
Faisal Faisal ∗ Turgut Tursoy † Nil Günsel Resatoglu ‡

Abstract: The purpose of this study is to analyze the linkage between economic growth, financial development, and international trade for Saudi Arabia over the period of 1968-2015. The integration order among the series was analyzed by using structural break unit root tests. The long-run relationship was examined by using the ARDL bounds testing approach. The robustness of the ARDL bounds testing approach was confirmed by using the Bayer-Hanck combined cointegration method. The results confirm the long-run relationship among the variables. International trade appears to be the driver of economic growth, while financial development affects economic growth negatively in both the short-run and the long-run. However, the impact of capital was insignificant in both the short-run and long-run. Finally, the results of the Granger causality test confirmed the feedback hypothesis between financial development and economic growth on one hand, and capital and economic growth on the other hand. However, a short-run unidirectional causality was discovered from exports to economic growth, which validates the export-led growth hypothesis in this study.

Keywords: Saudi Arabia, Financial development, trade, combined cointegration.

∗PhD Candidate, Department of Banking and Finance, Faculty of Economics and Administrative Sciences, Near East University, North Cyprus, E-mail:faisal.faisal@neu.edu.tr
†Vice Chair and Assistant Professor, Department of Banking & Finance, Near East University, North Cyprus.
‡Chair and Assistant Professor, Department of Banking & Finance, Near East University, North Cyprus.
The Authors are thankful to the editor and the anonymous reviewers for their helpful comments and suggestions on the earlier version of the manuscript.