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Foreign Companies in Saudi Arabia: Present and Prospects



Research Highlights:

There is a growing interest in Saudi Arabia among foreign companies. What could Saudi Arabia do to capitalize on it?

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Executive Summary

Economic diversification and private sector growth have been key part of policy agenda over the last few years and much attention has focused on foreign investments in Saudi Arabia. With an aim to increase the Foreign Direct Investments (FDI) from less than one percent to 5.7 percent of the GDP in 2030, the country adopted a number of programs that could attract foreign entities. The Saudi Vision 2030 plan that largely pivots around increasing the private sector's role in the economy has reinforced the business environment and could likely increase the participation of foreign entities and improve business competition.

Consequently, the number of green field projects have increased in the last three years. The value of Greenfield foreign investments, a key indicator of future investments, though fluctuating has been moderate. Though 100 percent foreign ownership is allowed in many sectors, companies exhibit preference to collaborate or coordinate with local representatives or operate through local distributional firms in many cases. While business growth and the entry to new market are the major motives for a company's expansion, other factors that are considered include access to talent, cost, input availability, quality of educational institutions and government incentives. GCC countries, in general and Saudi Arabia, in particular remain relatively lackluster on these fronts compared with the Asian Pacific countries.

In the recent past, Saudi Arabia has implemented business reforms that entail e-government initiatives and creation of single window system to make it easier to do business. Notably, it has made significant advancements in protecting the rights of minority shareholder rights and is currently ranked third, next only to New Zealand and Singapore in the world.

Saudi Arabia plans to carry out several large-scale projects providing number of opportunities for the global entities. Potential opportunities exist in the field of healthcare and education, as well. Saudi government allocates the second largest share of its budget in education after defense and security. However, the opportunities do not come without its challenges.

Saudi nationalization program or Nitaqat, a policy implemented in 2011 mandate companies to recruit Saudi Nationals on a quota basis. Favoring the nationals has been another obstacle for the foreign companies as its challenging to find high skill talents among the nationals. As the fundamental source of legal system is based on the Shariah (Islamic) Law, navigating the regulatory environment is another impediment. Lack of enforcement of Intellectual Property (IP) laws in accordance with international standards is a cause of concern.

Overall, there is a strong intent to reform and make it easier to do business in Saudi Arabia. Due to its efforts, the country featured among the top ten most improved economies in Word Bank's Ease of Doing Business 2020 report. Consequently, with more private sector development and inflow of foreign entities it is also necessary to strengthen the linkages between public and private entities for a sustained growth. Thus, with robust business laws and a more enabling business ecosystem can enhance the number of foreign players and investments in the country.

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