



Ministerie van Buitenlandse Zaken

Doing Business in Saudi Arabia

The Gulf region (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates) has experienced high economic growth in recent decades, due largely to their vast oil and gas reserves. Trade between the Netherlands and the Gulf States has increased remarkably and Dutch business have built up an excellent reputation. In 2016, the export of goods from the Netherlands to the Gulf reached €6.4 billion. Diversification efforts in the Gulf countries – aimed at reducing dependence on oil and gas and increasing the share of the private sector in the economy – offer new opportunities for Dutch companies in the areas of agriculture and horticulture, (renewable) energy, transport and logistics, aviation and health care.

The Kingdom of Saudi Arabia's modern economic history began with the discovery of oil in 1938. Since the oil boom of the 1970's, it has rapidly developed a modern infrastructure. Despite having the world's largest proven oil reserves, the population keeps steadily growing. In light of economic diversification and long-term prosperity, Saudi Arabia has recently embarked upon a new economic journey with an ambitious *Vision 2030*.

The centerpiece of Vision 2030 is a five-year plan known as the National Transformation Plan (NTP), a program intended to restructure the Kingdom's entire economy. A core component of the NTP is for 40% of projects during the five-year period to be funded by the private sector, with the aim of reducing financial pressure on the state.

Reasons for establishing such transformative policies is the fact that the powerful Gulf Kingdom is grappling with many challenges, including a number of demographic issues, such as a large, young population; fertility rates of almost 6 children per woman and a large expatriate population. The total population is expected to increase from the current 33 million to 38 million in 2030.

In Saudi Arabia almost half of the population is aged under 25, and a correlated youth unemployment rate of about 28%. The government responds to this by providing considerable subsidies. In a response to all the afore-mentioned, the Kingdom of Saudi Arabia is trying to stimulate growth in the private sector to boost employment rates.

The Kingdom is increasingly becoming accessible for foreign investors. Despite the fact that Saudization policies will reduce

the total number of foreign workers in Saudi Arabia, foreign investment will likely increase.

Water management

Scarcity of fresh water resources represents one of the major challenges facing the world in general and Saudi Arabia in particular. Suffering from absolute water scarcity, Saudi Arabia is witnessing decreasing availability of water per capita in addition to continuously increasing water consumption due to population growth, changing patterns in household consumption, and growing production. 90% of all fresh water consumption goes to agriculture.

As a result, the Kingdom has recently started various initiatives to encourage Saudi agricultural investments abroad. Earlier, Saudi Arabia reacted by resorting to desalination. In 1969, the first desalination plant was built, and many have followed. Currently, desalinated water contributes to meeting 59% of Saudi Arabia's water needs. Meanwhile, the Kingdom continues to invest in opportunities leading to alternative water resources and, more generally, those engaging in effective and efficient water governance.

Healthcare

The Saudi Arabian government funds the demand for healthcare capital and operating expenditures considerably. However, analysts believe that Saudi Arabia will be unable to continue this demand and, therefore, conclude that the only way to ensure that Saudi nationals' health needs will be met without adversely affecting economic progress is to increase private sector participation in the healthcare system. The government has recognized this situation and identified healthcare as one of the key sectors targeted in its wide-ranging privatization program.

The healthcare sector in Saudi Arabia is the largest in the Middle East and has huge potential for further development. Partly responsible for this is Saudi Arabia's population growth rate, which is the highest in the GCC. Rising life expectancies, increasing per capita incomes and a high incidence of lifestyle related diseases lead to an increased demand for healthcare services. The following sectors are particularly considered growth areas within Saudi Arabia:

- Generic pharmaceuticals: domestic manufacturing is actively encouraged and is also open to foreign investors who are then able to distribute their products in Saudi Arabia;

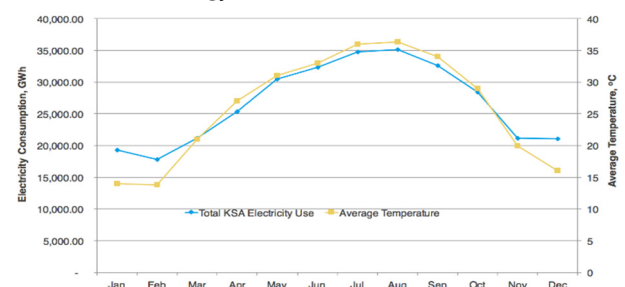
- Healthcare IT: as the infrastructure for technology improves in Saudi Arabia, healthcare IT will continue to develop;
- Education: there is a shortage in medically trained personnel in Saudi Arabia. As a result, the government supports the development of more medical education facilities, some of which will be available for private sector investment or international partnerships.

At present, the healthcare sector is not (yet) fully open to foreign investors. Indeed, foreign investment is possible only in hospitals with at least 100 beds. These hospitals, however, are permitted to be 100% owned by foreign investors, in line with Vision 2030 that is seeking to attract more investors from abroad. However, it should be noted that SAGIA is increasingly allowing foreign direct investments and full ownership.



Energy

The Kingdom's increasing population, its rising per capita income and the ability to export oil and gas are strongly interlinked. Domestic energy consumption constitutes approximately 25% of the total production of Saudi Arabia's petroleum and gas exports, a share which is consequently not used for exports. Buildings, ground transportation and industry consume a combined 90% of total energy consumption. In particular, air conditioning in Saudi Arabia accounts for roughly 70% of electricity consumption in residential, commercial, and government sectors during summer system peak hours. Total electricity use in Saudi Arabia is strongly correlated with the average temperature and, hence, shows seasonality (figure below). Hence, there is a need for both a sustainable and an efficient use of energy.



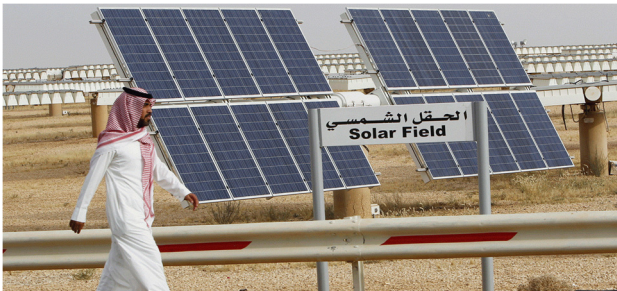
Energy efficiency

Energy efficiency investments in buildings, industry and transport are, in many cases, economically beneficial. Most of such investments have short payback periods – typically less than 3 years – with annualized rates of return after 10 years ranging from 30% to over 100%.

Renewable energy

Accelerating the Kingdom's renewable energy deployment program is a key component of economic transformation and Vision 2030. The Renewable Energy Project Development Office (REPDO) is responsible for all initiatives related to renewable energy in Saudi Arabia. Intermediate goals are to achieve a total renewable energy production of 3.45 GW by 2020, and 9.5 GW by 2023, 4% and 10% of the Kingdom's total generation capacity for the two years respectively.

Even though some tenders towards achieving this intermediate goal have been issued, there is much more to follow. The focus, however, is on wind, solar and waste-to-energy. Projects are typically open for both local and international investors with significant expertise, where the project is awarded to the investor with the lowest levelized cost of electricity in case there are multiple bidders. Energy generated at the sites will be sold to a limited liability company, guaranteed by Saudi Electricity Company (SEC).



Agriculture

As the most populous country in the region (65% of the total GCC population), Saudi Arabia is the largest food consumer. In 2016, Saudi Arabia accounted for 59% of the total GCC food consumption. About 90% of all food is imported and this percentage is unlikely to decrease. Saudi Arabia is turning to advanced water-saving agricultural solutions due to the harsh temperature conditions and lack of water resources. Examples of advanced agriculture are greenhouse technologies and irrigation management solutions. The Agricultural Development Fund (ADF) started a program with 7 initiatives that aimed to provide advanced solutions in a public-private

partnership approach for seven sub-sectors, being agricultural information, water, marketing of fruits and vegetables, poultry, dates, sheep husbandry, and fish and shrimp production. Dutch companies and institutions are successful in tendering on these initiatives. At present, implementation of the first studies in these initiatives are pursued.

In light of the decreasing domestic production in cereals, fodder and for the purpose of export, followed by the wheat production being phased out as of 2016, and strong domestic demand due to an ever growing population, Saudi Arabia is encouraging agricultural investments abroad for large-culture products to be then imported, targeting wheat, rice, barley, yellow maize, soybeans and green forage. Green fodder is to be phased out by 2019. Emphasis on domestic production under Vision 2030 is on water-saving horticulture, aquaculture and poultry production.

Construction and infrastructure

Under Vision 2030 greater private investment in non-extractive industries is a target, including construction, infrastructure and transportation. The construction and transportation sectors have traditionally been amongst the largest recipients of investment in the Kingdom. Investment in these sectors is now expected to further increase in the years to 2030, and to do so rapidly.

Dutch investors have historically engaged in construction projects in the Kingdom (e.g. King Fahd Causeway – a 25-km series of bridges and causeways connecting Saudi Arabia and Bahrain). Looking at the future, a significant element in Vision 2030 is the construction of a 48-km bridge across the Red Sea linking Saudi Arabia and Egypt. Given the pace inherent in the NTP, it is anticipated that it will not be long before tenders are issued and contracts are awarded. A plethora of opportunities is subsequently expected for work on a significant number of projects, ranging from mundane to significant flagship schemes.

Waste management

Due to its rapid industrialization, high population growth rates and fast urbanization, KSA has been witnessing increased levels of pollution and waste. Solid waste management has therewith become a big challenge for the government. With a population of around 33 million, KSA generates more than 15 million tons of solid waste each year – with the three largest cities only, being Riyadh, Dammam and Jeddah, exceeding 6 million tons per annum. Per capita waste generation is estimated at 1.5 kg per person per day.

The Saudi government is aware of the critical demand for waste management solutions, and is investing heavily in solving this problem. A methodical introduction of modern waste management techniques like material recovery facilities, recycling infrastructure and waste-to-energy systems, can significantly improve the situation and creates attractive investment opportunities.

Education

Ever since the establishment of the Kingdom in 1932, education has been high on the agenda. Nowadays, the Saudi Arabian education market is the largest within the GCC, accounting for more than 75% of the gross enrolment within the region and meeting the learning needs of as many as 8.5 million students at all education levels. The Saudi government highly values the education sector mainly because of its young population (nearly half of the population is younger than 25), the need to diversify the economy and the ambition of a transition into a knowledge-based economy.

In line with the 'Saudization' policy, investors are obliged to hire Saudi nationals as a certain percentage of their staff.

Do's and don'ts in Saudi Arabia

Crucial for successfully investing in the Kingdom is a thorough understanding of the culture, and respecting Islamic law. A well-established network, including local partners, is key to doing business in Saudi Arabia and will open doors. Realize that establishing a good relation with your business takes time and energy, but in this culture crucial for a good result.

How can we support your business?

If your company is in need of support, do not hesitate to contact the Netherlands Embassy in Riyadh. In a government-dominated environment such as Saudi Arabia, we can help open doors for you.

Our main services include:

- Finding potential business partners
- Providing information on sectors and rules and regulations
- Supporting trade missions
- Organizing meetings with relevant authorities at local, provincial or government level
- Monitoring business opportunities
- Trouble shooting and assistance in conflict situations
- Advising on available instruments and services
- Promoting Dutch business in Saudi Arabia

Relevant links and contact

Netherlands Enterprise Agency (RVO)

www.rvo.nl

Saudi Arabian General Investment Authority (SAGIA)

www.sagia.gov.sa

'NL exporteert' App

Download the app in the [App Store](#) (IOS) or in [Google Play](#).

Official name/capital	Kingdom of Saudi Arabia (KSA)/Riyadh
Population	32.9 million (September, 2017)
Area	2.15 million squared kilometers
Time difference	+1 (+2 during DST)
Currency	Saudi Arabian Riyal (SAR) 1 EUR = 4.47 SAR (September, 2017)
GDP growth rate	1.4% (2016e), 0.6% (2017f), 2.0% (2018f)
GDP per capita (and PPP GDP/c)	\$21,847 (and \$55,477)
Trade volume	\$205.3 bln. (EX, 2016), \$157.7 bln. (IM, 2016)
Global Competitiveness Index	29 (out of 138)
Ease of Doing Business	94 (out of 190)
Global Corruption Index	62 (out of 176)
Main trading partners	China, Japan, USA, India, Germany, South Korea, UK
Major exports	Petroleum (products) and gas
Major imports	Machinery, foodstuffs, chemicals, motor vehicles and textiles
Netherlands-KSA trade	Export: \$2.6 bln. (2016), Import: \$2.0 bln. (2016)
Memberships	WTO, OPEC, G-20, BIS, ICS, IOS, WCO, GCC, WBG, IMF.

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