

## The role of entrepreneurship in economic development in Saudi Arabia

Nadia Yusuf

Nisreen Ismail Albanawi

King Abdulaziz University, Jeddah, K.S.A

---

### Keywords

Consumption Factors; Economic Development; Entrepreneurship; Gross Domestic Product; Saudi Arabia.

### Abstract

*One of key objectives of modern economics is to determine factors that influence the economic development. This paper, therefore, seeks to discuss entrepreneurship as one of the factors that influence the economy of a nation, either directly or indirectly. It is a fact that entrepreneurship plays a significant part in shaping the landscape of a country's economy. Economists and policy makers recognize this fact. In fact, entrepreneurship is the engine of economic growth and it has come to be perceived as a catalytic agent for expansion and promotion of productive activities in every sphere of global economy life. This research will focus on finding out how entrepreneurship influences the economy of Saudi Arabia. The paper will begin with a brief introduction of the topic before proceeding to present a comprehensive review of literature relevant to the topic. It will then proceed to present an overview of relevant variables used in determining the role played by entrepreneurship in the economy of Saudi Arabia. There will then follow a discussion on the disadvantages of entrepreneurship to the economy. The paper will end with a conclusion summarizing all the keys points discussed, research limitations, and recommendations for further research.*

---

### Introduction

Entrepreneurship is generally described as the ability of an individual or a group of individuals to create or discover an opportunity and utilize it to the benefit of the society, which, in turn, will bring success to the innovators and their organization. The relationship between entrepreneurship and economic growth of a country has increasingly gained a lot of interest from economists and policy makers over the years. However, while some view it as a direct relationship, others see it as an indirect kind of relationship. According to Sarkar (2014), this interest has been fueled by the desire to understand how entrepreneurship influences the economy of a country. Both the economists and policy makers recognize the effect of entrepreneurship on the economy of a country. In fact, entrepreneurship has been considered as the engine of economic growth and it has come to be perceived as a catalytic agent for expansion and promotion of productive activities in every sphere of economic life all over the world. According to Sarkar (2014), entrepreneurship spreads through every aspect of economic growth, it does not only drive economic development by introducing new combinations, but it also introduces incremental improvements that exert large cumulative impact over time.

In addition, entrepreneurship continually mixes up newly introduced and already existing productive resources among competing uses hence enhancing the efficiency of allocation (Sarkar, 2014). It also creates the overall prices within which business decisions are made and influences the rules of the game through which production and exchange are carried out (Sarkar, 2014). In developing countries, the process of economic growth is largely dependent on the entrepreneurial activities of the population. The well-planned and well-coordinated activities of entrepreneurs in a nation can bring about a high economic growth rate. In Saudi

Arabia, entrepreneurship is one of the key factors that contribute to the balanced and rapid growth of the country's economy (Kelley, Bosma, & Amorós, 2010). In addition, entrepreneurship may largely contribute to proper utilization of resources, establishment of a developed self-sufficient society, and creation of employment opportunities in Saudi Arabia (Hamod, 2010). This paper discusses how the entrepreneurial spirits of the people living in Saudi Arabia contribute to the rapid development of the country's economy.

### Literature Review

Kayed and Hassan (2013) argue that in the face of numerous challenges that confront the economic development course in Saudi Arabia must pursue, or at least consider, a viable diversification strategy in order to deal with such challenges. Some of the diversification strategies that have enabled Saudi Arabia to confront challenges that hinder its economic growth are the promotion of entrepreneurial spirit among its citizens and creation of policies that promote entrepreneurship. In the past, entrepreneurship was rarely practiced in Saudi Arabia due to unfavorable environment like enforcement of contracts and labor issues within the regulatory system in the country and lack of entrepreneurial skills among the citizens. However, following the introduction of entrepreneurial training programs and implementation of favorable policies by the government, the image of Saudi Arabia has changed drastically in respect of entrepreneurship (Thurik, Carree, Stel, & Audretsch, 2008). Now the economic growth rate of the country has increased significantly owing to a large number of entrepreneurs that have emerged, especially in the field of technology. The effort of the Saudi government towards entrepreneurial motivation and development has yielded a positive impact on the country's economy. Kayed and Hassan (2013) believe that because of the environment that is favorable for entrepreneurship, Saudi Arabia currently has a huge number of new breed of entrepreneurs that is gradually shaping the country's economic landscape. According to Sarkar (2014), these devoted male and female entrepreneurs are 'pushing the envelope' in their individual communities and defying old conjectures regarding risk aversion and value creation in the Arab world (Sarkar, 2014).

Faria, Cuestas, and Mourelle (2010) argue that entrepreneurship is the engine of economic growth in Saudi Arabia, and it has come to be perceived as a catalytic agent for expansion and promotion of productive activities in all spheres of economic life in every part of the country. According to Hamod (2010), entrepreneurship is one of the key factors that have contributed to the balanced and rapid growth of the country's economy. Hamod (2010) believes that entrepreneurship in Saudi Arabia has spread through every aspect of economic growth, thus it does not only drive economic development by introducing new combinations, but it also introduces incremental improvements that exert large cumulative impact on the economy over time. In addition, entrepreneurship has largely contributed to proper utilization of resources, establishment of a developed self-sufficient society, and creation of employment opportunities in Saudi Arabia. Kayed and Hassan (2013), assert that entrepreneurs play a major role in the economic growth in Saudi Arabia. With the help of their strong initiative, skill, drive, and spirit of innovation, entrepreneurs have brought significant changes in the process of economic growth. "Entrepreneurs are highly motivated individuals who are always action oriented and prepared to take all risks to attain their economic goals" (Tiwari, 2007).

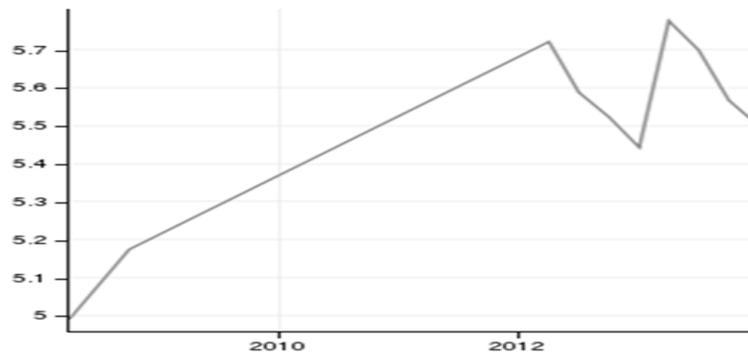
Daniel Smith, in his article titled "The Role of Entrepreneurship in Economic Growth" argues that even though a number of classical factors of economic development influence entrepreneurship in Saudi Arabia, it remains as one of the key factors that influence economic development of a nation (Smith, 2010). He argues, "If there is a single factor that influence

entrepreneurship not included among the classical factors of economic development and entrepreneurship does have an impact on economic development, then entrepreneurship ought to be considered as an additional separate factor of economic development" (Smith, 2010).

### Discussion

In a bid to appreciate the role played by entrepreneurship in shaping the economy of a state, the ensuing discussion tries to pursue the practicability aspect of it. In order to understand fully the role of entrepreneurship in economic development, it is prudent to consider it in light of dependent and independent variables. One way in which entrepreneurship contributes to the economy of a country is, rather obviously, through the creation of job opportunities. In many cases, the economic wellbeing of a country is measured by the rates of employment. In Saudi Arabia, the situation is not different. Throughout the years, entrepreneurship has played a key role in shaping the country's economy, a factor which has led it to be rated among the fastest growing economies in the world.

The employment plan of 2014, Saudi Arabia has seen an increase in the level of employment. According to the country's Ministry of Labor, although there has been a slight increase in the number of those who are unemployed, there rate at which people have been recruited for jobs has increased compared to previous years (Muhammad, Nd). Such growth has been majorly attributed to entrepreneurial activities in the country, and in particular, the small and medium size enterprises, which are said to create about thirty five thousand job opportunities annually. The sentiments are shared by the Central Department of Statistics and Information, which, in 2013, produced a report to the effect that the unemployment rate stood at 5.5%. That was a decrease in the unemployment rates, compared to the 6.3% in 2006. Going by the statistics provided at the national level, therefore, there is no doubt as to the role played by entrepreneurship in job creation in Saudi Arabia. The growth witnessed in the private sector has seen many individuals, especially young adults, finding means of earning a living, as illustrated in the figure-1, below.



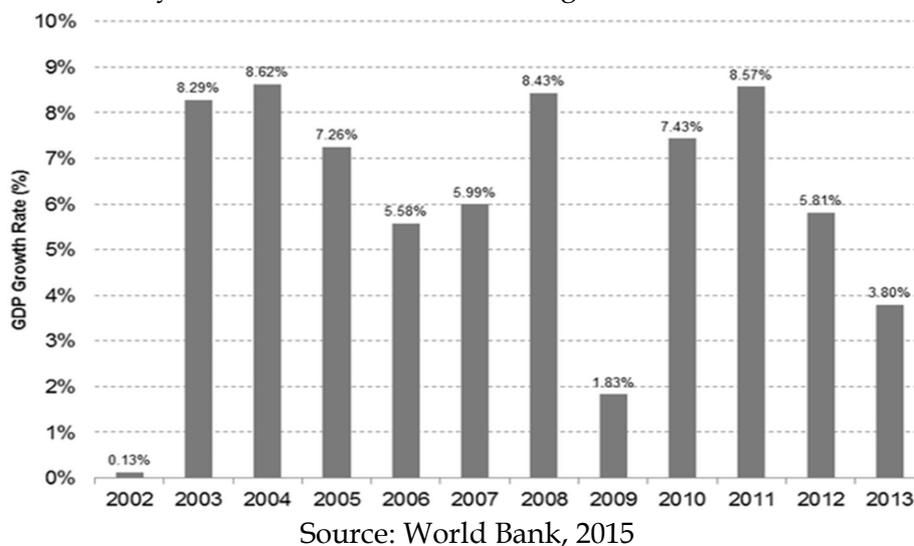
Source: Quandl, 2015

Figure 1. Unemployment Rate in Saudi Arabia

As it can be seen on the graph, the unemployment rate in Saudi Arabia has been on the fall since 2013. Another way in which entrepreneurship has contributed to the development of the economy of Saudi Arabia is through resource and wealth distribution. In previous years, it was only the capital city and a few urban areas, which used to reap the benefits of entrepreneurship. The reason behind this was the fact that most of the large and well-established companies avoided conducting business in rural areas, for the fear that they would incur losses. Consequently, there resulted economic imbalance in the country, since resources and wealth were concentrated in the capital city and a few urban centers.

However, this is no longer the case. The Ministry of Labor, upon realizing this, started various programs to support young entrepreneurs who were willing to start business in rural areas. A good example is the entrepreneur development program, which seeks to identify young talents and mentor them on matters to do with entrepreneurship and economics. As a result, there has been a re-distribution of wealth and resources across the country, hence creating some sort of economic balance, though this is still a work-in-progress.

Entrepreneurship has also played a major role in Saudi Arabia's Gross Domestic Product (GDP) growth rate (Salem, 2014). As economics dictate, the growth of a country is measured by its GDP in one year. Simply put, GDP is the aggregate value of the final goods and services produced in a country within a period of one year. GDP, therefore, reflects the economic status of a country, since it shows how rich or poor a country is at a specific time. In the last few years, there has been consistent GDP growth rate in Saudi Arabia, leaving no doubt that the country's productivity is constantly on the rise, as shown in the figure-2, below.



Source: World Bank, 2015

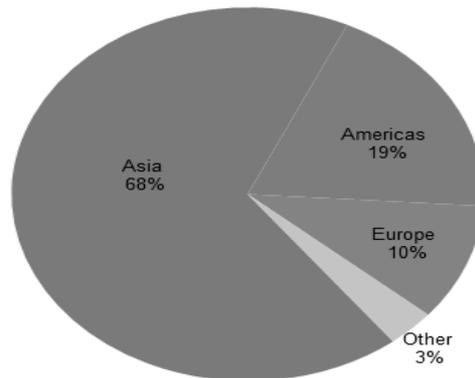
Figure 2. Saudi Arabia Annual GDP Growth Rate

Judging from the figure above, although there have been variations in the growth rate; Saudi Arabia's GDP has always been increasing on an annual basis. The presence of a positive growth works to prove that the value of goods and services produced in one particular year, is always higher than the previous year. Increased productivity in the country is largely attributed to increased entrepreneurial activities compared to the previous years. For instance, young adults have taken up the challenge through innovation, a factor that has intensified competition in the various industries within the economy.

It is highly undisputable that in deed entrepreneurship has greatly contributed to the production of goods and services in Saudi Arabia. In essence, it is through entrepreneurial activities that the major factors of production are brought together in order to produce goods and services. The entrepreneur development programs across the country have acted as a catalyst in unleashing the potential in young adults, something that was not so prevalent about a decade ago.

Increased exports is another result of entrepreneurship in Saudi Arabia. As it is widely known, the country is the second largest producer of oil after Russia, something that has worked to boost its economy (Summers, 2012). Moreover, it is the largest producer and exporter

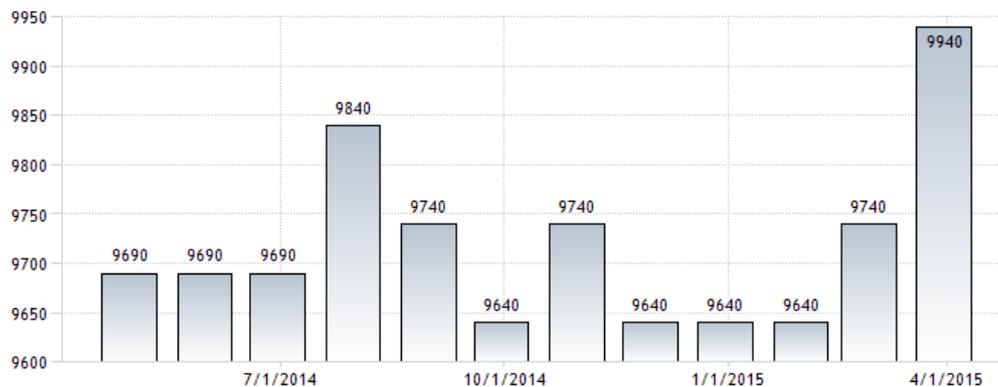
of petroleum products in the world. For instance, the figure-3, below shows the external destinations of Saudi Arabian oil in the year 2013.



Source: Global Trade Information Services, 2013

Figure 3. The external destinations of Saudi Arabian oil in the year 2013

The pie chart above clearly shows that majority of Saudi Arabia's export market lies within the Asian continent, with China being the major market. Africa is included among the 3%, reason being most African countries import oil from either the Far East, or West African countries. Just as crucial as the exportation of a major product is to any country, oil production and exportation is the backbone of Saudi Arabia's economy. The country exports seven million barrels of oil a day. Bearing in mind that one barrel of oil goes at about \$125, the contribution it has to the economic growth and stability of the country cannot be underestimated. The figure-4, below serves as prove of the increased oil production in 2015.



Source: Trading Economics, 2015

Figure 4. Saudi Arabia Crude Oil Production

A keen observation from the figure above indicates that during the month of April 2015, the barrels of oil produces in the country are the highest in the last one year. The increase is highly attributed to the increased investments in the oil production industry, which has seen many entrepreneurs take risks to invest their capital towards oil production (Alhajji, 2015).

Largely also, entrepreneurship has promoted creativity and innovation in Saudi Arabia (Alsodais, 2013). One major advantage of entrepreneurship, not only in Saudi Arabia, is that it promotes creativity and innovation in the country. In fact, the desire to produce goods and services different from the ones already existing in the market is always the driving force behind entrepreneurship. Identification of a market niche is followed by creativity and innovation, since the product, which an entrepreneur is anticipating to introduce in the market has to be of a unique nature.

The economic wellbeing of Saudi Arabia largely depends on the value of its products in the international market. The value of a country's products in the international market depends on their quality as compared to products of the same nature from other countries. Saudi Arabia's economy has been growing consistently, thanks to the competitiveness of its products at the international market. Increase in entrepreneurial activities in the country is what has yielded such results, hence stabilizing the economy of the country. This is because the increase in innovation has led to improved technologies, which are used in the production of large quantities of quality goods and services. Innovation is closely related to the creation of new markets, which is another role played by entrepreneurs in the economic development of Saudi Arabia. As earlier discussed, the desire of entrepreneurs is to succeed in the market. However, due to the congestion in the Saudi Arabian market, many entrepreneurs opt to penetrate external markets, hence clearing the way for products that are locally manufactured. The rate of new markets creation in this context is a dependent variable that relies on entrepreneurship, in that the more players there are in the economy, the more new external markets will be created.

Another key role played by entrepreneurship in shaping the economy of Saudi Arabia is the improvement of living standards. As earlier discussed, entrepreneurship facilitates the creation of jobs in the country, a factor which creates income to individuals. Because of the increased income, individuals gain more purchasing power, and hence are able to purchase the goods and services available to them through the market. This is based on the economic assumption (Keynesian theory) that expenditure increases with income. In such a case, expenditure is a dependent variable that depends on income as the independent variable, as shown in the figure-5 below.

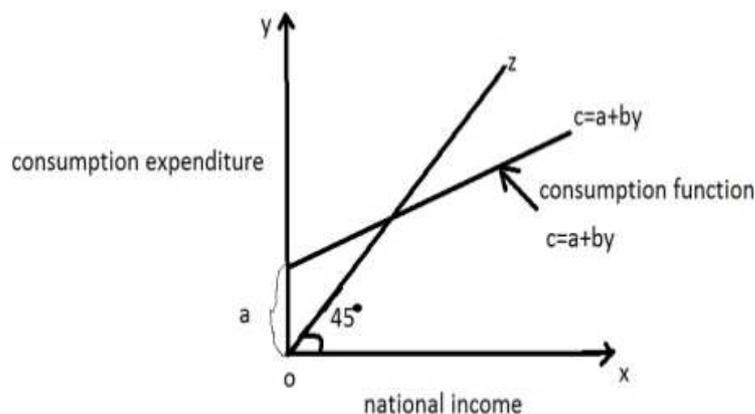


Figure 5. The Consumption factor

In the figure above, the X-axis represents the national income, what can also be considered earnings of individuals, while the Y-axis represents expenditure. Curve "z" suggests that the relationship between income and expenditure is directly proportional in that, an increase in income leads to an increase in expenditure. However, it should be noted that in this case, the x-axis represents the independent variable and the y-axis represents the dependent variable. The result is that the economy of the country is boosted by a large extent.

Finally, another important aspect about entrepreneurship is that it is a source of government revenue. This is achieved in a number of ways, for example, the taxes levied on the locally produced goods and services, as they enter the market. Saudi Arabia's economic growth is attributed to the increased annual revenues collected by the government. This is due to the increased scales of production, due to an increment in the entrepreneurial activities in the

kingdom. Another way of earning government revenue is through the excise duty taxed at the port when entrepreneurs are importing raw materials, machinery and other products from the external market into the country. The benefits of all these are usually reflected in the country's economy.

### **Shortcomings of Entrepreneurship on Economic Development**

As much as entrepreneurship plays a significant role in the economic development of Saudi Arabia, there are also ways in which it undermines the growth of the economy. One of the ways in which it impacts undesirably on the economy, is the inflation. Simply defined in economic terms, inflation refers to an instance in the economy of a country, where there is too much circulation of its currency in the economy. An entrepreneurial culture in a state creates a situation whereby people are willing to invest in the production of local goods and services. For instance, the most commonly produced goods in Saudi Arabia are petroleum related. Since petroleum is the most readily available resource, almost all the entrepreneurs produce goods of the same nature. In order to be able to sell their products in the competitive markets, some will be willing to sell less than the true value, hence leading to inflation in the country.

The other shortcomings of entrepreneurial activities in Saudi Arabia is environmental degradation. As entrepreneurs invest in production, they end up over-exploiting the natural resources to depletion. Such resources include the mineral resource (copper and gold), oil and water. This has seen the government come up with various policies in order to control the level of natural resource exploitation, to safeguard the future generation. The danger of over-exploitation of natural resource is that it places the future of the country's economy in jeopardy, since there might be no more natural resources in future from which to produce. Therefore, if not well regulated, entrepreneurship may cause the economy more destruction than that which is fathomable.

### **Conclusion**

Up to this point, it is worth appreciating the key role played by entrepreneurship in the development of the economy. In some instances is direct while in others it can be indirect (Bathelt, 2001). The bottom line is that it is such a crucial factor that cannot be ignored. The government of Saudi Arabia, therefore, should endeavor to promote an entrepreneurial culture in the country. There are so many young talents willing to take up the challenge. However, lack of capital and the relevant knowledge and skills acts as deterrents. This paper has majorly focused on the role played by entrepreneurship in the economic growth of Saudi Arabia. This, however, is not exhaustive. On the other hand, the disadvantages of entrepreneurship to the economy should not be ignored either. This is because they pose a great danger to the future of the economy.

There is a great need for the country to promote entrepreneurship through formulation of supportive policies. However, this calls for the policy makers to understand first what factors influence entrepreneurship (Thurik, Carree, Stel, & Audretsch, 2008). The curriculum in the higher institutions of learning should also be structured in a way to incorporate entrepreneurship. Majority of the institution's curriculum have nothing to do with this, and this poses a danger to the future of the entrepreneurship culture in the country. Incorporating entrepreneurial values and principles in school curriculum will work to impart the necessary knowledge and skills among students with regard to self-employment. Such a system has been tested and has been proved to yield results in countries such as China and Japan.

However, it is still not certain as to what extent should such study be incorporated in the learning curriculum. This is one of the important questions should be answered by future research. This research has focused on this relationship, aiming to explore how entrepreneurship influences the economy of a nation. In particular, this paper has sought to discuss how the entrepreneurial spirits of the people living in Saudi Arabia contribute to the rapid development of the country's economy. All the literature reviewed in this study showed that there is direct relationship between entrepreneurship and economic development of a country. This is confirmed by the results from the regression equation, which depicted that entrepreneurship significantly influences the economic growth of a nation.

There is recommended a more expansive and exhaustive future research on this. All the same, the findings of this study are equally important for economists and policy makers in Saudi Arabia as they show that the nation should focus on promoting entrepreneurship as one of enhancing the economic development. The connection between entrepreneurship and economic development of a country has continuously received a lot of from policy makers and scholars across the world. Yet, existing literature presents remarkably diverse views about this relationship.

### References

- Alhajji, A. (2015, 4 1). *Saudi Arabia Oil Prices and Shale Energy*. Retrieved from *Economia*: <http://economia.icaew.com/opinion/april-2015/saudi-arabia-oil-prices-and-shale-energy>
- Alsodais, S. (2013, 9). *Science, Technology and Innovation in Saudi Arabia*. Retrieved from WIPO: [http://www.wipo.int/wipo\\_magazine/en/2013/05/article\\_0006.html](http://www.wipo.int/wipo_magazine/en/2013/05/article_0006.html)
- Bathelt, H. (2001). Competence and economic Recovery: Divergent Growths Paths in Bostons High Technology Economy. *Entrepreneurship and Regional Development*, 287-317.
- Faria, J., Cuestas, J. and Mourelle, E. (2010), "Entrepreneurship and unemployment: a nonlinear bidirectional causality?" *Economic Modelling*, 27(10), 1282-1291
- GTI. (2013). *Exports Today*. Retrieved from Global Trade Information Services: <http://www.gtis.com/english/>
- Hamod, D. (2010), "Cultivating the entrepreneurial ecosystem in Saudi Arabia", *US-Arab Tradeline*, XVII (1) spring, 1-3.
- Kayed, R. & Hassan, K. (2013). *Islamic Entrepreneurship: Durham Modern Middle East and Islamic World Series*. New York: Routledge.
- Kelley, D., Bosma, N., & Amorós, J. (2010). *Global Entrepreneurship Monitor (GEM)*. Global Report: Babson.
- Muhammad, F. (Nd). *Entrepreneurship in the Kingdom of Saudi Arabia*. Retrieved from Young Saudi Entrepreneurs: <http://saudientrepreneurship.com/>
- Quandl. (2015, March). Saudi Arabia Unemployment Summary. Retrieved from [www.quandl.com](http://www.quandl.com): <https://www.quandl.com/collections/saudi-arabia/saudi-arabia-unemployment>
- Salem, M. I. (2014). *Building an Entrepreneurial Economy: Evidence From Developing Countries*. Retrieved from *International Business and Economic Research Journal*: [file:///C:/Users/StarKiss/Downloads/8599-34095-1-PB%20\(2\).pdf](file:///C:/Users/StarKiss/Downloads/8599-34095-1-PB%20(2).pdf)
- Sarkar, S. (2014). *International Journal of Finance and Policy Analysis*. London: Universal Publishers.

- 
- Smith, D. (2010) "The Role of Entrepreneurship in Economic Growth". *Undergraduate Economic review*: Vol. 6: Iss.1, Article 7. Retrieved from: <http://digitalcommons.iwu.edu/uer/vol6/iss1/7>
- Summers, D. (2012, 6 10). *How Saudi Arabia Will Influence The Oil Market to Benefit Their Economy*. Retrieved from Oilprice: <http://oilprice.com/Energy/Crude-Oil/How-Saudi-Arabia-Will-Influence-the-Oil-Market-to-Benefit-their-Economy.html>
- Thurik, R., Carree, M., Stel, A. and D. Audretsch. (2008), "Does self-employment reduce Unemployment?" *Journal of Business Venturing*, 23(6), 687-698.
- Tiwari, A. (2007). *Entrepreneurship development in India*. Mumbai: Sarup & Sons Publishers.
- Trading Economics. (2015). *Saudi Arabia*. Retrieved from Trading Economics: <http://www.tradingeconomics.com/saudi-arabia/gdp-growth-annual>
-