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Building for the future – an overview of infrastructure development in the Kingdom of Saudi Arabia

by Kevin Connor | Squire, Sanders & Dempsey LLP

THE INFRASTRUCTURE SECTOR in the Kingdom of Saudi Arabia is one of the fastest growing and most dynamic in the world. In 2010 alone the Saudi government has awarded US\$150bn of infrastructure contracts, nearly two-thirds of which were non-oil related. And, in August of this year, the Saudi Council of Ministers approved a five-year infrastructure development budget of approximately US\$385bn covering a number of sectors including transportation, energy and utilities, education, healthcare, and commercial, residential, industrial and tourist development. The infrastructure stimulus package approved by the Council of Ministers is the largest stimulus package among the G20 member countries relative to GDP. This article provides an overview of some of the key drivers behind the Saudi infrastructure boom, and outlines some areas of particular interest to watch in the near term.

Saudi Arabia is one of the world's most important oil-based economies. And, with the largest proven oil reserves in the world, the Saudi economy will continue to be heavily weighted to the oil business well into the future. However, recognising that oil revenue will not last forever, and understanding the need to respond to very significant population increases, Saudi Arabia has embarked on one of the most ambitious efforts ever, anywhere, to diversify and modernise its economy. These efforts have touched virtually every aspect of the Saudi economy and society with long-term Saudi watchers often commenting that the multitude of recent changes is beyond anything they could have expected just a few years ago. Saudi Arabia has been rewarded for its efforts, moving from 67th to 13th on the ease of doing business scale published by the World Bank. The Kingdom's accession to the WTO will only continue to and help mould the transformation process over the next several years.

A cornerstone of the transformation of the Saudi economy is developing and improving infrastructure at every level, and ensuring that new infrastructure is added to accommodate the rapid changes in the Saudi economy and society, and especially given the significant recent and projected future increase in population. Two additional drivers behind the ambitious Saudi infrastructure development program are the recent increase in oil revenue and the global recession. Saudi Arabia has accelerated its spending on infrastructure development projects to take advantage of lowered costs for steel and other building materials and to take advantage of significantly higher



oil revenues. The convergence of these factors, coupled with the overall diversification and modernisation efforts, present very real opportunities for a range of investors and businesses.

The opportunities are in many sectors. In addition to expanding its already impressive network of motorways, Saudi Arabia is actively seeking to upgrade and improve its rail, port, airport and related transportation infrastructure. Last year the country began construction of five new industrial cities, with a clear focus on developing rapidly the country's industrial infrastructure. Commercial and residential projects have also moved ahead, making Saudi Arabia the largest real estate market in the Gulf Cooperation Council (GCC). The Saudi infrastructure boom has helped fuel an increased demand for concrete, construction chemicals and other building materials.

Rapid growth in demand for electricity and other services is the main catalyst behind a plethora of new energy and utility projects, including a planned doubling of the capacity of desalinisation plants to 2 billion cubic meters annually. In addition to new fossil fuel and renewable projects, the country is also considering seriously its first nuclear power plant. Education and health care also figure prominently in the Saudi infrastructure development program. Plans have been made for the construction of nearly 120 new hospitals and 750 primary care facilities. Education related projects include the planned construction of 25 new technical based colleges, and almost 30 technical based institutions. Education and health care are key corollaries of the Kingdom's drive to diversify its economy, enhance competitiveness, and address the rapid increase in population. Saudi Arabia is also keen to develop and expand its nascent tourism industry with several tourism infrastructure projects planned.

The sheer volume and range of infrastructure projects under development or planned in Saudi Arabia alone would be enough to make it one of the most interesting markets anywhere for infrastructure businesses, investors, and service providers. However, when coupled with WTO accessions, modernisation, plans for further privatisation and a committed drive to economic diversification, Saudi Arabia presents a real and immediate opportunity. ■



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