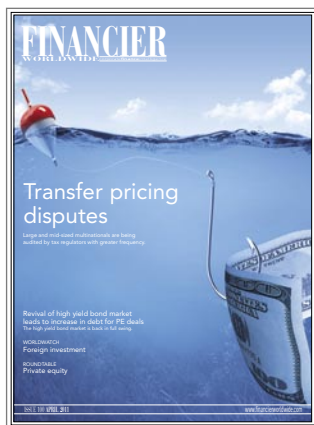


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SAUDI ARABIA

Kingdom of Saudi Arabia – open for business

BY KEVIN CONNOR

The historic and far-reaching changes and events unfolding in the Middle East and North Africa have rattled investor confidence in the region and driven up the price of oil. The Kingdom of Saudi Arabia, the world's second largest oil producer, has not been immune to market concerns, and especially given the turmoil in neighbouring Yemen, Bahrain and Oman. And, while Saudi Arabia has acted decisively to calm global oil markets in the wake of the civil war in Libya, crude oil prices continue to climb. The combination of continued regional unrest with oil supply concerns has led market watchers to express concern that Saudi Arabia could be 'next'. Are these concerns well founded? Will Saudi Arabia be challenged by social unrest which would harm or hinder foreign investment? This article addresses these questions, touches upon some of the factors driving the Saudi economy, and outlines the key aspects of the foreign direct investment framework in the Kingdom.

While Saudi Arabia cannot be viewed in a vacuum, and is obviously affected by global and regional events, several factors suggest that the Kingdom will not witness anything comparable to the social unrest and upheavals affecting other countries in the region. While many point to the Kingdom's oil wealth as a source of its future stability, recent events in Libya show that oil wealth alone is not enough to insulate any government. More important, and in fact the critical factor which under-

pins continued stability in Saudi Arabia, has been the leadership of King Abdulla. Under the guidance and direction of King Abdulla, Saudi Arabia has steadily implemented a series of initiatives to make the country more competitive, investor friendly and, ultimately, socially stable. The institutional, economic, legal and other changes in the Kingdom have been implemented at a measured pace to balance against competing pressures from conservative social and religious elements. Collectively, these initiatives have been nothing short of dramatic. Importantly, these gradual but steady changes have been done in clear recognition of the need to develop long-term solutions to the demographic, economic, social and other pressures underpinning the revolution and social unrest witnessed in the Arab world in 2011. In short, the Kingdom began instituting true change – social as well as economic – in order that the country is able to provide a secure future to its young and growing population, and to diversify its economy.

On the economic front Saudi Arabia has spent, and will continue to spend, hundreds of millions of dollars on various investment projects. These investments cut across many sectors but are especially directed at infrastructure development including petrochemical and natural gas facilities, ports, transportation, water desalinisation, power plant construction, and entire new 'economic' cities. An overall goal of these investments has been to diversify and stimulate the economy, provide enhanced services to the populace, and create job opportunities for young Saudis. Saudi Arabia has taken ancillary support measures, including liberalising several sectors of its economy, acceding to the WTO, facilitating and encouraging foreign direct investment, and generally creating a legislative and judicial framework capable of supporting a competitive modern economy. Saudi Arabia has been rewarded for its efforts, being ranked 13th globally by the World Bank on its ease of doing business scale. Preliminary data recently released by the Ministry of Finance shows that the Saudi economy grew by 3.8 percent in real terms in 2010, at the high end predicted by the IMF and up 0.6 percent from 2009.

The many initiatives launched by King Abdullah are not limited to the economic sector. The Kingdom has demonstrated a deep

commitment to education, including the construction of several new universities. One new university of particular note is the Princess Nora University which, when completed this year, will be home to 40,000 women students. In addition to empowering Saudi women through education, King Abdullah has set an overall tone of furthering opportunities for women in the workplace, and in society. The empowerment of Saudi women will be a powerful force driving the future economic success of the Kingdom. Similar initiatives and investments have been made in health care, with the construction of numerous new hospitals and medical facilities, the training of health care providers, and the creation of a world class medical research facility, the King Abdullah International Medical Research Center. Other reform initiatives are underway in the labour and employment fields.

In addition to the broad macro initiatives noted above, Saudi Arabia has implemented specific legislation to support these initiatives. Consistent with its overarching objective to liberalise and modernise its economy and accede to the WTO, in 2000 Saudi Arabia adopted a new Foreign Investment Law and implementing Regulations. The Foreign Investment Law and accompanying Implementing Regulations provide the regulatory framework governing foreign direct investment into the Kingdom. Regulatory oversight and licensing authority is vested with the Saudi Arabian General Investment Authority, commonly referred to as SAGIA. Foreign investors may wholly-own investments in several fields, including manufacturing, agriculture, real estate investment (other than in the cities of Mecca and Medina) and general services. Other sectors are reserved for Saudi nationals such as oil exploration, drilling and production, the manufacture of military equipment, real estate investments in Mecca and Medina, radio and television broadcasting, and commercial agency. Partial or full foreign ownership is allowed in other sectors such as telecommunications, banking, insurance, wholesale and retail trade, and professional services. In addition, certain sectors open to partial or full foreign ownership may carry certain minimum capital requirements and/or are licensed and regulated by other agencies with jurisdiction over a particular activity, such as the Com- ►►

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munications and Information Technology Commission (telecommunications), and the Saudi Arabian Monetary Agency (banking and insurance). Any investor seeking to invest in the Kingdom can quickly identify if a particular sector is open to full or partial foreign ownership, and any other relevant capital and licensing requirements. Importantly, Saudi law generally provides foreign investors with all benefits, incentives and guarantees enjoyed

by Saudi nationals.

Saudi Arabia has been the largest recipient of foreign direct investment in the Arab world. This trend is set to continue, irrespective of the temporary market worries over regional stability. Evidence of the positive effect all of the Saudi initiatives have had relative to the upheaval going on in other parts of the Middle East is the fact that, despite certain efforts to organise protests in the Kingdom, virtually

nothing of significance took place. And, on the 'day of rage' set for 11 March 2011 the only thing raging in Riyadh was a rare hail storm. While there was a strong showing of uniformed police officers throughout the city, this event was a decided non-event, in large measure due to the far reaching changes already set in motion by a progressive monarch. Saudi Arabia is, and will remain, open for business. ■



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For more than 20 years, the lawyers of **Squire Sanders** (www.ssd.com) have handled matters throughout the Middle East including Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, the United Arab Emirates and Yemen. In addition to assisting local and multinational companies, financial institutions and investors in establishing or expanding their operations in the Middle East, the firm has advised governments and governmental instrumentalities throughout the region. Work-

ing closely with independent network firm **EK Partners & Al-Enezee Legal Counsel** in Riyadh and **El-Khoury & Partners** in Beirut (EKP, www.ekplegal.com), the firm's team seamlessly provides clients with the optimal combination of local presence, legal expertise, sector experience, language capacity and cultural understanding. The team of Squire Sanders and EKP lawyers have the skill and experience to handle a broad range of matters throughout the Middle East, including those involving corporate law and

governance, cross-border strategic transactions, mergers and acquisitions, foreign investment, project finance, private equity, banking, securities (IPOs, private placements, investment funds and Islamic finance), construction, real estate, hospitality, administrative, regulatory, health care, telecommunications, maritime, intellectual property, energy, environmental, insurance, labour and employment, international trade, taxation, litigation and dispute resolution, government restructuring and privatisation.