INTERNATIONAL FINANCIAL REPORTING STANDARDS, OIL REVENUE, AND FDI DYNAMICS IN SAUDI ARABIA: EVIDENCE FROM ARDL MODELLING

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ABSTRACT

In recent years, the International Financial Reporting Standards (IFRS) have gained prominence as a focus for countries seeking to enhance transparency and comparability in corporate financial reporting, thereby improving the business environment and attracting foreign direct investment. This issue is particularly important in rentier economies dependent on oil revenues, such as the Gulf states, particularly Saudi Arabia, where oil revenues constitute the primary source of public revenue and a key tool for financing economic development. The ongoing volatility in global oil prices imposes on these economies the need to diversify sources of income and enhance foreign direct investment flows, a key driver of sustainable growth and a pillar of the Kingdom's Vision 2030. In this connection, the adoption of IFRS is expected to play an important role in improving the quality of financial disclosure and reducing information risk, which may help build confidence among foreign investors. The study uses the Autoregressive Distributed Lag (ARDL) model covering the period 1980–2024 to investigate whether there is co-integration among the variables. The objective is to test the influence of IFRS adoption on foreign direct investment (FDI). The findings reveal that the adoption of IFRS has a positive long-term contribution to FDI. The implementation of IFRS fosters greater comparability of FDI inflows. Our results also demonstrate that good institutions moderate the relationship between IFRS and economic growth. Taken together, these findings suggest that IFRS adoption has important implications for foreign direct investment in Saudi Arabia.

1. INTRODUCTION

The adoption of International Financial Reporting Standards (IFRS) as a country's Generally Accepted Accounting Principles (GAAP) has gained significant momentum in recent years (Kosi & Pope 2010, Florou & Kosi, 2015). The research will answer the question of how the adoption of International Financial Reporting Standards (IFRS) affects financial transparency, regulatory frameworks, and attracting foreign direct investment (FDI) in the Kingdom of Saudi Arabia.

Revenues from oil sector activities are highly significant to Saudi Arabia's gross domestic product (GDP—oil and non-oil), as they determine the structure of investment in the economy (Elshafei et al., 2025). Gujarat oil prices remain volatile, posing an ongoing challenge, impacting foreign direct investment (FDI) inflows, and undermining the economy's resilience because of uncertainty (Goldani & Asadi-Tirvan, 2024). A better understanding of the impact of IFRS adoption on the volatility of oil revenues, therefore, can provide some insight into the expectations to inform the drivers of FDI in oil-based economies, such as Saudi Arabia.

While many studies have addressed the effects that the adoption of IFRS has on both the investment climate and the quality of financial reporting, the literature is still limited in connecting this adoption to oil revenues' contributions in stimulating economies reliant on natural resources. We do not know the degree to which IFRS adoption helps to mitigate the effects of oil revenue volatility on FDI flows. Most studies have also examined these variables separately (either studying IFRS adoption or oil revenue volatility with foreign direct investment). In addition, there remains a clear research gap regarding the role of International Financial Reporting Standards (IFRS) adoption at the macroeconomic level in Saudi Arabia. Thus, the research problem is that a comprehensive approach has not yet been conducted to explain this relationship while delving into whether or not adherence to IFRS increases financial stability and interest in foreign investment in times of oil revenue volatility.

The research will explain how the short- and long-term impact of IFRS adoption and the volatility of oil revenues on FDI flows into Saudi Arabia can be revealed; thus offering empirical insights into whether or not the strategies of international accounting convergence and financial delivery based upon oil revenues can inspire attractive foreign investment and provide diversification in the Kingdom's economy. Furthermore, it looks for evidence to suggest that IFRS adoption does interact with FDI to moderate the impact of changes in oil revenue on attracting FDI from its commercial partners. Therefore, this research will offer participants an analytical framework that demonstrates how IFRS and oil economies can reconcile the objectives of stimulating diversification of income generation and attracting stable foreign investment in support of economic planning for sustainable development.

To empirically investigate this relationship, the study proposes the following hypotheses:

H1: Adoption of International Financial Reporting Standards (IFRS) contributes to increased foreign direct investment (FDI) flows in oil-dependent economies in the long run.

H2: Changes in oil revenues have no significant effect on FDI inflows in oil-dependent economies

The remainder of the study is organized as follows. Section 2 provides the theoretical framework and reviews the relevant empirical literature. Section 3 discusses the link between foreign direct investment and international financial reporting standards (IFRS) in Saudi Arabia. Section 4 discusses the model specification and econometric methods, and Section 5 discusses and analyzes the empirical results. Section 6 concludes the study and provides some policy recommendations.

2. THEORETICAL BACKGROUND AND LITERATURE REVIEW

The adoption of International Financial Reporting Standards (IFRS) is expected to improve the quality of information and the relevance of financial statements. By providing a unified framework and specialized accounting guidance, IFRS constitutes a set of globally recognized accounting principles (Hasan & Rahman, 2019; Gardi et al., 2023).

The analysis of the relationship between IFRS adoption and foreign direct investment (FDI) flows is based on a set of theoretical frameworks that explain how financial transparency and information availability influence international investor decisions. Among the most prominent of these frameworks is the Institutional Theory / Neo-Institutional Theory, which explains why and when countries adopt standards such as IFRS due to institutional pressures (legal, regulatory, external pressure from investors, and imitation from other countries) (Riahi & Khoufi, 2019). It also provides a framework for how IFRS adoption can be a response to institutional pressures related to transparency, governance, and the requirements of foreign investors. It is also used to understand how weak institutions may impair the ability to benefit from investment flows even with the adoption of international standards (Agana et al., 2025).

The signaling theory states that adopting high standards, such as IFRS, can signal to investors that the company/economy is trustworthy, transparent, and adheres to globally accepted accounting standards. This can reduce information risk and encourage FDI, especially in oil-dependent countries where risks are often high due to revenue volatility (Mohaddes et al., 2017). The Resource Curse Theory explains how countries heavily dependent on natural resources such as oil may face problems such as revenue volatility, corruption, and poor diversification, which may deter foreign investors (Elbadawi & Soto, 2016). The Contingency Theory / Interaction Effects Theory suggests that the impact of adopting IFRS on FDI may not be constant but rather depends on conditions such as the stability of oil revenues, economic policies, and the institutional environment (Selahmi & Liu, 2022).

To address the research variables, previous studies will be divided into the following:

2.1 FDI in the Saudi Arabia Context:

Foreign Direct Investment (FDI) is intended to be central to Saudi Arabia's plan to shift away from oil dependence and implement Vision 2030 plans. For the past decade, Saudi Arabia has made great strides toward becoming more appealing to foreigners. Through reforms to its foreign investment laws, enhancement of the business climate, and increased transparency, the Kingdom has made itself a more attractive location for global enterprise. A significant step in this progression was the creation of the Saudi Arabian General Investment Authority (SAGIA), which has now merged into the Ministry of Investment (MISA), This was a key mechanism to allow for foreign ownership and facilitate the investment process (Guendouz & Ouassaf,2020).

El-Awady et al. (2020) mentioned that Saudi Arabia is revitalizing its reform momentum to accelerate foreign direct investment, from its historically low and volatile state, toward the objectives of Vision 2030 that emphasizes a focus on non-oil sectors. After a period of improved growth and employment trends, with audit improvements reported due to IFRS, constraints associated with legal, institutional, human capital, and structural factors ultimately remain challenges. Guendouz & Ouassaf (2020) investigated some of the macroeconomic factors influencing economic diversification in Saudi Arabia from 1991–2016. They have observed that the economic diversification index is directly related to GDP and gross fixed capital formation. The study also reports a direct relationship between FDI and economic diversification, suggesting that policies attracting more foreign investment promote economic diversification—a pillar of Vision 2030 (Alregab, 2023).

Al-Matari et al. (2022) examined the determinants of foreign investment in Saudi Arabia from 1979 to 2019. Using ADF, PP, KPSS unit root tests, Johansen's cointegration, and Granger causality tests, they confirmed causal relationships between GDP, inflation, external balance, and FDI in the long and short run. The ARDL regression results found that the external balance has a positive and significant effect on FDI. The study covered a unique 41-year period, offering a comprehensive contribution to the Saudi economy.

With changing global oil prices, regulatory changes, and geopolitical issues, FDI flows to Saudi Arabia have been variable. Yet, it has shown dramatic recovery in more recent years, especially in sectors other than oil, including renewable energy, tourism, logistics, and technology. As reported by the UN Conference on Trade and Development (UNCTAD), Saudi Arabia was among the top recipients in the Middle East of foreign direct investment (FDI) for energy transition and infrastructure and some digital transformation (UNCTAD, 2023). The government has also increased investor confidence through privatization and public-private partnership (PPP)-type opportunities. In addition, ownership laws were changed in some industries to permit 100% foreign ownership, and this makes it easier for multinational corporations to enter the Saudi market (World Bank, 2022).

2.2 The Effect of Oil Revenue on FDI

Multiple studies (Mahmood & Alkahteeb, 2018; Alfalih & Hadj, 2020; Al Shammre & Alshahrani, 2024) have proven that FDI inflows occur in the short run in response to increases in oil prices and revenues because higher oil revenues lead to improved investor confidence and economic activity. Manasseh et al. (2023) confirmed that oil-rich countries tend to attract FDI as resource size and oil revenues are attractive to investors. However, the impact may be both positive and negative depending on governance and macroeconomic stability. Some studies (Alfalih & Hadj, 2020; Al Shammre & Alshahrani, 2024; Natto, 2024) stated that oil revenues and price increase ultimately have a positive long-term impact on FDI and growth, though excessive reliance on oil may deter diversification and sustainable FDI.

Both accounting standards and oil revenues significantly influence FDI, but their effectiveness depends on institutional quality, regulatory environment, and governance. Strong accounting standards and prudent management of oil revenues are key to maximizing FDI benefits (Morshed, 2024).

The researchers Fadol (2020), Cieślik & Hamza (2022), Donker et al (2025), and AL-Tuwaijari et al. (2025) concluded that macroeconomic stability, openness, and institutional quality are important factors in determining FDI. Legal and regulatory reforms, including but not limited to IFRS adoption, are positive factors in attracting FDI. Oil revenues could also be a catalyst for increased FDI following IFRS adoption. However, a noticeable disagreement remains among prior studies about the impact of IFRS adoption on Saudi Arabian FDI. Some studies indicate a positive role, while others report an insignificant effect, reflecting the influence of broader macroeconomic conditions.

2.3 IFRS and Foreign direct investment

IFRS adoption has been shown to significantly impact FDI inflows, especially in developing or transitional economies. The impact of IFRS adoption on FDI inflows has proven to be substantial, particularly for developing or transitional economies. As stated, financial statements are regarded as being more transparent and comparable when IFRS is used rather than with local or GAAP accounting standards. Therefore, the adoption of IFRS has helped to alleviate information asymmetry, which tends to reduce perceived investment risk for foreign investors, thereby boosting investor confidence. Yousefinejad et al. (2018) studied the causal relationship between IFRS adoption and FDI inflows in ASEAN countries for the period of 2001–2016. These findings indicate a positive and significant relationship between IFRS adoption and FDI inflows, with both short-run and long-run causation. A recent study by Gu and Prah (2020) examined the relationship between FDI and economic growth and how this relationship is influenced by IFRS adoption. Their study found support for IFRS adoption, strengthening the relationship between factors, and that FDI flows had a positive effect on economic growth. In a related study, Tudor (2022) confirmed a more general point that IFRS adoption improved the quality of financial reporting by improving transparency and comparability among firms, allowing investors better access to information on firms' financial health. Notably, improved transparency has been a critical factor attracting FDI, as seen by the large increases in FDI inflows in many Central and Eastern European countries since adopting IFRS.

In history, foreign direct investment (FDI) in Saudi Arabia has undergone significant ups and downs, closely related to the global oil market influences, changes in the economy, and institutional changes During the 1980s, the Kingdom experienced sharp increases in FDI inflows, particularly in the early years of the decade, driven by the oil boom; however, certain years also recorded negative flows, reflecting the volatility of global economic conditions. Specifically, in the 1990s, FDI was weak and unstable, in part because of regional geopolitical events (e.g., the Gulf War) that undermined investor confidence. However, from the beginning of the 2000s, inflow began to return (particularly after Saudi Arabia joined the WTO…) in 2005, which marked a step towards greater economic openness. Although FDI levels remained relatively modest in the 2010s, some increases were observed around 2015, consistent with the Kingdom's broader diversification agenda under Vision 2030.

Major institutional change took place in 2017 with the acceptance of the International Financial Reporting Standards (IFRS). The Kingdom of Saudi Arabia adopted IFRS through the Saudi Organization for Certified Public Accountants (SOCPA) as part of its overall objective to improve transparency and credibility in the financial reporting process and to support economic reforms within the country. IFRS was issued for listed companies effective January 1, 2017, while non-listed entities and small and medium-sized enterprises (SMEs) began using the IFRS for **standard SMEs** in 2018 (SOCPA, 2016; IFRS Foundation, 2022). This is an important initiative, given the considerable dependence placed by the Saudi economy on revenue from oil. The use of IFRS facilitates a more comparable and stable view of a company's financial performance, dampening the effects of oil price fluctuations on financial statements and enhancing the ability of prospective investors to make returns predictions (PwC, 2017; Nurunnabi, 2017). Compliance with international standards on measurement has also improved comparability with equity performance in global markets, enhancing foreign investor confidence as well as direct and indirect investments, particularly in relation to economic diversification and Vision 2030 (Bakr, 2020; Deloitte, 2018). Professional reports and academic research indicate that the implementation of mandatory standards has improved the quality of financial reporting as a strategic tool for reducing risks associated with volatility in oil revenues and solidifying the Saudi capital market's status as a global investment arena (KPMG, 2017; Nurunnabi, 2017).

According to Mameche and Masood (2021) and Chehade and Procházka (2022), the adoption of IFRS in the Gulf region, including Saudi Arabia, is associated with a slight increase in FDI inflows (about 3%) in the short term. However, in the long term, the studies indicated that the adoption of IFRS may actually lead to a decrease in FDI inflows (by about

10.4%), attributed to increased transparency in risk disclosure or more stringent reporting requirements. Siriopoulos et al. (2021) also analyzed factors affecting FDI, focusing on governance quality and IFRS adoption in the GCC countries using panel data models. The findings support that adopting IFRS is a major driver of FDI. Several studies (Akpomi and Nnadi, 2017; Lungu et al., 2017; Siriopoulos et al., 2021; Cieślik and Hamza, 2022; Tudor, 2022) found consensus that IFRS adoption increases FDI inflows because IFRS enhances transparency, comparability, and professionalism of financial information, lowering the cost of information and uncertainty for foreign investors. This effect is especially stronger in developing countries where the quality of institutions promotes the positive outcomes of IFRS's adoption.

In reaction to this reform, Saudi Arabia has been proactive in opening FDI inflows, which suggest rising investor confidence in the transparency of financial statements and the quality of financial reporting. FDI inflows to the Kingdom in 2017 were approximately SAR 28.1 billion and then increased to approximately SAR 105 billion in net inflows by 2022, which was an increase of around 274% compared to 2017 (MISA, 2024). The size of the FDI stock increased from about SAR 501.8 billion in 2017 to SAR 762 billion at the close of 2022, a 52% increase. Furthermore, there has been continued growth, with inflows of approximately SAR 96 billion in 2023, exceeding the targets of the National Investment Strategy and representing approximately 2.4% of GDP. In addition, inflows further increased to SAR 119.2 billion in 2024, progress which is evidence to show that regulatory and institutional efforts coupled with the adoption of international standards are showing tangible progress in attracting foreign investment (Alruwaili et al., 2023).

Morshed (2024) explores the effects of adopting IFRS on economic growth and development within the Arab Gulf countries, using panel data during the period 2010–2020. Morshed's study finds that the adoption of IFRS substantially promoted transparency, which led to greater inflows of foreign direct investment (FDI) and sustained economic growth. The alignment with IFRS coincided with more stable patterns of FDI inflows, suggesting that improved financial disclosure and harmonization with global standards contributed to strengthening investor confidence and supporting the country's long-term strategy of attracting foreign investment (see Figure 1)
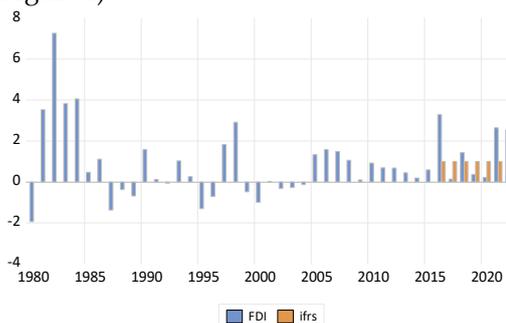

Figure 1: Foreign Direct Investment and International Financial Reporting Standards in Saudi Arabia.
Source: prepared by authors.

3. DATA AND METHODOLOGY
3.1. Data description

The data used in this study were obtained from the World Development Indicators (WDI) database of the World Bank, as presented in Table 1. The dependent variable is Foreign Direct Investment (FDI), The independent variables include the IFRS adoption status, represented as a binary variable coded 0 for the pre-adoption period and 1 for the post-adoption period (Tawiah & Oyewo, 2025; Morshed, 2024), Economic Growth (GDP per capita), oil revenue, and Population (POP). In addition, Trade Openness (TRADE) and Inflation (CPI) are included as control variables.

Table 1: Data description.

Variables	Abbreviation	Definition	source
Foreign direct investment	FDI	Net inflows of foreign direct investment % of GDP	WDI
Economic growth	GDPP	GDP per capita (constant LCU)	WDI
International Financial Reporting Standards	IFRS	Dummy variables take (0) before applying International Financial Reporting Standards and (1) after applying this Standards	
Trade openness	TRADE	The total volume of exports & imports of goods & services % of GDP	WDI
Inflation	CPI	Consumer price index (2010 = 100)	WDI
population	POP	The total population of the country	WDI
Oil Revenue	Oil	Oil rents (% of GDP)	WDI

Note: WDI: World Development Indicator
Source: prepared by authors

Fig. 2 illustrates the trend of Foreign Direct Investment (FDI) from 1980 to 2024, with the International Financial Reporting Standards (IFRS) dummy variable included from 2017 onward. While FDI flows appear more stable and positive after the adoption of IFRS, this visual observation indicates a potential positive relationship between the two variables, which will be further examined by

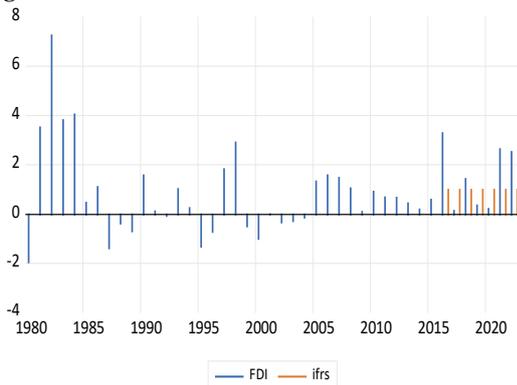assessing both the short-run and long-run dynamics using the ARDL model.

Figure 2: Foreign Direct Investment and International Financial Reporting Standards in Saudi Arabia.
Source: prepared by authors.

3.2. Econometric model

This study examines the impact of International Financial Reporting Standards (IFRS) on Foreign Direct Investment (FDI) in the Kingdom of Saudi Arabia over the period 1980–2024. To capture both the short- and long-run dynamics of this relationship, the study applies the Autoregressive Distributed Lag (ARDL) model. The study's variables were selected based on established economic theory and insights from previous empirical research (Graham, 2017; Lungu et al, 2017; Yousefinejad et al., 2018; Gu & Prah, 2020; Tudor, 2022; Morshed, 2024).

To examine the impact of International Financial Reporting Standards (IFRS), the relationship between International Financial Reporting Standards (IFRS) and Foreign Direct Investment (FDI)is specified as follows in the functional form of the model (1)

$$FDI = f\ (GDPP, IFRS, \text{Oil}, CPI, \text{POP}, trade) \quad (1)$$

This relationship can be formally specified in linear form, as shown in Equation (2):

$$FDI_t = \beta_0 + \beta_1 GDPP + \beta_2\ IFRS + \beta_3 CPI + \beta_4 lnPOP + +\beta_5 trade + \beta_6 Oil + U_t \quad (2)$$

While traditional cointegration tests require that all variables be integrated of the same order (Engle & Granger, 1987; Johansen & Juselius,1990). ARDL model offers greater flexibility, as it can accommodate variables regardless of their integration order—whether I (0), I(1), or a combination of both. The bounds test proposed by Pesaran et al. (2001) is employed to investigate whether a long-run equilibrium relationship exists among the variables.

The initial step involves testing the order of integration of each time series using the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests. Once the integration properties are

confirmed, it is essential to verify that the residuals from the estimated unrestricted model satisfy the white noise assumption. This ensures the absence of serial correlation and heteroscedasticity in the model, thereby validating its specification. If the residuals meet these conditions, the bounds testing approach can then be applied to assess the existence of a long-run equilibrium relationship. Upon establishing cointegration through the bounds test, the long-run coefficients can subsequently be estimated (Moustafa & Elroukh, 2025).

To examine the long-run relationship specified in Equation (2), it is necessary to establish cointegration among the variables. Accordingly, the bounds testing approach developed by Pesaran & Shin (1996) is applied within the autoregressive distributed lag (ARDL) framework, which is suitable for variables integrated of different orders, such as I (0) and I (1). The subsequent step involves estimating the unrestricted error correction model (UECM) corresponding to Equation (2) using ordinary least squares (OLS).

$$
\begin{aligned}
\Delta FDI_t\ =\ &C_0 + \sum_{i=1}^{p} \gamma_{1i}\,\Delta FDI_{t-i} + \sum_{i=1}^{q1} \gamma_{2i}\,\Delta GDPP_{t-i} \\
&+ \sum_{i=1}^{q2} \gamma_{3i}\Delta\ IFRS_{t-i} + \sum_{i=1}^{q3} \gamma_{4i}\ \Delta\ CPI_{t-i} \\
&+ \sum_{i=1}^{q4} \gamma_{5i}\ \Delta\ trade_{t-i} + \sum_{i=1}^{q5} \gamma_{6i}\ \Delta\ POP_{t-i} \\
&+ \sum_{i=1}^{q6} \gamma_{7i}\ \Delta\ oil_{t-i} + \beta_1 FDI_{t-i} + \beta_2 GDPP_{t-i} \\
&+ \beta_3\ IFRS_{t-i} + \beta_4 CPI_{t-i} + \beta_5 trade_{t-i} \\
&+ \beta_6 POP_{t-i} + \beta_7 oil_{t-i} + \epsilon_t \quad (3)
\end{aligned}
$$

Where Δ denotes the first difference operator, $\gamma_{1i},…,\gamma_{7i}$ represent the short-run dynamic coefficients of the respective variables with lag lengths p, $q_1,…,$ q6, respectively. The coefficients $\beta_1,…,\beta_7$ capture the long-run relationships among the variables included in the cointegrating equation, and ϵ_t is assumed to be a white-noise error term (Elroukh, 2024)

$$
\begin{aligned}
FDI_t\ =\ &C_0 + \sum_{i=1}^{p} \gamma_{1i}\,\Delta FDI_{t-i} + \sum_{i=1}^{q1} \gamma_{2i}\,\Delta\ GDPP_{t-i} + \sum_{i=1}^{q2} \gamma_{3i}\Delta\ IFRS_{t-i} \\
&+ \sum_{i=1}^{q3} \gamma_{4i}\ \Delta\ CPI_{t-i} + \sum_{i=1}^{q4} \gamma_{5i}\ \Delta\ trade_{t-i} \\
&+ \sum_{i=1}^{q5} \gamma_{6i}\ \Delta\ POP_{t-i} + \sum_{i=1}^{q6} \gamma_{7i}\ \Delta\ oil_{t-i} \\
&+ +\psi\ EC_{t-1} + \mu_t \quad (4)
\end{aligned}
$$

Equation (4) investigates the short-run dynamics, a restricted error correction model (ECM), the coefficient on the error- term, denoted by ψ, is expected to be negative and less than one in absolute value, indicating convergence toward the long-run equilibrium following a shock (Nkoro & Uko, 2016)
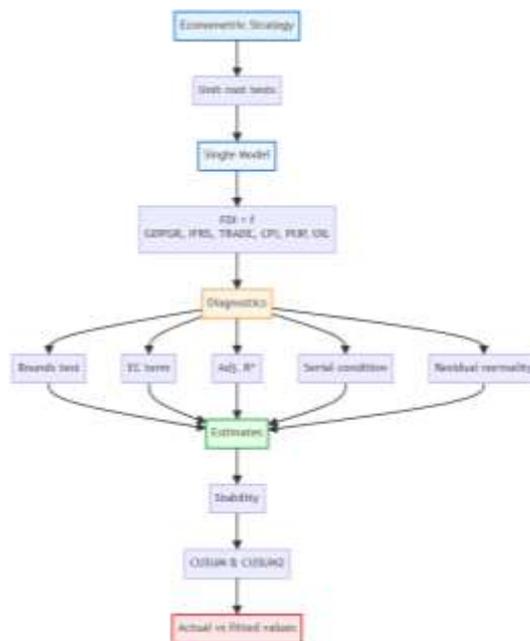
Source: prepared by authors.

4. RESULTS

4.1 Descriptive Statistics

As shown in Table 2, the descriptive statistics suggest that all variables follow an approximately normal distribution, as evidenced by Jarque-Bera test results.

Table 2: Descriptive statistics.

	GDPP	TRADE	CPI	FDI	POP	OIL
Mean	1.350309	4.290199	4.543356	-0.004409	17.039863	3.507906
Median	1.428925	4.293037	4.554494	0.197045	17.162163	3.508820
Maximum	2.833963	4.565417	4.862554	1.260167	17.410324	4.252637
Minimum	-0.582106	4.026929	4.220888	-2.111903	16.183724	2.771270
Std. Dev.	0.915107	0.177826	0.223465	0.933171	0.349252	0.314584
Skewness	-0.222149	0.049445	-0.012622	-0.631539	-0.936513	0.100855
Kurtosis	2.564551	1.584039	1.364397	2.588644	2.872331	2.657033
Jarque-Bera	0.354764	1.846830	2.452848	1.617530	3.230815	0.277048
Probability	0.837460	0.397160	0.293340	0.445408	0.198810	0.870642
Sum	29.70680	94.38438	99.95384	-0.096995	374.8770	147.3321
Sum Sq. Dev.	17.58583	0.664066	1.048665	18.28697	2.561509	4.057489

Source: Author's data computed using EViews

4.2 Stationary unit root tests

The findings of the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests in table [3] reveal those certain variables—specifically foreign direct investment (FDI), oil revenue (OIL) and the economic growth rate (GDPP) are stationary at the level, indicating integration of order zero [I (0)]. In contrast, other variables, including trade openness, trade, gross capital formation (GCF), population (POP), and inflation (CPI), become stationary only after first difference, signifying order one [I (1)]. This combination of I (0) and I (1) variables satisfies the prerequisites for employing the Autoregressive Distributed Lag (ARDL) modeling approach.

Table 3: Results of unit-root tests.

Variables	ADF		PP	
Intercept	**P value (0) at level**	**P value (I) at first difference**	**P value (0) at level**	**P value (I) at first difference**
GDPP	0.0001	---------	0.001	-----------
TRADE	0.1005	0.0004	0.2917	0.0002
FDI	0.0067	---------	0.0018	-------
CPI	0.9583	0.2226	0.9893	0.0245
POP	0.9345	0.0000	0.0000	-----------
OIL	0.0068	---------	0.0065	----------
Trend & Intercept				
GDPP	0.0003	----------	0.0003	---------
TRADE	0.2972	0.0029	0.6233	0.0012
FDI	0.0400	-------	0.0060	--------
CPI	0.1990	0.0292	0.7882	0.0352
POP	0.1961	0.0254	0.9296	0.3469
OIL	0.0413	-------	0.0396	----------
None				
GDPP	0.0000	----------	0.0000	----------
TRADE	0.4022	0.00000	0.4136	0.0000
FDI	0.0012	-------	0.0012	--------
CPI	0.9393	0.0707	0.9932	0.0073
POP	0.8716	0.0768	0.9999	0.0846
OIL	0.0565	0.0000	0.0565	0.00000

Source: Author's calculations using EViews 13

4.3 Long run, short run, and Diagnostic test

As presented in Table [4], the error correction term (ECM) is estimated at –0.8848, indicating that approximately 88% of the deviation from the long-run equilibrium is corrected in the subsequent period. The negative and statistically significant

coefficient provides strong evidence of a stable long-run equilibrium relationship among the variables, indicating a relatively high speed of adjustment toward equilibrium following a short-term shock.

Panel A of Table 4 reports the long-run ARDL estimates. The application of IFRS exerts a positive and statistically significant effect on FDI, suggesting that enhanced transparency, improved data comparability, and unhindered capital flows have facilitated foreign direct investment in Saudi Arabia. This result is consistent with (Lungu et al, 2017; Yousefinejad et al., 2018; Gu & Prah, 2020; Tudor, 2022; Morshed, 2024). GDP per capita (GDPP), inflation, and trade openness (proxied by the trade-to-GDP ratio) also display positive and significant coefficients, indicating that trade liberalization has successfully attracted additional FDI. In contrast, population (POP) and oil revenue (OIL)coefficients are statistically insignificant, implying no discernible long-run impact on FDI.

Panel B presents the short-run ARDL results. The findings reveal that trade openness exerts a negative short-run effect, suggesting that greater integration into international trade may initially impose adjustment costs on the domestic economy. Inflation displays a dual effect: while current inflation stimulates the dependent variable in the short term, its lagged values exert a negative influence, indicating that persistent inflation undermines economic performance. A similar pattern is observed for population dynamics, where immediate population growth contributes positively, but its lagged impact becomes detrimental, possibly reflecting pressures on resources and labor markets. By contrast, oil revenues do not exhibit a statistically significant short-run effect, implying that fluctuations in oil income are less relevant for short-term dynamics within the model.

Panel C presents diagnostic tests, which confirm the adequacy and robustness of the estimated model. The Jarque-Bera test indicates that the residuals are normally distributed. Additionally, the Breusch-Godfrey LM test suggests the absence of serial correlation, and the residuals exhibit homoscedasticity. The Ramsey RESET test further confirms that the model is correctly specified in terms of its functional form. Finally, the R-squared value of 0.80 indicates a strong goodness of fitness, suggesting that the model explains a substantial proportion of the variation in FDI

Table 4: Long run and short run, and Diagnostic test results of the ARDL model.
Panel A: Long-Run Results

variable	coefficient	Standard Error	T-Statistic	Level of Significance
GDPP	0.120506	0.047236	2.551129	0.0172
IFRS	2.253038	1.021713	2.205157	0.0369
TRADE	0.096264	0.035324	2.725187	0.0116
CPI	0.213956	0.059762	3.580151	0.0014
POP	-3.96E-08	4.18E-08	-0.947406	0.3525
OIL	-0.110005	0.078896	-1.394303	0.1755

Panel B: Error Correction Model (ECM) and Short-Run Results

variable	coefficient	Standard Error	T-Statistic	Level of Significance
COINTEQ	-0.8848	0.1056	-8.3817	0.0000
D(TRADE)	-0.114734	0.031702	-3.619209	0.0013
D(CPI)	0.042876	0.018226	2.352477	0.0268
D (CPI (-1))	-0.104269	0.019691	-5.295393	0.0000
D (CPI (-2))	-0.034116	0.011925	-2.860930	0.0084
D(POP)	2.75E-06	1.09E-06	2.510009	0.0189
D (POP (-1))	-6.83E-06	1.26E-06	-5.435287	0.0000
D(OIL)	-0.009939	0.032947	-0.301657	0.7654
R-squared: 0.80		Adjusted R- squared: 0.766	Durbin- watson: 1.899	
F-statistics: 15.	P-value(F): 0.000			

**Panel C:** Diagnostic Tests for Model Validity

test	Statistic	p-value
Jarque- Bera	0.786	0.7715
LM test	= 18.27	0.1755
Breusch-Pagan-Godfrey	0.817	0.6452
Ramsey RESET	0.541	0.4690

Source: Author's calculations using EViews 13

Figure 3 displays the results of the CUSUM& CUSUM of Squares test, employed to assess the structural stability of the model's parameters over time. The test statistics remain entirely within the 5% significance bounds, indicating no evidence of structural instability throughout the study period. This confirms that the model's estimates are robust and reliable, unaffected by structural breaks or shifts

in the underlying data.
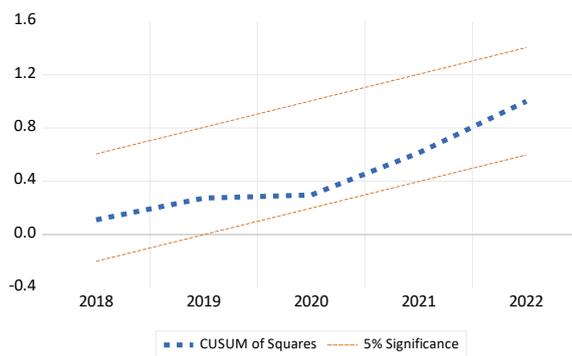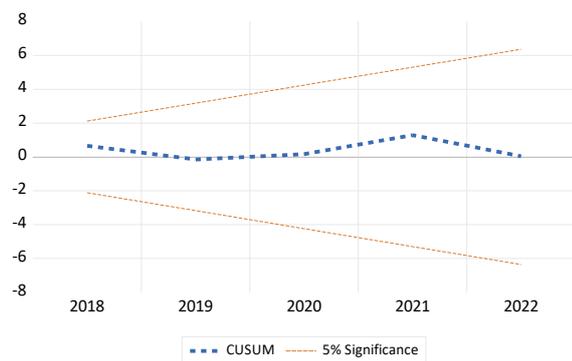
5. CONCLUSION

The study examines the effects of International Financial Reporting Standards (IFRS) adoption, oil rents, trade openness, and economic growth on foreign direct investment (FDI) in Saudi Arabia for the period 1980–2024, in line with the Kingdom's vision to realize Vision 2030 objectives.

The findings concluded that the adoption of IFRS had a positive significant effect on the attraction of FDI since it stimulates transparency, accountability, and comparability of financial reporting which reduces information barriers and transaction costs for foreign investors. Both economic growth and trade openness were also found to have a significant positive impact on FDI inflows, showing the importance of an open and thriving economy for stimulation of foreign investment. On the contrary, oil rents had no significant effect on FDI, which means that relying solely on oil revenues is not efficient to drive foreign investment in the long run. Based on these findings, the report recommends that Saudi Arabia should further adoption and consolidation of IFRS implementation as a strategy tool for boosting investor confidence and improving the business climate of Saudi Arabia. institutional and regulatory frameworks in favor of IFRS will further increase investment flows.

On the study limitations, analysis was constrained by the availability of data and the limited number of variables that can be applied in this study, which may not capture all the institutional or political FDI determinants. Therefore, there is scope to expand further research to expand the scope of the current model by including governance quality, innovation drivers, and financial market development to capture determinants of FDI in Saudi Arabia more accurately.

In short, the findings emphasize that the adoption of IFRS, in addition to trade liberalization and sustained economic growth, is amongst the top factors that drive foreign investment attraction and enhance the Kingdom's vision of a diversified and sustainable economy.

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