Executive Summary

Saudi Arabia offers an attractive and relatively stable market for investment, particularly for investors that are able to overcome initial barriers imposed on foreigners. Despite political upheaval across the Middle East and North Africa, Saudi Arabia’s economy continues to expand at a healthy pace, with real GDP growth of 3.8% for CY2013. Improvement of the investment climate continues to be an important part of the Saudi Arabian government’s (SAG) broader program to liberalize the country's trade and investment regime, diversify an economy overly dependent on oil, and promote employment for a young population. The government encourages investment in transportation, education, health, communications technology, life sciences, and energy; as well as in four "Economic Cities" that are at various stages of development.

The Saudi Arabian General Investment Authority (SAGIA) provides information and assistance to foreign investors and works to foster investment opportunities in energy, transportation, and knowledge-based industries (see www.sagia.gov.sa). SAGIA also maintains and periodically reviews the list of activities excluded from foreign investment. The Saudi Industrial Development Fund (SIDF), an independent entity within the Ministry of Finance, is one important source of financing for investors.

Saudi Arabia’s foreign-direct-investment law permits foreigners to invest in all sectors of the economy, except for specific activities contained in a "negative list," currently three industrial sectors and 13 service sectors. The list includes real estate investment in Mecca and Medina, some subsectors in printing and publishing, audiovisual and media services, land-transportation services excluding inter-city transport by trains, and upstream petroleum. The complete “negative list” can be found at http://www.sec.gov.sa/getdoc/be8e7887-27b1-4bb7-9879-bd75f8ad9acf/list-of-types.aspx.

Investors are not currently required to purchase from local sources or export a certain percentage of output, and their access to foreign exchange is unlimited. There is no requirement that the share of foreign equity be reduced over time. Investors are not required to disclose proprietary information to the SAG as part of the regulatory approval process, except where issues of health and safety are concerned. The government does not currently impose conditions on investment, such as locating in a specific geographic area, committing to specific percentages of local content or local equity, substitution for imports, export requirements or targets, or financing only by local sources. However, the proposed national energy plan includes recommended local-content requirements of 80% or more for the sector.

The SIDF will provide additional incentives and better loan terms to foreign investors who set up their manufacturing facilities in the underdeveloped provinces of Jizan, Hail, and Tabuk. American and other foreign firms are able to participate in SAG-financed and/or -subsidized research-and-development programs.
Overall, Saudi Arabia offers attractive investment opportunities for American investors, and the climate has not significantly changed from the previous year.

1. **Openness to, and Restrictions upon, Foreign Investment**

Despite political upheaval across the Middle East and North Africa, Saudi Arabia’s economy continues to expand at a healthy pace, with real GDP growth of 3.8% for CY2013, and inflation at 3.4% at the end of 2013. Oil revenues through Saudi Aramco accounted for 85% of the Saudi Arabian government’s (SAG’s) current account receipts, and approximately 86% of total export revenue in 2013. Despite overspending its budget by 12.8%, the Kingdom enjoyed a fiscal surplus of 7.4% of GDP in 2013. The Kingdom holds foreign-exchange reserves estimated at around $730 billion and is one of the least indebted countries in the world.

Improving the investment climate continues to be an important part of the SAG's broader program to liberalize the country's trade and investment regime, diversify an economy overly dependent on oil, and promote employment for a young population. Saudi Arabia has made progress on its WTO commitments since joining the organization in 2005 and underwent its first Trade Policy Review in January 2012. However, it has yet to initiate negotiations to join the Government Procurement Agreement, as agreed to during its accession process to the WTO. In its "Doing Business 2013" report, the World Bank ranked Saudi Arabia 26th out of 189 economies in terms of ease of doing business, a marked improvement from 2005, when it ranked 67th, but a drop from 22nd place in 2012. In its "Corruption Perceptions Index 2013" report, Transparency International ranked Saudi Arabia as the 63rd-cleanest out of 177 countries in terms of perceived levels of public-sector corruption, down from 57th in 2011 but still better than in 2008, when it ranked 80th. In its 2013 “Economic Freedom Index,” the Heritage Foundation gave the Kingdom a score of 62.2 out of 100, a rise of 1.6 from 2012, placing it 77th of the 178 rated countries.

The government encourages investment in transportation, education, health, information and communications technology, life sciences, and energy; as well as in four "Economic Cities" that are at various stages of development. The Economic Cities are to be new, comprehensive developments in different regions focusing on particular industries. Prospective investors will find Saudi Arabia attractive for its economic stability, large market (with a population of over 28 million), sound infrastructure, and well-regulated banking system.

There are also disincentives to investment, specifically a government effort to force all employers to hire higher proportions of Saudis at higher costs, an increasingly restrictive visa policy for all foreign workers, extremely slow payment under some government contracts, a very conservative cultural environment, and enforced segregation of the sexes in nearly all business and social settings. Further, although the SAG is making progress towards establishing a commercial court system, there is no transparent, comprehensive legal framework for resolving commercial disputes in accordance with international standards. The indicator that most negatively impacts its World Bank “Doing Business” ranking is contract enforcement, where it ranks 127th out of 189.
The foreign-direct-investment law, revised in 2000, permits foreigners to invest in all sectors of the economy, except for specific activities contained in a "negative list," currently three industrial sectors and 13 service sectors. The list includes real estate investment in Mecca and Medina, some subsectors in printing and publishing, audiovisual and media services, land-transportation services excluding inter-city transport by trains, and upstream petroleum. The complete “negative list” can be found at http://www.sec.gov.sa/getdoc/be8e7887-27b1-4bb7-9879-bd75f8ad9acf/list-of-types.aspx.

The Saudi Arabian General Investment Authority (SAGIA) periodically reviews the list of activities excluded from foreign investment and submits its reviews to the Supreme Economic Council for approval. Although these sectors are off-limits to 100 percent foreign investment, foreign minority ownership in joint ventures with Saudi partners may be allowed in some sectors. Foreign investors are no longer required to take local partners in many sectors and may own real estate for company activities. They are allowed to transfer money from their enterprises outside of the country and can sponsor foreign employees. Minimum capital requirements to establish business entities range from zero to 30 million Saudi riyals ($8 million) depending on the sector and the type of investment.

In April 2000, the Council of Ministers established SAGIA to provide information and assistance to foreign investors and to foster investment opportunities in energy, transportation, and knowledge-based industries (see www.sagia.gov.sa). SAGIA operates under the umbrella of the Supreme Economic Council and is headed by Governor Abdullatif al-Othman. SAGIA's duties include formulating government policies regarding investment activities, proposing plans and regulations to enhance the investment climate in the country, and evaluating and licensing investment proposals. All foreign investment projects must obtain a license from SAGIA. Investments in specific sectors may require additional licenses from other government authorities, including, but not limited to, the Saudi Arabian Monetary Agency (SAMA), the Capital Market Authority (CMA), or the Communications and Information Technology Commission (CITC).

SAGIA’s Investor Service Center (ISC) offers detailed information on the investment process, provides licenses and support services to foreign investors, and coordinates with government ministries to facilitate investment. According to SAGIA’s regulations, the ISC must grant or refuse a license within 30 days of receiving an application and supporting documentation from the prospective investor. SAGIA established and posted new licensing guidelines in 2012, but it is still advisable for companies looking to invest in Saudi Arabia to work with local representation to facilitate the slow and often bureaucratic licensing process. Licenses in services and agriculture must be renewed after one year and in industry after two years. SAGIA’s aim is to ensure investors do not just acquire and hold licenses without investing.

SAGIA has agreements with various SAG agencies and ministries to facilitate and streamline foreign investment. These agreements permit SAGIA to facilitate the granting of visas, establish SAGIA branch offices at Saudi embassies in different countries, prolong tariff exemptions on imported raw materials to three years and on production and manufacturing equipment to two years, and establish commercial courts. SAGIA opened a Women’s Investment Center in spring 2003. To make it easier for businesspeople to visit the Kingdom, SAGIA can sponsor visa...
requests through the Chamber of Commerce, without involving a local company. Saudi Arabia is also implementing a decree stating that sponsorship is no longer required for certain business visas. While SAGIA has set up the infrastructure to support foreign investment, many report that the process remains cumbersome and time-consuming.

Pursuant to commitments it made when acceding to the WTO, Saudi Arabia has opened additional service markets to foreign investment, including financial and banking services; maintenance and repair of aircraft and computer reservation systems; wholesale, retail, and franchise distribution services; both basic and value-added telecom services; and investment in the computer and related services sectors.

Government bodies such as the Royal Commission for Jubail & Yanbu and the Al-Riyadh Development Authority have actively promoted opportunities in Saudi Arabia's industrial cities and other regions. In addition to the majority-government-owned Saudi Arabian Basic Industries Corporation (SABIC), private investment companies, such as the National Industrialization Company, the Saudi Venture Capital Group, and the Saudi Industrial Development Company, have also become increasingly active in project development and in seeking out foreign joint-venture partners.

The Saudi Industrial Development Fund (SIDF), an independent entity within the Ministry of Finance, is an important source of financing for investors. The main objective of the SIDF is to support the development of the private industrial sector by extending medium- to long-term loans for the establishment of new factories and the expansion, upgrading, and modernization of existing ones. Foreign investors are eligible to receive low-cost financing for up to 50%, 60%, or 75% of project costs (i.e., fixed assets, pre-operating expenses, and start-up working capital) depending on the level of development of the region. Loans are provided for a maximum term of 15 to 20 years, again depending on the region, with repayment schedules designed to match projected cash flows for the project in question.

There is no prohibition on foreign investment in refining and petrochemical development, and there is significant foreign investment in the downstream Saudi energy sector. ExxonMobil and Shell are both 50% partners in refineries with Saudi Aramco. ExxonMobil, Chevron Texaco, and Shell, as well as several other international investors, have formed joint ventures with SABIC to build large-scale petrochemical plants that utilize natural-gas feedstock from Saudi Aramco's existing operations at Ras Tanura. Aramco selected the Dow Chemical Company as its partner in a $20-billion joint venture to construct, own, and operate a chemicals and plastics production complex in Saudi Arabia's Eastern Province. The national mining company, Maaden, has a $12-billion joint venture with Alcoa for bauxite mining and aluminum production and a $7-billion joint venture with Mosaic and SABIC for phosphate-based fertilizers.

Joint ventures almost always take the form of limited-liability partnerships, to which there are some disadvantages. Foreign partners in service and contracting ventures organized as limited-liability partnerships must pay, in cash or in kind, 100 percent of their contribution to authorized capital. SAGIA's authorization is only the first step for setting up such a partnership. Still, foreign investment is generally welcome in Saudi Arabia if it promotes economic development,
transfers foreign expertise to Saudi Arabia, creates jobs for Saudis, and/or expands Saudi exports.

Professionals, including architects, consultants, and consulting engineers, are required to register with, and be certified by, the Ministry of Commerce and Industry, in accordance with the requirements defined in the Ministry's Resolution 264 from 1982. These regulations, in theory, permit the registration of Saudi-foreign joint-venture consulting firms. As part of its WTO accession commitments, Saudi Arabia generally allows consulting firms to establish an office in Saudi Arabia without a Saudi partner. However, offices practicing law, accounting and auditing, design, architecture, engineering, or civil planning or providing healthcare, dental, or veterinary services must have a Saudi partner, and the foreign partner's equity cannot exceed 75% of the total investment.

In 2002, the Supreme Economic Council announced the approval of a privatization strategy and procedures, open to domestic and foreign investors, and a timetable to transfer certain public services to the private sector. Twenty state-owned companies handling water supply and drainage, water desalination, telecommunications, mining, power, air transportation and related services, railways, some sectors of roadways, postal services, flour mills and silos, seaport services, industrial-cities services, government hotels, sports clubs, some municipality services, educational services, social services, agricultural services, health services, government portions of SABIC, banks, and local refineries were slated for privatization.

As a result of the privatization strategy, the Saudi Telecommunications Company (STC) floated a minority stake (approximately 20%) on the stock market in January 2003, netting close to $4 billion in proceeds. An additional 10% has since been offered for private ownership. The initial public offering of 50% of the formerly state-owned National Company for Cooperative Insurance (NCCI) was completed in January 2005. The first SABIC offering went public on December 17, 2005, for 35% of the newly formed Yanbu National Petrochemical Company (YANSAB) (to be capitalized at $1.5 billion). YANSAB is SABIC's largest petrochemical complex to date, and the IPO netted $533 million in capital.

In July 2003, the SAG took significant, long-awaited steps to lower the corporate tax rate on foreign investors to a flat 20%; however, separate rates apply to investments in hydrocarbons. The flat tax replaced a tiered system with tax rates as high as 45%. While this is a welcome step toward more balanced treatment of foreign and Saudi-owned capital, the tax structure still favors Saudi companies and joint ventures with Saudi participation. Saudi investors do not pay corporate income tax, but are subject to a 2.5% tax, or “zakat,” on net current assets.

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2. Conversion and Transfer Policies

There are no restrictions on converting and transferring funds associated with an investment (including remittances of investment capital, earnings, loan repayments, and lease payments) into a freely usable currency at a legal market-clearing rate. There have been no recent changes, but press reports have quoted the Minister of Labor as saying the SAG intends to limit remittances by foreign workers in the near future. There are no delays in effect for remitting investment returns such as dividends, repatriation of capital, interest and principal on private foreign debt, lease payments, royalties and management fees through normal legal channels. There is no need for a legal parallel market for investor remittances.

There is no limitation on the inflow or outflow of funds for remittances of profits, debt service, capital, capital gains, returns on intellectual property, or imported inputs, with the exception that bulk cash shipments greater than 60,000 riyals must be declared at the point of entry or exit. Since 1986, when the last devaluation occurred, the official exchange rate has been 3.75 Saudi riyals per U.S. dollar. Transactions occur using rates very close to the official rate.

3. Expropriation and Compensation

The Embassy is not aware of the SAG ever expropriating property from foreign investors. There have been no expropriating actions in the recent past or policy shifts that would lead the Embassy to believe there may be such actions in the near future.

4. Dispute Settlement

Saudi commercial law is still developing. In 1994 the Kingdom joined the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Saudi Arabia is also a member of the International Center for the Settlement of Investment Disputes (also known as the Washington Convention). In 2012, the SAG revised its arbitration law to update certain provisions. However, dispute settlement and enforcement of foreign arbitral awards in Saudi Arabia continues to be time-consuming and uncertain, along with the risk of sharia principles possibly trumping any judgments or legal precedents. Even after a decision is reached in a dispute, effective enforcement of the judgment can still take years. The Embassy suggests that American firms investing in Saudi Arabia include a foreign-arbitration clause in
contracts, but advises that such clauses are not allowed in government contracts without a
decision by the Saudi Council of Ministers.

Saudi litigants have an advantage over foreign parties in almost any investment dispute because
of their first-hand knowledge of Saudi law and culture and the dispute-settlement process, as
well as a perceived tendency of authorities to favor local parties in a dispute. Foreign partners
involved in a dispute typically find it advisable to hire local attorneys with knowledge of Saudi
legal practices. Many Saudi attorneys, in turn, retain non-Saudi (and particularly American)
lawyers to facilitate the handling of disputes involving foreign investors.

**Legal System**

The Saudi legal system is derived from the legal rules of Islam, known as the sharia. The
Ministry of Justice oversees the sharia-based judicial system, but most ministries have
committees to rule on matters under their jurisdiction. Many disputes that would be handled in a
court in the United States are handled through intra-ministerial administrative processes in Saudi
Arabia. Generally, the Saudi Board of Grievances has jurisdiction over disputes with the
government and over commercial disputes. The Board also reviews all foreign arbitral awards
and foreign court decisions to ensure that they comply with sharia law. This review process can
take years, and outcomes are unpredictable. Currently, the Saudi Ministry of Commerce and
Industry is leading an ambitious project to overhaul commercial laws. This project entails
drafting new laws while modernizing current ones, along with creating an arbitration center in
cooperation with the Saudi Chambers of Commerce and Industry. In several cases, disputes have
caused serious problems for foreign investors. For instance, Saudi partners have blocked
foreigners’ access to exit visas, forcing them to remain in Saudi Arabia against their will. In
cases of alleged fraud, foreign partners may also be jailed to prevent their departure from the
country while awaiting police investigation or adjudication of the case. Courts can impose
precautionary restraint on personal property pending the adjudication of a commercial dispute.
As with any investment abroad, it is important that U.S. investors take steps to protect
themselves by thoroughly researching the business record of the proposed Saudi partner,
retaining legal counsel, complying scrupulously with all legal steps in the investment process,
and securing a well-drafted agreement.

The Committee for Labor Disputes (under the Ministry of Labor) and the Committee for Tax
Matters (under the Negotiable Instruments Committee, also called the Commercial Paper
Committee) handle disputes involving private individuals. Judgments of foreign courts are not
consistently enforced by Saudi courts, despite Saudi Arabia's signature of the New York
Convention. Monetary judgments are based on the terms of the contract—i.e., if the contract
were in dollars, the judgment would be in dollars. If unspecified, the judgment is denominated
in Saudi riyals. Non-material damages and interest are not included in monetary judgments.

In October 2007, King Abdullah issued a royal decree to overhaul the Kingdom's judicial system
and allocated 7 billion Saudi riyals (approximately $1.9 billion) to train judges and build new
courts. To date, few changes have been implemented, although the SAG has disbursed a portion
of the funds allocated in 2007 for constructing new appeals courts and sending judges abroad for
legal seminars. In early 2010, Saudi Arabia started the process of codifying the sharia
regulations that govern the Kingdom's courts in an effort to bring clarity and uniformity to judicial rulings.

**Bankruptcy**

A bankruptcy law was enacted by Royal Decree no. N/16, dated 4/9/1416H (corresponding to 1/24/96). Articles contained in the law allow debtors to conclude financial settlements with their creditors through committees in each municipal or regional Chamber of Commerce and Industry or through the Board of Grievances. Designated as the Regulation on Bankruptcy Protective Settlement, the law is open to ordinary creditors, except in the case of privileged debts, and debts which arise pursuant to the settlement procedures. The Ministry of Commerce and Industry is revising the bankruptcy law to update key provisions and address several deficiencies in the Saudi bankruptcy regime.

5. **Performance Requirements and Investment Incentives**

Investors are not currently required to purchase from local sources or export a certain percentage of output, and their access to foreign exchange is unlimited. There is no requirement that the share of foreign equity be reduced over time. Investors are not required to disclose proprietary information to the SAG as part of the regulatory approval process, except where issues of health and safety are concerned. The government does not impose conditions on investment, such as locating in a specific geographic area, committing to specific percentages of local content or local equity, substitution for imports, export requirements or targets, or financing only by local sources.

Nonetheless, the SIDF will provide additional incentives and better loan terms to foreign investors who set up their manufacturing facilities in Jizan, Hail, and Tabuk. American and other foreign firms are able to participate in SAG-financed and/or -subsidized research-and-development programs.

The government uses its purchasing power to encourage foreign investment, requiring offsetting investments equivalent to 35% of a program’s value for defense contracts exceeding 400 million Saudi riyals ($107 million). In addition to defense offset, the SAG is also seeking FDI in various key sectors, such as oil, power generation, railways, and others, with the aim of fostering job creation.

To date, the SAG has not notified the WTO of any measures inconsistent with the requirements of the Agreement on Trade-Related Investment Measures (TRIMs), nor does it maintain any measures that are alleged to violate the WTO TRIMs text.

The SAG announced in 2002 it would ease restrictions on the issuance of visas to foreign businessmen to allow greater access and decreed in 2005 that sponsor requirements for business visas would be lifted. Difficulties remain regarding the Saudi visa procedures, however, despite the government’s announcement that foreign business visitors will no longer need to provide invitation letters from Saudi businesses to receive visas. In November 2007, Saudi Arabia declared that it would begin issuing U.S. business visitors five-year, multiple-entry visas at Saudi
embassies, consulates, and ports of entry, but it has not yet fully implemented this policy. One-year “business visas” are routinely issued to U.S. visitors who do not have an invitation letter from a Saudi company, and the visa applicants must provide proof that they are engaged in legitimate commercial activity. By contrast, “commercial visas” are issued by invitation from Saudi companies to applicants who have a specific reason to visit a Saudi company, and the maximum validity is five years if sponsored by Saudi Chamber of Commerce, rather than the company that issued the invitation letter.

6. Right to Private Ownership and Establishment

All entities with appropriate licenses have the right to establish and own business enterprises and engage in all forms of remunerative activity, except in those sectors on the SAG’s “negative list” reserved for state monopolies and Saudi citizens. Private entities generally have the right to establish, acquire, and dispose of interests freely in business enterprises.

7. Protection of Property Rights

Real Property

The Saudi legal system protects and facilitates acquisition and disposition of private property, consistent with Islamic practice respecting private property. Non-Saudi corporate entities are allowed to purchase real estate in Saudi Arabia according to the foreign-investment code. Other foreign-owned corporate and personal property is protected, and the Embassy knows of no cases of government expropriation or nationalization of U.S.-owned assets in the Kingdom. Saudi Arabia does have a system of recording security interests.

Intellectual Property Rights

Saudi Arabia recently undertook a comprehensive revision of its laws covering intellectual property rights to bring them in line with the WTO agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) and promulgated changes in coordination with the World Intellectual Property Organization (WIPO). The SAG updated its Trademark Law (2002), Copyright Law (2003), and Patent Law (2004) with the dual goals of TRIPs compliance and effective deterrence. In 2008, the Violations Review Committee created a website and has populated it with information on current cases. Although intellectual property right reforms are slow and inconsistent in some areas, the Kingdom is progressing overall.

The current Law on Patents, Layout Designs of Integrated Circuits, Plant Varieties and Industrial Designs has been in effect since September 2004. The patent office continues to build its capacity through training, has streamlined its procedures, hired more staff, and reduced its backlog. Patents are available for both products and processes. The term of protection was increased from 15 to 20 years under the new law, but patent holders can no longer apply for a routinely granted five-year extension. In December 2009, the Saudi Council of Ministers approved the Kingdom’s accession to both the Intellectual Property Owners Association Patent Cooperation Treaty (PCT) and its Implementing Regulations and the Patent Law Treaty (PLT) adopted by the Diplomatic Conference in Geneva on June 1, 2000.
In September 2009, the King approved a mechanism to protect Exclusive Marketing Rights (EMR) for certain pharmaceutical products that had lost patent protection when Saudi Arabia transitioned to a new TRIPS-compliant patent law in 2004. EMR protection in Saudi Arabia expires on the same date the patent expires in the United States or the European Union, and companies report that they have received EMR protection for accepted applications.

The SAG has revised its Copyright Law and is seeking to impose stricter penalties on copyright violators. In January 2010, the Ministry of Culture and Information referred the first-ever copyright-violation case to the Board of Grievances for deterrent sentencing. However, as of this writing, no verdict has been handed down. The SAG has stepped up efforts to force pirated printed material, recorded music, videos, and software off the shelves of stores, including raids on shops selling pirated goods. However, many pirated materials are still available in the marketplace, increasing possible cyber-security vulnerability in some systems. An Islamic religious edict, or fatwa, stating that software piracy is "forbidden" backs enforcement efforts.

The Rules for Protection of Trade Secrets came into effect in 2005. Trademarks are protected under the Trademark Law. Saudi Arabia has one of the best trademarks laws in the region, and the Saudi Customs Authority has significantly stepped up its enforcement efforts. Saudi Arabia received anti-counterfeiting and piracy awards from the World Customs Organization (WCO) in 2009 for organizing the first Pan-Arab conference on this issue, building the capacity of the Customs Authority, and translating WCO documents into Arabic. Saudi Arabia has not signed or ratified the WIPO internet treaties.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO’s country profiles at http://www.wipo.int/directory/en/.

Embassy point of contact: Erik Hunt Hunte@state.gov and Timothy Haynes haynestf@state.gov

Local lawyers list: http://riyadh.usembassy.gov/service/country-specific-information.html

8. Transparency of Regulatory System

There are few aspects of the SAG's regulatory system that are transparent, although Saudi investment policy is less opaque than many other areas. Saudi tax and labor laws and policies tend to favor technology transfer and the employment of Saudis rather than fostering competition. Saudi health and safety laws and policies are not used to distort or impede the efficient mobilization and allocation of investments. Bureaucratic procedures are cumbersome, but red tape can generally be overcome with persistence.

There are no informal regulatory processes managed by NGOs or private-sector associations. Proposed laws and regulations are generally not published in draft form for public comment. Some government agencies permit public comments through their websites. There are no private-sector or government efforts to restrict foreign participation in the industry standards-setting consortia or organizations that are available.
9. Efficient Capital Markets and Portfolio Investment

Financial policies generally facilitate the free flow of private capital, and currency can be transferred in and out of Saudi Arabia without restriction (with the exception of previously mentioned limits on bulk cash movements). However, non-GCC foreign investors may only invest in the stock market through swap agreements and exchange-traded funds.

The Capital Markets Law, passed in 2003, allows for brokerages, asset managers, and other non-bank financial intermediaries to operate in the Kingdom. The law created a market regulator, the Capital Market Authority, which was established in 2004, and opened the stock exchange to public investment. As of the end of 2012, the CMA listed 84 companies licensed to work in financial advising and brokerage services in Saudi Arabia. There is an effective regulatory system governing portfolio investment in Saudi Arabia.

In 2003, SAMA, the central bank, enhanced and updated its 1995 Circular on Guidelines for the Prevention of Money Laundering and Terrorist Financing. The enhanced guidelines are more compliant with the Banking Control Law, the Financial Action Task Force (FATF) 40 Recommendations, the nine Special Recommendations on Terrorist Financing, and relevant UN Security Council Resolutions. In 2014, King Abdullah ratified a new counter-terrorism law officially criminalizing acts of terrorism and the financing of terrorism.

Historically, credit was widely available to both Saudi and foreign entities from commercial banks and was allocated on market terms. The global financial crisis of 2008, followed by the default on $20 billion in debt by two Saudi business concerns and the debt restructuring in Dubai, substantially reduced this availability to all parties, resulting in the delay or cancellation of some projects. Credit became somewhat more available in 2011 and 2012, but extraordinary public spending limited the demand for private lending. In addition to large-scale supplemental programs, credit is available from several government institutions, such as the SIDF, which allocate credit based on government-set criteria rather than market conditions. Companies must have a legal presence in Saudi Arabia in order to qualify for credit. The private sector has access to term loans, and there have been a handful of issuances of sharia-compliant bonds, known as sukuk, but there is no fully developed corporate bond market. There were only five IPOs in 2013, as the Saudi exchange continued to trade at a low level, with volumes a fraction of what they were before the financial crisis.

The Council of Ministers issued five long-awaited new laws concerning mortgages and the wider financial sector in July 2012—the Real Estate Finance Law, Financial Lease Law, Law on Supervision of Finance Companies, Real Estate Mortgage Law, and Execution/Enforcement Law. Private-sector contacts are generally optimistic about the laws’ long-term potential to enhance mortgage penetration, attract additional investment to the private housing market, and increase overall lending, but the extent of their impact remains unclear. The eventual implementing regulations for the Execution/Enforcement Law will prove especially important, given that uncertainty about enforcement of lenders’ rights has been cited as a major reason for anemic mortgage lending in the Kingdom.
As part of the economic reforms initiated for accession to the WTO, Saudi Arabia liberalized licensing requirements for foreign investment in financial services. In addition, the government increased foreign-equity limits in financial institutions from 40% to 60% to entice further foreign investment. In the last few years, the SAG has taken steps to increase foreign participation in its banking sector by granting operating licenses to foreign banks. As of 2012, SAMA had granted 11 foreign banks licenses to operate in the Kingdom: BNP Paribas, Deutsche Bank, Emirates NBD, Gulf International Bank, J.P. Morgan Chase, Muscat Bank, National Bank of Bahrain, National Bank of Kuwait, National Bank of Pakistan, State Bank of India, and T.C. Ziraat Bankasi A.S. On August 6, the Cabinet further approved the licensing of a branch of the Chinese Bank of Industry and Commerce.

The legal, regulatory, and accounting systems practiced in the banking sector are generally transparent and consistent with international norms. SAMA, which oversees and regulates the banking system, generally gets high marks for its prudent oversight of commercial banks in Saudi Arabia. SAMA is the only central bank in the Middle East other than Israel's that is a member and shareholder of the Bank for International Settlements in Basel, Switzerland.

10. Competition from State-Owned Enterprises

State-owned enterprises (SOEs) play a leading role in the Saudi economy, particularly in water, power, oil, natural gas, and petrochemicals. Saudi Aramco, the world’s largest producer and exporter of crude oil and a large-scale oil refiner and producer of natural gas, is 100% SAG-owned, and its revenues typically account for around 85% of the SAG’s budget. Aramco’s board reports to the Supreme Council for Petroleum and Minerals Affairs, which the King chairs. The Kingdom’s leading petrochemical company, Saudi Basic Industries Corporation (SABIC), is 70% owned by the SAG. SABIC’s Chairman is a member of the royal family and also the chair of the Royal Commission of Jubail & Yanbu, and four additional members of SABIC’s seven-member board are SAG officials as well. The SAG tends to be similarly well represented in the leadership of other SOEs. State-owned Saudi Arabian Airlines (Saudia) competes against Nas Air, a private, low-cost carrier, but enjoys substantial discounts on aviation fuel.

The Embassy is not aware of SOEs expressly exercising delegated governmental powers, though they are heavily involved in policy consultations. SOEs benefit from water, power, and feedstock sold below market rates and often receive free land from the SAG. Generally, private industries also get water, power, and feedstock at below-market prices, and the SAG often gives land as part of public-private partnerships, but fully private enterprises do not typically receive free land unless as part of a SAG effort to stimulate specific sectors. In principle, credit is equally available to private companies and SOEs. The Embassy does not believe Saudi SOEs to operate, in practice, under hard budget constraints. The detail and regularity of financial reporting by SOEs vary and do not consistently meet international financial reporting standards.

Sovereign Wealth Fund

In 2008, the Kingdom established a sovereign wealth fund, the Saudi Arabian Investment Company (also known as Sanabil al-Saudia), a wholly SAG-owned entity within the Ministry of
Finance’s Public Investment Fund. The fund began with $5.3 billion of startup capital, but little information is available regarding the fund’s organization or operations.

11. Corporate Social Responsibility

There is a dawning awareness of corporate social responsibility (CSR) in Saudi Arabia. The SAG sees CSR primarily as a component of its competitiveness vis-à-vis global economies and has knit CSR promotion to its goal of becoming a top-ten economy. In July 2008, SAGIA, the King Khalid Foundation, and the international NGO AccountAbility jointly established the Saudi Arabian Responsible Competitiveness Index (SARCI), a ranking of companies’ CSR contributions. The results led to the granting of the King Khalid Responsible Competitiveness Award in several categories at the annual Global Competitiveness Forum. The Embassy believes the SAG and major corporations are fully aware of CSR but does not believe CSR currently has a broad impact on consumer perception.

12. Political Violence

The Department of State authorized the return of all family members to U.S. Embassy Riyadh, U.S. Consulate General Jeddah, and U.S. Consulate General Dhahran in 2010 but continues to warn U.S. citizens about the security situation in Saudi Arabia and reminds U.S. citizens of recommended security precautions. In the most recent Travel Warning for Saudi Arabia, the Department of State urges U.S. citizens to consider carefully the risks of traveling to Saudi Arabia. Significant enhancements in the capacity and capability of Saudi security and intelligence forces have greatly improved the security environment, but it is important to note that there is an ongoing security threat from transnational terrorist organizations such as Al Qaida in the Arabian Peninsula (AQAP).

13. Corruption

Saudi Arabia has some limited legislation aimed at curbing corruption. The Tenders Law of Saudi Arabia, approved in 2004, has improved transparency of government procurement through publication of tenders. Further, ministers and other senior government officials appointed by royal decree are forbidden from engaging in business activities with their ministry or organization while employed there. There are few cases of prominent citizens or government officials being tried on corruption charges.

Despite the fact that corruption has been identified by foreign firms as an obstacle to investment in Saudi Arabia, authorities have so far taken only modest steps toward combating it. In April 2007, the King established the National Authority for Combating Corruption that was to report directly to him, but there was little, if any, follow-through to establish this institution. The General Auditing Bureau is also charged with combating corruption. In 2011, the King reconstituted the Authority as the Anti-corruption Commission under new and more energetic leadership. Although little of its work has so far been publicized and many remain skeptical, some anecdotal evidence suggests the Commission has been active in its investigations and is not shying away from influential players whose indiscretions may previously have been ignored.
Saudi Arabia ratified the U.N. Convention against Corruption (UNCAC) in April 2013 and signed the G-20 Anti-Corruption Action Plan (ACAP) in November 2010.

14. **Bilateral Investment Agreements**

Saudi Arabia has Investment Promotion & Protection Agreements with Austria, Belgium, China, France, Germany, Italy, Malaysia, and Taiwan. The Kingdom has cooperation agreements of varying scope with 36 countries, including an agreement on secured private investment with the United States that has been in place since February 1975. The United States and Saudi Arabia signed a Trade and Investment Framework Agreement in 2003. As of 2011, the Kingdom had ratified agreements on avoidance of double taxation with 19 countries. Further information on the above, and on miscellaneous additional agreements, can be found at [http://www.sagia.gov.sa/en/Investment-climate/Some-Things-You-Need-To-Know-/International-agreements/](http://www.sagia.gov.sa/en/Investment-climate/Some-Things-You-Need-To-Know-/International-agreements/).

15. **OPIC and Other Investment Insurance Programs**

OPIC stopped operating in Saudi Arabia in 1995 due to the Kingdom’s failure to take steps to adopt and implement laws that extend internationally recognized workers’ rights to its labor force. Saudi Arabia has been a member of the Multilateral Investment Guarantee Agency since April 1988.

16. **Labor**

The Ministry of Labor and the Ministry of Interior regulate recruitment of expatriate labor, which makes up a large majority of the private-sector workforce. The government encourages recruitment of Saudi employees through a series of incentives and limits placed on the number of visas for foreign workers available to companies. The largest groups of foreign workers now come from Bangladesh, Egypt, India, Pakistan, the Philippines, and Yemen. Westerners compose less than 2% of the labor force.

Beginning with the 1969 Labor and Workman Regulations, Saudi Arabia has pursued a number of localization schemes to combat unemployment among Saudis, which the CIA World Factbook put at 10.9% for 2011, a rate believed to be much higher among women. These schemes attempted to require blanket “Saudi-ization” percentages irrespective of sector or company size, failing to account for fundamental differences in organization and the nature of work. Enforcement was inconsistent. The SAG largely ignored violations by influential business owners and lacked resources to conduct sufficient inspections elsewhere, as a majority of firms were unable to meet the unreasonable requirements.

In 2011, however, the Ministry of Labor laid out a more sophisticated plan known as *Nitaqat*, under which companies are divided into sectors, each with a different set of quotas for Saudi employment based on company size. Each of the sectors is subdivided into four strata based on actual percentage of Saudi employees, with platinum and green strata for companies meeting or exceeding the quota and yellow and red strata for those failing to meet it. The Ministry of Labor set the quota for each sector so that 50% of companies were already platinum or green and the
remaining 50% non-compliant. Expatriate employees in red and yellow companies can move freely to green or platinum companies, without the approval of their current employers, and green and platinum companies have greater privileges with regard to securing and renewing work permits for expatriates. The Ministry of Labor has announced its goal of reducing the expatriate population to 20% of the Saudi population.

Many elements of *Nitaqat* have garnered criticism from the private sector and parts of the government, but the SAG claims it led to the employment of 380,000 Saudis in its first ten months. Most recently, the Ministry of Labor and Ministry of Interior launched a campaign to deport illegal and improperly documented workers, which has resulted in higher labor costs for many businesses. In addition, all companies operating in the Kingdom, regardless of sector or size, are now obliged to pay SR 2,400 ($640) per year for each expatriate employee in excess of the number of the company’s Saudi employees. Numerous sources, particularly in construction and other blue-collar services sectors, have vehemently criticized the SAG’s new labor policies, but it appears the Ministry will continue to enforce them.

Saudi labor law forbids union activity, strikes, and collective bargaining. However, the government allows companies that employ more than 100 Saudis to form "labor committees." By-laws detailing the functions of the committees were enacted in April 2002. Domestic workers are not covered under the provisions of the latest labor law, issued in 2005. The Saudi Majlis al-Shura, a consultative assembly with a role in the legislative process, has proposed a law covering domestic workers, which is now with the Council of Ministers for review.

Overtime is normally compensated at time-and-a-half rates. The minimum age for employment is 14. The SAG does not adhere to the International Labor Organization’s (ILO) convention protecting workers’ rights. A July 2004 decree addresses some workers’-rights issues for non-Saudis, and the Ministry of Labor has begun taking employers to the Board of Grievances. Some of these penalties include banning these employers from recruiting foreign and/or domestic workers for a minimum of five years.

17. Foreign-Trade Zones/Free Ports

Saudi Arabia permits transshipment of goods through its ports in Jeddah, Dammam, and King Abdullah Economic City, and it has bonded re-export zones at the Jeddah and Dammam ports. Saudi Arabia is also a member of the Gulf Cooperation Council (GCC), which confers special trade and investment privileges among the six member states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE), and is a member of the Arab Free Trade Zone, established in 2005.

18. Foreign Direct Investment Statistics

**TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy**

<table>
<thead>
<tr>
<th>Saudi Central Department of Statistics and Information</th>
<th>USG or international statistical source</th>
<th>USG Source of Data</th>
</tr>
</thead>
</table>

15
### Economic Data

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$711 billion</td>
<td>2012</td>
<td>$896 billion</td>
</tr>
</tbody>
</table>


### Foreign Direct Investment

<table>
<thead>
<tr>
<th>Host Country</th>
<th>Statistical source</th>
<th>U.S. FDI in partner country (Millions U.S. Dollars, stock positions)</th>
<th>USG or international statistical source</th>
<th>Source of data: BEA; IMF; Eurostat; UNCTAD, Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>N/A</td>
<td>2012</td>
<td>9,692</td>
<td></td>
</tr>
</tbody>
</table>

U.S. Department of Commerce, Bureau of Economic Analysis

Figures provided below are taken from United Nations Conference on Trade and Development's "World Investment Report 2013 Country Fact Sheet." Following are key FDI indicators for 2012 (all figures in USD millions unless otherwise indicated):

- FDI Inflow 12,182
- FDI Inflow as % of GFCF 10.1
- FDI Outflow 4,402
- FDI Outflow as % of GFCF 3.6
- FDI Inward Stock 199,032
- FDI Inward Stock as % of GDP 30.7
- FDI Outward Stock 34,360
- FDI Outward Stock as % of GDP 5.3

GDP = gross domestic product
GFCF = gross fixed capital formation

**TABLE 3: Sources of FDI**

**Saudi Arabia: 2010**
### Direct Investment from/in Counterpart Economy Data

**From Top Five Sources/To Top Five Destinations (US Dollars, Millions)**

<table>
<thead>
<tr>
<th>Total Inward</th>
<th>169,206</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kuwait</td>
<td>16,761</td>
<td>10%</td>
</tr>
<tr>
<td>France</td>
<td>15,918</td>
<td>9%</td>
</tr>
<tr>
<td>Japan</td>
<td>13,160</td>
<td>8%</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>12,601</td>
<td>7%</td>
</tr>
<tr>
<td>China, P.R.: Mainland</td>
<td>9,035</td>
<td>5%</td>
</tr>
</tbody>
</table>

"0" reflects amounts rounded to +/- USD 500,000.

Source: http://cdis.imf.org

#### 19. Contact Point at Post

Foreign Commercial Officer Erik Hunt and Economic Officer Timothy Haynes are Post’s points of contact for the Investment Climate Statement.