for investment and profitability in Saudi Arabia, one should also consider the responsibilities and challenges that come with these opportunities in the Saudi Arabian economy. Investors must be able to assess potential risks and benefit-to-cost ratios before engaging in and implementing investments in the economy. The first issue to consider is the differences in legal frameworks and systems between Saudi Arabia and other countries, especially for investors' countries of origin. Hence, the investors should have a basic understanding of the domestic regulations to ensure compliance. Other challenges include cultural and language barriers.

Furthermore, tax information and legal matters remain issues, while investors seek assistance with these aspects, as well as with other issues such as salaries, remuneration, and the rules and regulations governing the hiring of expats, local labourers, and professionals. These factors present the main challenges and limitations. However, if potential investors aiming to set up a subsidiary in Saudi Arabia become acquainted with these factors, they will be better positioned to establish a business and subsidiary in the country. Some issues that the investors might face often arise from regulatory requirements, cultural differences, and competitive challenges. These include matters regarding compliance with the regulatory requirements by the local legal frameworks and authority, and staying up to date with the latest regulations. The absence of competition is aimed at promoting local businesses and attracting mainly foreign investors, thereby offering unique value and leveraging competitive advantage. In terms of cultural barriers, investors should endeavour to understand domestic customs, respect local regulations, and adhere to local cultural beliefs regarding business practices in accordance with community policy.

Those trends may lead to some benefits. Many incentives attract investors to Saudi Arabia, including tax breaks, easy, direct access to financing, relaxed regulations, and an environment supportive of foreign investors that fosters thriving businesses in the Saudi Arabian market. This is because SAGIA, now MISA, has created a conducive environment for both foreign and local businesses. Some of the financial advantages for foreigners include loan programs; the provision of utilities and energy in industrial cities; support programs for employment; post-shipment financing for international buyers; and pre-export financing for Saudi supporters.

An increase in political instability, which challenges leadership, and a business environment will also affect the possibility of conducting business in the Saudi Arabian economy. This means that more investors will tend to direct their resources and revenues elsewhere, since they would not be certain that in a volatile economic environment it would be possible to make profits. This is the main reason political

instability has a negative relationship with foreign direct investment. If political instability increases, we would observe a decrease in the ability to attract foreign investment and revenue from foreign currency and external economies.

In a bid to establish or bring harmony between the Sharia law and legal frameworks, the subsidiary by foreign investors should come up with measures and strategies on how to adhere to and heed the Islamic teaching especially those related to business operation so that they do not encounter problems with the local authority. Further, the investors and the management or administrators of such subsidies and investments should be able to acquire local licenses as required by law. For better harmonisation, the Saudi Arabian authority can develop measures and strategies that make it easier and more direct for foreign investors to comply with local requirements. Practically, entrants should align their entry with the Investment Law (2024/2025) and Companies Law (2022) and choose financing that is consistent with strategic aims: conventional facilities or Sharia-compliant structures are available, with Sharia governance required for the latter.

Some of the policy recommendations would include improving favourable working conditions in Saudi Arabia to attract more investors and increase foreign direct investment. Furthermore, improving innovation and technology integration across businesses, systems, and networks within the Saudi economy could also boost competitive advantage, thereby attracting much-needed foreign investment. The government department and the administration or authority responsible for marketing or selling should also engage investors at their level and in their industries, so that there is an assortment that enables the country to attract the right investments. This will not only increase investment and trade partners but also ensure checks and balances, so the country will not be infiltrated by bad elements. If bad elements find their way into the Saudi economy, then these unscrupulous traders might end up with illegal trade and black markets, thereby decaying the morality of the traders within the economy and sparking problems that may have negative effects on high ethical standards.

## CONCLUSION

The growing establishment of foreign subsidiaries in Saudi Arabia reflects the Kingdom's evolving regulatory architecture, which integrates Sharia-compliant governance with modern investment law. The novelty of this study lies in its demonstration of how harmonised legal and Sharia principles create a coherent compliance regime for investors. By articulating a doctrinal-comparative framework, the paper advances understanding of how Saudi Arabia's regulatory environment both facilitates and constrains foreign subsidiary operations, contributing to broader legal scholarship on Islamic investment governance.

There are many factors that can be used to improve foreign direct investment in the Kingdom, including single-digit, favourable inflation. This means that the revenues would be more valuable and the investors would find value for their money. It is also

important to appreciate that, since interest rates are positively related to changes in foreign direct investment, the government and the money market authority in the Kingdom can do a better job of ensuring that interest rates increase, thereby attracting more investors to the economy. The key reforms the Saudi Arabian government has been implementing over time are also important, as they have enabled more investors to invest in the Kingdom. Therefore, more reforms should be developed and formulated which would ensure that the investors are able to stay therein, and they can achieve their desired investments. With such possibilities, greater revenue and income for the Kingdom, in terms of taxes, employment, and wealth creation, are more feasible.

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