

Economic Outlook & Sector Opportunities

SAUDI ARABIA

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Saudi Arabia Economic Outlook and Sector Opportunities

This report provides analysis of the economic outlook and sector opportunities in Saudi Arabia, offering valuable insights and recommendations for Virginia businesses considering possible Saudi market entry.

I. Introduction

Saudi Arabia is the largest country in the Gulf Cooperation Council nations of UAE, Saudi, Oman, Bahrain, Qatar and Kuwait, and the largest economy in the Arab World with a GDP of \$1.814 trillion in purchasing power parity terms at the end of 2023. According to the International Monetary Fund (IMF), Saudi Arabia was the fastest growing G20 economy in 2022 with overall growth of 8.7%, driven by strong oil sector performance. Its non-oil economy accounted for 4.8% growth. Saudi Arabia has foreign reserves of approximately \$402 billion. Its Public Investment Fund (PIF) has approximately \$7 billion in assets.

In terms of oil reserves, Saudi Arabia ranks first internationally with about one-fifth of the world's known reserves (17%) and is the largest exporter of petroleum in the world. Petroleum exports accounted for close to 70% of Saudi's total exports in terms of value (2020), and nearly 53% of its national revenues were oil-based. It holds major sway over OPEC and is a large-scale oil refiner and producer of petrochemicals and natural gas. These facts and its strategic location in the Middle East are major factors that drive the long-standing bilateral relationship between the Kingdom and the United States. And thus, preserving the stability, security, and prosperity of the Gulf region becomes economically integral; the driving force for the US and Saudi Arabia to be aligned in security and counterterrorism efforts, and in military, diplomatic, and financial cooperation.

a. The Beginning of US – Saudi Relations



On Valentine's Day 1945, President Franklin D. Roosevelt met with Saudi King Abdul Aziz Ibn Saud on an American destroyer, the USS Quincy, in the Suez Canal. It was the start of what is now the longest US relationship with an Arab state. Gravely ill with 260/150 blood pressure and unknowingly only 8 weeks to live, Roosevelt was convinced Saudi Arabia's oil would be crucial to post WWII America.

Photo credit: US Library of Congress

At the end of WWII, Roosevelt was proposing creation of a Jewish homeland in Palestine that day, trying to persuade the King to accept 10,000 displaced Jews. The negotiation of US security for access to Saudi's oil supply, laid the foundation of the two country's present day symbiotic trade relationship.

Much has transpired between the two nations in the ensuing years but for the purpose of this analysis, the emergence of Crown Prince Mohamed bin Salman as a leader in the Saudi government is pivotal to understanding the fast-paced economic advancement the country has experienced most recently.

b. The New Normal

The King that met President Roosevelt, Abdulaziz ibn Saud had 22 wives, approximately 100 children and 45 male heirs. Because of this abundance, he created a horizontal line of succession among his sons. While waiting to become King, the other sons were named ministers of state. The current King, Salman bin Abdulaziz Al Saud is 89 years old and began his reign in 2015, upon which he named his son, Mohamed bin Salman, Minister of Defense. Then in 2017, King Salman promoted his 7th and “favorite son” Mohamed bin Salman (MBS) Al Saud Crown Prince and Prime Minister, setting aside his nephew who was initially appointed to this position in 2015.

MBS’ most famous first order of business was the “anti-corruption purge” and arrest of competing Saudi businessmen and political elites. By November of his first year as Crown Prince, MBS ordered over 200 wealthy businessmen, military leaders, ministers, and royal family members to be placed under house arrest on corruption and money laundering charges and housed them in a ballroom in the Riyadh Ritz Carlton. Corruption had historically been a widely accepted way of doing business among the Saudi government and private sector upper class – assumed by most to be the status quo. This made the sudden dramatic crackdown on corruption even more of a surprise and a clever way for the Crown prince to consolidate his power.

That was just the beginning of what would pave the way for dramatic cultural, social, and economic reform anchored to MBS’ Saudi Vision 2030. Vision 2030 has three main pillars: a vibrant society, a thriving economy, and an ambitious nation that includes economic, social, and cultural reform.



Vision 2030 is the economic goals and blueprint for the diversification away from reliance on national oil and gas revenue and thereby increasing non-oil government revenue from \$43bn+ to \$265bn+. The dominant non-oil growth sectors include construction and real estate, hospitality and tourism, healthcare, education, and always, defense. Digitalization and AI underscore each of the industry sectors. The Kingdom is also focusing on developing economic cities, industrial hubs, and healthcare facilities in addition to schools and universities. To achieve these accelerated goals, the Crown Prince implemented programs and introduced reform to fast-track partnerships between the public, private, and non-profit sectors, and international partners. Economic reform has been introduced to create an encouraging business environment. Enhancing the quality, efficiency, and digitization of services has been a focus point to ease market entry for the international private sector and entrepreneurs. Many programs, initiatives, funds, incubators, and accelerators have been created.

In addition to economic diversification, the Crown Prince recognized the necessity of cultural reform to create a more welcoming and globally respected nation. Acknowledging that swift change was necessary to accomplish his economic goals, female empowerment and gender equality were added to Vision 2030.

- In 2018, Royal decree allowed women to obtain a driver's licenses.
- In 2019, Women were allowed to own a passport and leave the country without a male family member's permission.
- By 2021, several women were appointed to top positions within projects related to Vision 2030.
- By 2023, the number of Saudi women in the workforce doubled to 33% (2019 – 2023).

The power of the religious establishment has also been chiseled away to restore a sense of safety and confidence in tourists and businesspeople alike. Mohammed bin Salman took unprecedented steps to limit the powers of the Committee for Promotion of Virtue and the Prevention of Vice, better known as the Islamic religious police. Prior to his actions, the religious police had the power to arrest, detain, and interrogate those suspected of violating religious doctrine (ex. women's heads not covered, ankles showing, male and female non-family members in public together). The Crown prince banned the religious police from pursuing, questioning, asking for identification, arresting, and detaining anyone. As he expanded social liberties, gender mixing and dating were also deemed no longer illegal.

As of May 2024, halfway between launching the development plan and 2030, Saudi Arabia is documenting its progress. According to the 2023 Annual Report, 87% of the Saudi Vision 2030's 1,064 initiatives are completed or advancing on schedule. 81% of the third-level performance indicators have met their targets, with 105 indicators already surpassing future goals set for 2024/2025.

As of March 2024, Saudi Arabia's Public Investment Fund's (PIF) total assets surged by \$163.6 billion to \$940.26 billion after transferring an 8% stake in its oil behemoth Aramco: making it the fifth largest sovereign wealth fund globally, following Norway, China, Hong Kong, and Abu Dhabi, UAE.

II. Key Economic Sectors in Saudi Arabia

With Vision 2030's paradigm shift from a public sector-driven economy to one led by the private sector, new sectors would need to be created and existing sectors revitalized. Achieving significant transformation toward a digital, knowledge-based economy would also address the young and growing population's unemployment crisis. According to the Saudi Statistics Authority as of 2023, 63% of the 32.2m Saudi citizens are under 30 yrs., 42.4% female and 57.6% male. (Gaining the political support of this majority population under 30 was also a driving force for the social and cultural reform implemented by MBS).

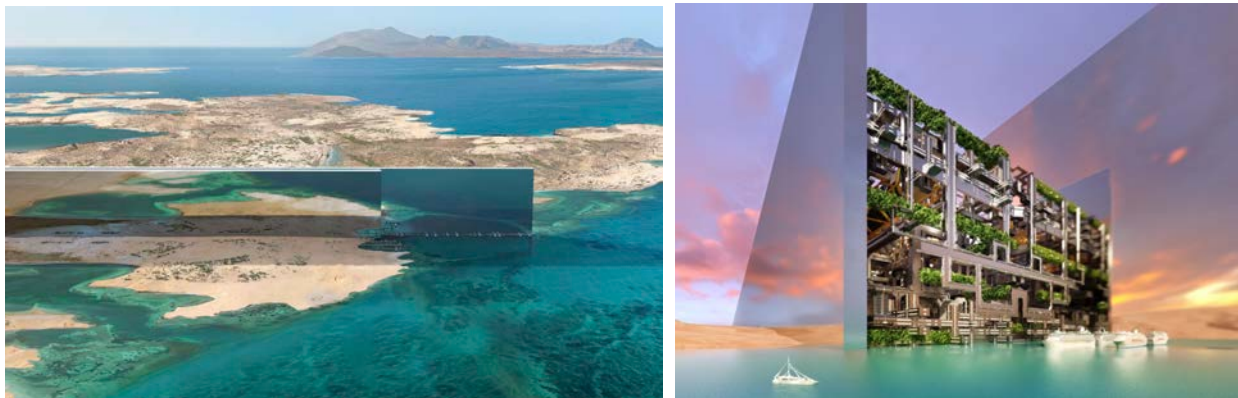
While the traditional Saudi business sectors largely still governed by the state including **oil and gas, petrochemicals, and mining**, some aspects and sub-sectors of each have been opened for privatization by non-government investors.

a. Construction and Infrastructure

The most famous flagship development is NEOM. On the Red Sea coast, this mega project will include towns and cities, ports and enterprise zones, research centers, sports and entertainment venues, and tourist destinations running on 100% renewable energy. NEOM, meaning “new future”, will set Saudi down the path to becoming a leading global innovation and trade hub to stimulate local industries, job creation, and GDP growth. The Line, an innovative smart city situated within Neom has attracted international attention. It’s a revolutionary sustainability gem where cars, streets, and carbon emissions will be absent. The Line, an example “vertical urbanism” is only 200 meters (218 yards) wide, 170 kilometers (106 miles) long and 500 meters (1640 feet) above sea level. It will accommodate 9 million residents on a footprint of 34 square kilometers (13 square miles), a lot of people in comparison to other footprints of this size.



NEOM alone is backed by more than US\$500 billion by the Public Investment Fund of Saudi Arabia, and global



Artist renderings of The Line, 106-mile-long single building vertical living project showcased in NOEM.

and national investors. In addition to NEOM, other Saudi-planned giga projects including Amaala, Qiddiya, Red Sea and Diriyah Gate, promise a lifestyle surpassing global standards. The necessary infrastructure, ports, destinations, hotels and residences, parks, airports, high speed rail, new road networks, power, ICT, and security that go into a single project, represent a fraction of the products, services, and solutions necessary to achieve their grand plans. It makes a number like \$500 billion not seem that extreme. There are endless cross-sector opportunities that Virginia companies can access with the assistance of the Virginia Economic Development Partnership’s International Trade Programs.

b. Hospitality and Tourism

Saudi Arabia's aim is to attract 100 million visitors annually by 2030. To position itself as a global tourism hub, its National Tourism Strategy includes a \$1 trillion investment in the sector. Efforts to establish itself as a tourism destination means development of major entertainment, heritage, and cultural sites across the country. Add to that simplified travel procedures and digitization of its services to include an e-visa systems for visitors, and the number of tourists from around the world has significantly increased.

According to the UN's World Tourism Organization, the Kingdom emerged as the second-fastest growing tourism destination in the world based on international tourist arrivals during the first quarter of 2023. Part of this achievement is based on many social and cultural projects.

1. Saudi now hosts major global conferences and summits, securing its position in global economic dialogue.
2. The national ban on movie theaters was lifted.
3. All of the new gender equality laws made the country more welcoming to women and families.
4. With its purchase of LIV Golf and the wooing of major golf pros, Saudi has challenged the longstanding PGA.
5. The Formula 1 Saudi Arabia Grand Prix will be hosted in Jeddah.
6. The Kingdom was named as the host of Expo2030.
7. Saudi Arabia is likely to be confirmed to host the FIFA 2034 World Cup
8. Saudi Arabia is negotiating a major deal with the Women's Tennis Association that will include purchasing a license for a new top-level mixed event in Saudi Arabia. The Saudi sovereign wealth fund already committed as much as \$100 million to sponsorships of the men's rankings and multiple tournaments. If the deal is closed, the WTA Tour Finals will take place in Saudi Arabia, making this another huge investment in elite sports besides F1 and golf.
9. Construction is underway of Qiddiya, the world's largest multi-billion-dollar theme park which will be three times the size of Walt Disney World resort including more than 300 facilities, theme parks, water parks, a sports city, nature and adventure experiences, events, cultural attractions, and the World's biggest rollercoaster.
10. The number of Saudi heritage sites listed with UNESCO has grown to seven, reflecting the nation's rich cultural heritage.

c. Healthcare

Nearly 18% of the Saudi adult population has diabetes, and more than 40% are obese. Non-communicable diseases account for 68% of all deaths in Saudi Arabia, primarily lifestyle disease including diabetes, heart and kidney disease. The overarching goal for the Saudi healthcare system is to be more comprehensive, effective, and integrated. The Saudi Arabian Government's 2030 healthcare plan includes investment over \$65 billion to develop healthcare infrastructure, privatize health services and insurance, and create "health clusters" across the Kingdom. The Health Clusters are geographical areas with autonomy for providing and managing medical and clinical services, allowing decision making rights including but not limited to resource allocations, employee

evaluation, and salaries. Privatization includes 290 hospitals and 2,300 primary health centers, creating significant commercial opportunities for U.S. companies in Saudi Arabia's developing healthcare market. Other priorities include privatization of medical cities, laboratories, radiology, pharmacies, rehabilitation, long-term care, and home care.

While UAE is focused on the governance and regulation piece of AI and generative AI across industries, Saudi Arabia is implementing innovative artificial Intelligence in science and healthcare systems. The Saudi Genome Project will use AI to "develop personalized medicine practice, reduce the cost of healthcare, and improve the quality of life" (Vision 2030, 2016). The Saudi Data and AI Authority and the Saudi Company for Artificial Intelligence will focus on positioning Saudi Arabia as a global leader in healthcare AI advancements. In addition, the country is partnering with other global tech companies to further AI for sustainable development, Arabic-related AI, and other AI services.

d. Education

The literacy rate reached 99.38% in 2021. Some of the Vision 2030 education sector goals where opportunity lay for Virginia companies include:

- A comprehensive framework for the professional development of teachers and educational leaders.
- Shifting to digital education to support teacher and student progress.
- Develop the Independent Schools model to reach 2000 public schools run by small establishments.
- Establishment of the King Salman University for Technical and Vocational education.
- Establish a practical framework to align university graduates with labor market needs.

With sustainability underlying the entirety of Vision 2030, a knowledge-based economy is only achievable by offering the education and skills at the national level to fill the jobs the new economy is creating. This includes new skills, up-skilling, trade programs, and professional development encompassing the online learning paradigm.

e. Defense

Saudi Arabia imports nearly 80% of its military systems and equipment from the United States. In 2023, the Kingdom spent \$69 billion on defense, roughly 23% of Saudi's total budget. Saudi Arabia is the United States' largest foreign military sales (FMS) customer, with more than \$100 billion in active FMS cases. The Kingdom is intent on localizing 50% of its military procurement by 2030. The General Authority for Military Industries (GAMI) and Saudi Arabian Military Industries (SAMI) contract directly with foreign companies operating across aeronautics; land systems, including military vehicles; weapons and missiles; and defense electronics.

The Ministry of Defense posts tenders on its Electronic Government Procurement System (Etimad) Portal. Since 2018, the Portal was launched to create transparency by consolidating and facilitating the process of government procurement for all sectors, not just defense. In 2019, the Saudi Arabian Government enacted the amended Government Tenders and Procurement Law (GTPL), which regulates long- and short-term commercial agreements between private bodies and government entities.

The Government also allows direct purchases in the defense and security sectors. Most defense procurement is negotiated on a case-by-case basis. The Government's intention is to centralize all its defense procurement under GAMI by 2030.

Currently, air and air defense remain a GAMI priority with strong demand for aircraft parts. Ongoing projects include construction of facilities at the King Salman Airbase, the relocation of the King Faisal Air Academy and the modernization of the Ministry of the National Guard. As in most sectors today, localization of its supply chain is a priority. Industry experts identify opportunity for ground and air equipment, naval and air defense capabilities, cybersecurity, C4ISR equipment, UAV capability, aircraft engines, tactical communications Systems, MRO capabilities, rotorcraft capabilities, military fixed-wing aircraft, and structural component manufacturing.

Vision 2030 mandates 50% of defense materials be produced and procured locally by 2030.

f. Manufacturing

Saudi Arabia's aspirations in the manufacturing space are substantial, with a focus on diversification and self-sustainability. The National Industrial Development and Logistics Program (NIDLP) is central to these efforts, aiming to enhance Saudi's ranking in global competitiveness. The Saudi Arabian General Investment Authority (SAGIA) offers a range of incentives to foreign investors, for example industrial land grants and funding for training and infrastructure. Saudi's export geography and consumer market guarantee the opportunities in this sector.

As Saudi Arabia's manufacturing sector grows, its impact on its trade relationship with the United States will evolve. Rather than finished goods, the manufacturing industry will pivot to importing machinery, technology, and expertise from the United States. However, this change will take time. U.S. companies will have plentiful opportunities to support the growth of the Kingdom's economy through technology, machinery, renewable energy, healthcare, and medical equipment, education, training, and in defense and security.

g. ICT - Digitalization and AI Adoption

Saudi Arabia is establishing a cutting-edge digital architecture that supports Vision 2030's goal of digital transformation through e-commerce, digital education, digital health, smart cities, national data, and e-government. ICT goals crosscut each sector of the government initiatives and projects outlined in this report. Spending on the information and communication technology (ICT) market in Saudi Arabia is expected to reach about \$37.4 billion by the end of 2024, showing a growth of 3.3% year-on-year.

h. Renewable Energy

Saudi Arabia made a public commitment to reach net zero by 2060. Their declaration is backed up by over 80 public and private sector green initiatives and an investment over US\$ 188 billion. It is on track to achieve its mid-term goal to reduce carbon emissions by 278 million tonnes per annum by 2030. The nation will achieve its optimal energy mix for electricity production of 50% renewable energy and 50% gas. When achieved, this will displace 100 million barrels of liquified fuel currently consumed. It will also plant 10 billion trees.

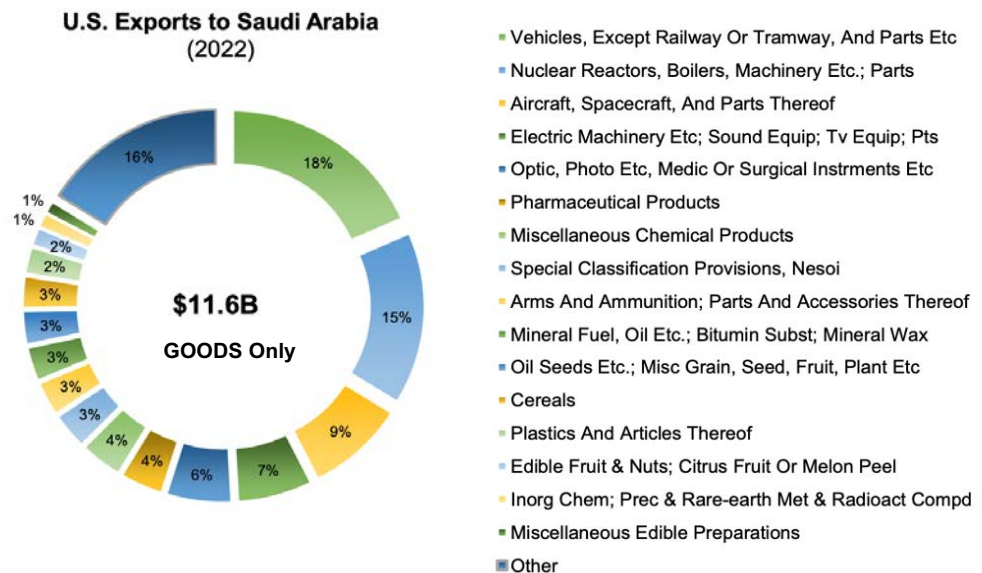
i. Gaming & eSports

In a Statista Survey conducted in 2023, 51% of casual and professional gamers in Saudi Arabia said that they spent between five and 20 hours a week playing video games. 14% of those surveyed said that they spend more than 30 hours a week gaming, while 11.6% said they spend less than two hours a week on gaming. The country's national gaming and esports strategy is focused on producing economic contributions worth SR50 billion (US\$13.3 billion) by 2030. Last September, the Saudi's PIF earmarked nearly \$40 billion for a major project aimed at claiming its status as the ultimate global Gaming & eSports Hub by 2030. In February, the Saudi fund became the biggest outside investor in Nintendo, and hosted a major gaming tournament with a record \$45 million prize pool.

III. Trade Relations between Saudi Arabia and the United States

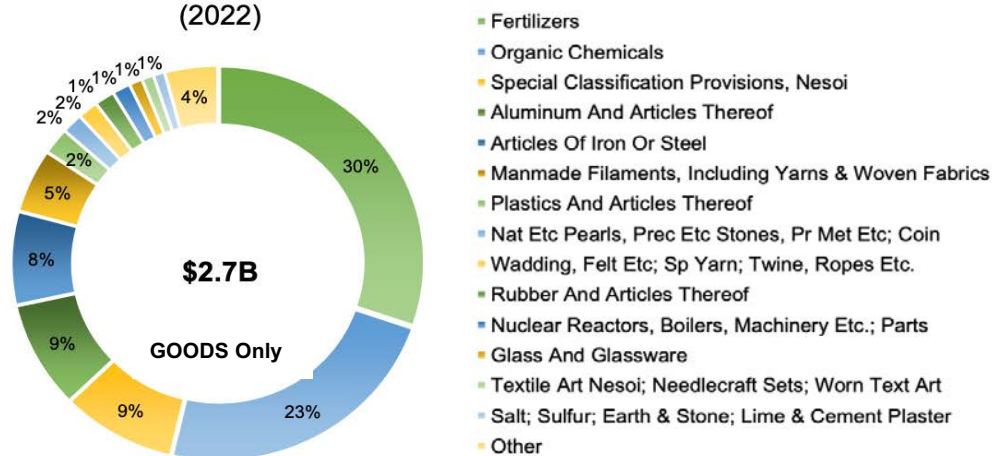
Since 1981, the Saudi Central Bank, pegged the Saudi riyal to the U.S. dollar at 3.75 to 1.00 to facilitate long-term planning and minimize the impact of exchange risks.

U.S. goods and services exports to Saudi Arabia exceeded \$46.6 billion. Of which services exports accounted for roughly \$10.2 billion of the total.



Overall U.S. imports from Saudi Arabia were just over \$11.4 billion. Of which, services accounted for \$1.67 billion and Oil for \$9.73 billion.

Saudi Non-Oil Exports to U.S. (2022)



Sources: US Department of Commerce, International Trade Administration; U.S. Commerce Department’s Bureau of Economic Analysis

In 2003, the United States signed a Trade and Investment Framework Agreement, most commonly known as a TIFA, with Saudi Arabia. The Framework creates bi-lateral cooperation between the nations on a wide range of issues related to trade and investment. This includes market access issues, labor, the environment, protection, and enforcement of intellectual property rights. Although some Middle East countries have a Free Trade Agreement in place with the US, such as Morocco and Oman, a TIFA is often implemented instead due to disagreement over labor unions and collective bargaining. The two countries meet annually to discuss these various topics.

IV. Market Entry Strategies for Virginia Companies

Many senior and mid-level executive Saudis were educated in the United States or in Europe and are comfortable conversing in English. Doing business with foreigners is common. It is more likely in Saudi Arabia that business will be done with a National as the National/Expat ratio is higher in comparison to UAE. Although preliminary exchanges may be handled electronically, negotiation and serious commitment is not likely without meeting face-to-face.

In most cases, Virginia companies are not required to appoint a local Saudi agent or distributor to sell into the country. Although not required, it is highly advantageous to do so, especially if it’s a new-to-market company. The business culture nuances alone coupled with other key reasons to work through a Saudi entity include monitoring business opportunities, making sense of import and standards testing

regulations, and identifying public sector sales and contract opportunities. For government contracts, it is always helpful to have a Saudi National as part of the Virginia company's equation. In addition to an agent or distributor, another attractive partnership for Saudi's is a joint venture. Certain professional services have licensing restrictions limiting who may or may not offer services including engineering, medicine, law, accounting and financial services, architecture, and others without a Saudi National's joint venture involvement.

As of 2016, full foreign ownership of retail and wholesale businesses was ratified in Saudi. An increasing number of companies are taking advantage of the new regulation. The Kingdom has mandated that if a US company establishes a regional office, it must be in Saudi to qualify for government contracts.

In 2019, the Local Content and Government Procurement Authority (LCGPA) was formed to establish and implement local content policy as a qualifier in government procurement. The lines are blurred between government controlled and private sector enterprise in Saudi Arabia, as most commercial funding can be traced back to the government's purse. This means that many companies will have to comply with the LCGPA policy when bidding for contracts and tenders. Saudi Aramco's "In-Kingdom Total Value Added" (IKTVA) program places emphasis on local supplier-based purchases of goods and services at a whopping minimum of 70%, again a reason to partner with a local company.

There is no central tender board, and each government agency has its own contracting authority. All government bids must be announced in Arabic in the official gazette Umm al-Qoura, in two local newspapers, electronically, and now on the Etimad Portal. "All" does not always mean all though. In certain sectors there is specific centralized procurement. For example, in the healthcare sector the National Unified Procurement Company administers the centralized process, and in the defense sector, it's controlled by GAMI as mentioned previously.

V. Importing Regulation: SASO and Saudi Customs

Saudi Arabia adheres to standards developed both domestically by the Saudi Standards, Metrology and Quality Organization (SASO) and by the GCC Standardization Organization (GSO), the standards organization for the member states of the Gulf Cooperation Council. SASO maintains significant authority in developing, elaborating on, and enforcing standards for Saudi Arabia despite the GSO continuing to push for standards harmonization across the Gulf.

SASO is the only Saudi organization responsible for setting national standards for commodities and products, measurements, testing methods, metrological symbols and terminology, commodity definitions, safety measures, and environmental testing, as well as other requirements approved by the organization's Board of Directors. In January 2018 SASO introduced Saleem Saber, a mandatory electronic certification and conformity assessment system for all imported goods entering Saudi Arabia. Saber is an

online verification tool that connects importers, SASO-approved certification bodies, Saudi customs and related trade authorities in one online system. Saber covers both regulated and unregulated products. The Saudi Food and Drug Authority (SFDA) is responsible for regulating, overseeing, and controlling food, drug, and medical devices, as well as setting the mandatory standard specifications for these categories.

VI. Market Challenges – Risk Mitigation

In the past, contract payment delays have been a challenge in both the public and private sectors. As of early 2021, with the introduction of the Etimad platform by the Saudi Ministry of Finance, financial claims can now be made online to government organizations. There has been little public information on the practicality or effectiveness of this claim process to date.

Historically, dispute settlement and enforcement of foreign arbitration in the Gulf countries including Saudi Arabia has been challenging and time consuming. In 2016, the Saudi Center for Commercial Arbitration (SCCA) established arbitration rules that conform to international standards. The SCCA offers dispute resolution services to both domestic and foreign firms. Virginia companies should consider incorporating the SCCA by reference in their contracts.

VII. Conclusion

King Salman bin Abdulaziz is already 89, and if the dynastic order remains the same, Crown Prince Mohammed bin Salman will be the youngest ever to become King of Saudi Arabia, and the pace of economic diversification will continue. Under the Crown Prince's leadership, the Kingdom will continue on a growth trajectory across a multitude of sectors that complement the development of a modern Saudi Arabia in respect to culture, economics, and adoption of international standards.

Virginia companies would do well to incorporate Saudi Arabia business development in their international strategy. The Kingdom has adopted its neighbor UAE's pace and practice of development from the early 2000's; big goals achieved over trial and error combined with constant forward motion. Combine major development goals lead from the cash-rich top and the belief that anything is possible, and opportunities can be seen everywhere. With the right guidance, it's the right time for Saudi market entry.

Saudi Arabia's Key International Rankings

- In 2023, Saudi Arabia achieved the top global ranking in the Government Strategy Index for Artificial Intelligence.
- In the World Competitiveness Yearbook for 2023, Saudi Arabia has earned second in the Global Cybersecurity Index.
- Saudi Arabia achieved the status of the fastest-growing economy among the G20 nations in the year 2022.

- In the 2022 World Happiness Report, the Kingdom secured the third position as one of the happiest countries in the Arab World.
- In the World Competitiveness Yearbook 2022, Saudi Arabia secured the sixth position in the peer group rankings in attitude and values.

NOTE:

Saudi law prohibits importation of the following products: weapons, alcohol, narcotics, pork and pork products, non-Islamic religious materials, pornographic materials, distillery equipment, retreaded or used tires, used clothing, and certain art and sculptures. Saudi Customs also does not allow importation of cars older than five years, salvaged cars, used police cars, taxies and rental cars.