



“Doing Business in Saudi Arabia”

A Country Commercial Guide for U.S. Companies

March 2009

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Chapter 1: Doing Business in Saudi Arabia

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Market Overview

- Saudi economic performance is expected to remain strong in 2009, despite the current global economic crisis. The Saudi Government has put forward the largest budget in its history. Spending is at \$126.6 billion and revenues at \$109.3 billion for the 2009 fiscal year, projecting a deficit of \$17.3 billion.
- Saudi Arabia's real GDP growth was estimated to be 4.2% for 2008, and is projected to be 4% for 2009, but is likely that the country may exhibit a lower rate of growth due to falling oil prices and world demand, coupled with a global economic crisis.
- The 2008 actual surplus was at \$157.3 billion. Most of the budget surplus was used to build up foreign assets at the central bank (SAMA) and to reduce domestic debt which reached 13.5% of GDP.
- Per capita GDP in Saudi Arabia rose to its highest level in 27 years, to \$18,531. This increase looks even more impressive considering the last increase at this level occurred when the population of the Kingdom was 9.8 million, compared to the current 27 million people.
- Saudi Arabia was the United States' 14th largest trading partner in 2007. American exports registered more than 36% growth at \$10.4 billion in 2007, and U.S. imports increased by more than 12%, from \$31.7 billion in 2006 to \$35.6 billion in 2007.

Market Challenges

- Inflation was a major problem in 2008, reaching 9.2% from a past peak of 4.1% in 2007. On January 28, 2008, the Government enacted a program to fight inflation by increasing subsidies, reducing bottlenecks in the economy, and providing for a modest civil service pay raise. Economists predict that Saudi Arabia will become a net importer of deflation in 2009, which will be reflected in imported prices. Lower domestic demand will bring further downward pressure.
- **Commercial Disputes Settlements:** The enforcement of foreign arbitration awards for private sector disputes has yet to be upheld in practice. Furthermore, government agencies are not allowed to agree to international arbitration without approval from the Council of Ministers, which is rarely granted.
- **Business Visas:** All visitors to Saudi Arabia must have a Saudi sponsor in order to obtain a business visa to enter Saudi Arabia. On the positive side, in May 2008, the United States and Saudi Arabia signed an agreement to grant reciprocal 5-year, multiple-entry visas for business travelers. This agreement represents a significant step forward in the visa process.
- **Delayed Payments:** Although the Saudi Government is keen to resolve any payment disputes and has reduced its arrearages in the last few years, the problem persists and American companies should check with the U.S. Embassy or Consulates if they encounter a problem.

- **Intellectual Property Protection:** Though intellectual property protection has steadily increased in the Kingdom, piracy remains a problem. The application of a new Patent Law is proving to be cumbersome and problematic for foreign patent holders. Enforcement and transparency are still lacking. The Council of Ministers issued a resolution on 23/11/1428H (December 3, 2007) approving the Law of Trademarks for GCC countries.
- **Counterfeiting:** Although anti-counterfeiting laws exist, manufacturers of consumer products and automobile spare parts are particularly concerned about the widespread availability of counterfeit products in Saudi Arabia. There is still no clear and transparent mechanism to reduce and stop counterfeit products from entering Saudi Arabia.
- **Arab League Boycott:** The Gulf Cooperation Council (Saudi Arabia, Kuwait, Bahrain, Oman, Qatar, and the United Arab Emirates) announced in the fall of 1994 that its members would no longer enforce the secondary and tertiary aspects of the Arab League Boycott. The primary boycott against Israeli companies and products still applies.
- **Government Procurement:** Government contracts on project implementation and procurement strongly favor Saudi and GCC nationals. However, most Saudi defense contracts are negotiated outside these regulations on a case-by-case basis. Saudi Arabia published its revised government procurement procedures in August 2006. Foreign suppliers participating in government procurement are required to establish a training program for Saudi nationals.
- **Banking:** Although the Saudi central bank, SAMA, has granted licenses to a number of foreign financial institutions to open branches in Saudi Arabia, these banks are only being allowed to provide investment banking and brokerage services, as applicable. The number of commercial banks operating in the Kingdom in 2008 amounted to twenty two, including branches of the National Bank of Kuwait, Deutsche Bank, Muscat Bank and the National Bank of Bahrain, Gulf International Bank(GIB), Emirates Bank (EB), J.P. Morgan Chase N.A, BNP Paribas, National Bank Of Pakistan (NBP), and State Bank of India(SBI).
- **Shipping:** Saudi Arabia gives preference to national carriers for up to 40% of government-related cargos. Two local companies take full advantage of this situation.
- **Standards and labeling:** As part of the GCC Customs Union, the six Member States are working toward unifying their standards and conformity assessment systems. However each Member State continues to apply its own standard or a GCC standard. A new ICCP mandates that a Certificate of Conformity must accompany all consumer goods exported to Saudi Arabia. Labeling and marking requirements are compulsory for any products exported to Saudi Arabia.
- **Travel Advisories:** Americans visiting Saudi Arabia are advised to check the http://travel.state.gov/travel/cis_pa_tw/tw/tw_932.html for the latest information on travel to Saudi Arabia.

Market Opportunities

- Until recently, only Saudi nationals were permitted to engage in trading activities and only Saudis are permitted to register as commercial agents. These restrictions have been eased and foreign individuals and companies are allowed to engage in trading activities through a joint venture partnership with a Saudi individual or entity holding 25% of the equity, and the percentage can be raised to 75% after three years of incorporation.
- In the World Bank and International Finance Corporation's Doing Business 2009 report, Saudi Arabia ranked #1 in the MENA region and #16 globally for ease of doing business. The kingdom made it easier to start a business by continuing to simplify formalities for commercial registration and reducing registration fees by 80%, and reducing the time to start a business by 3 days, said the report. It also strengthened protections for minority

shareholders and sped the registration of property with a comprehensive electronic system for registering title deeds.

- The 2009 Saudi budget is the country's largest to date, with expenditures at \$126.6 billion. More than a quarter of the budget will be spent on human resources development, including higher education, technical and vocational training. Additionally, one of the main foci of this budget will be to boost scientific research and technological development by establishing new research centers at Saudi universities. The budget entails the construction of more than 2,000 new schools, seven technical institutes for girls, and 16 vocational training centers. Moreover, the budget includes the construction of eight new hospitals and 250 primary care centers, among other projects.
- Being the world's largest producer and exporter of crude oil, Saudi Aramco, the national oil company, is planning to invest \$90 billion over the next five years (2008-2012) to expand crude and refining capacity. By the end of 2009, Saudi Arabia's sustainable oil production capacity is supposed to grow around 12 million barrels per day; while the company's worldwide refining capacity will almost double from three to about six million bpd. These plans, of course, could be affected by the global economic conditions.
- As an offshoot to the expansion in the oil and gas sector, the Saudi petrochemicals industry is also enjoying an unparalleled boom. Saudi Aramco is investing, for the first time, in a \$10 billion petrochemical project on the Red Sea, and SABIC, the state-owned petrochemical company, is investing in three massive petrochemical projects due to come on stream in 2009. SABIC has plans to boost its chemicals production capacity to 60 million tons per annum. Higher revenues from oil and cheap feedstock have made Saudi Arabia one of the main hubs for investment in this sector.
- Deregulation and privatization are core themes of the Saudi Government, which aims to enhance the country's investment climate and help diversify the economy away from the oil and gas sector. Accordingly, the Saudi Arabian General Investment Authority (SAGIA) is promoting foreign investment in four new Economic Cities that are expected to attract close to \$80 billion.
 1. The King Abdullah Economic City in Rabigh will focus on promoting the energy and transportation industries
 2. The Prince Abdulaziz bin Mousaed Economic City in Hail will be designed around transportation and related logistical services
 3. The Knowledge Economic City in Medina will include a Technology and Knowledge-Based Industries zone, an advanced IT studies institute, an interactive museum about the life of the Prophet Muhammad, a center for Islamic civilization studies, a campus for medical research and biosciences, an integrated medical services zone, a retail zone, a business district and residential zones.
 4. The fourth economic city, in the southern city of Jizan, will have an industrial zone, a logistics service center, an energy/desalination plant, a residential zone and a seaport
- SAGIA's vision for the Economic Cities is to contribute between a quarter and a third of the national growth rate, to create over a million jobs, and to become home to 4-5 million residents by 2020.
- The Royal Commission for Jubail and Yanbu is finalizing stage one of the \$5.9 billion development of the Jubail 2 Industrial City. Phase two and three are expected to be completed by 2023.
- Other major developments include upgrading the international airports in Jeddah, Medina and Tabuk at a total cost of \$11.3 billion. Moreover, the General Authority for Civil Aviation plans to build a new airport at Mada'in Saleh and upgrading the facilities at Yanbu Airport.
- The Saudi Railways Organization (SRO) is vying to build 3,144 km of track. There are two main projects, the 1,600 km North-South network, which will connect Riyadh-Buraydah-Hail-

Market Entry Strategy

- American exporters are not required to appoint a local Saudi agent or distributor to sell to Saudi companies, but commercial regulations restrict importing for resale and direct commercial marketing within the Kingdom to Saudi nationals, wholly Saudi-owned companies, and Saudi-foreign partnerships where a foreign partner can hold up to 25% in equity - which can increase to 75% after three years.
- Although the Saudi Government encourages foreign investment, a U.S. firm is strongly encouraged to seek in-country legal counsel on the best approach. The U.S. Commercial Service can assist by providing a list of local attorneys, which may be associated with American law firms.

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