



USSBC Economic Brief Saudi Arabia FDI Update 2021

Overview

Saudi Arabia's foreign direct investment (FDI) inflows are set to hit the highest level in a decade this year amid strong recovery in the non-oil economy and significant privatization deals signed by Saudi Aramco. The U.S. was a leading source of inward FDI to Saudi Arabia during 2021 and counted as the second largest national source of foreign investment deals in Q3. Regulatory reforms affecting public-private partnerships, mining investment, and pharmaceuticals have opened new avenues of investment for international firms.

Several U.S. firms have already announced plans to relocate their regional headquarters to Riyadh ahead of the Government requirement that international companies base their regional headquarters in Saudi Arabia by 2024 in order to qualify for government contracts. Over the past three years, U.S. FDI into the Kingdom averaged a net SAR855 million (\$228 million) per year. We expect this pace to increase due to foreign investment liberalization and the array of new opportunities expected in the industrial, information technology, hospitality, energy, media, and pharmaceutical industries. The government is expected to sign the highest value of privatization deals in more than a decade in 2022 and further expand the sectors targeted by private investment over the next four years.

FDI Inflows

In 2020, global FDI fell 38 percent to a 15-year low of SAR3.2 trillion (\$846 billion) amid pandemic restrictions on travel and trade. By contrast, inflows to the GCC region rose 12 percent due to FDI gains by Saudi Arabia, Oman, and the U.A.E. While the U.A.E. continued to account for a majority of inflows to the region, Saudi Arabia saw the fastest pace of growth. The Kingdom witnessed a 20 percent pickup in foreign investment while most economies saw sizeable drops during the pandemic. This year, Saudi Arabia is set to post the highest level of FDI inflows in more than a decade following two major Saudi Aramco long-term infrastructure sales. FDI has still grown YoY through Q2 2021 excluding the Saudi Aramco deals, according to the latest available data.

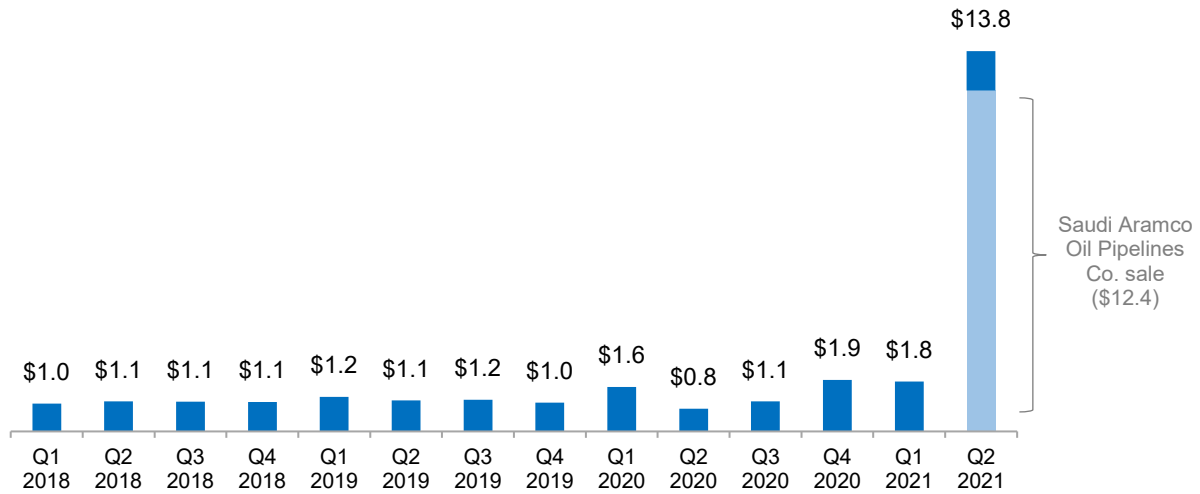
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Following the sale of a 49 percent stake in Aramco Oil Pipelines to a consortium led by U.S.-based EIG Global Energy Partners in the amount of SAR46.5 billion (\$12.4 billion), FDI inflows jumped to the highest quarterly level on record. In Q2, inbound FDI totaled SAR51.8 billion (\$13.8 billion).

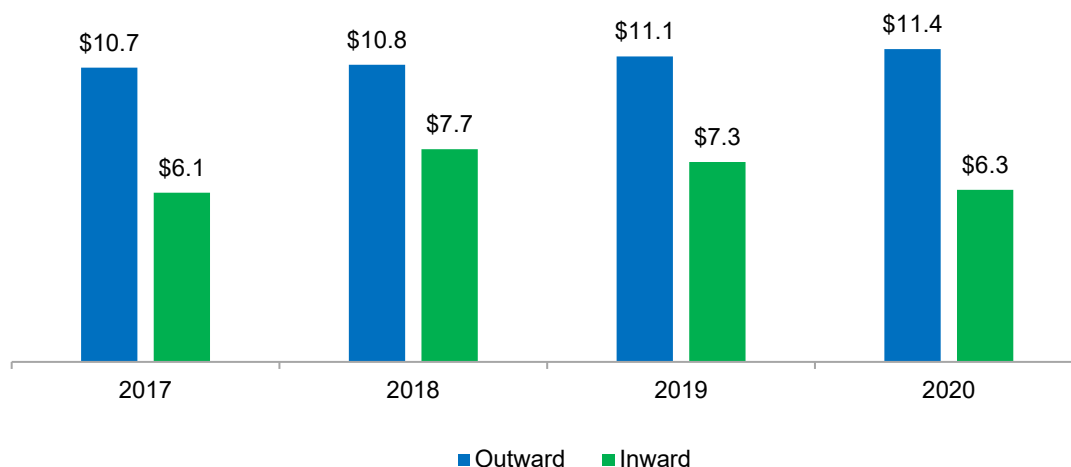
Saudi Arabia FDI Inflows (USD Billion)



Source: SAMA

Excluding the Aramco deal, foreign investment still rose 75 percent YoY in Q2, but declined 22 percent MoM. The year-to-date level of foreign investment in Saudi Arabia has also surpassed both last year and pre-pandemic levels (2018 and 2019), not counting the Aramco deals. U.S. investment played a leading role in boosting Saudi Arabia's inbound FDI in both 2020 and 2021. U.S. FDI position in Saudi Arabia, or cumulative FDI stock, increased SAR1 billion (\$269 million) in 2020 and currently totals SAR42.8 billion

U.S. Direct Investment Position with Saudi Arabia (USD Billion)



Source: Bureau of Economic Analysis (BEA)



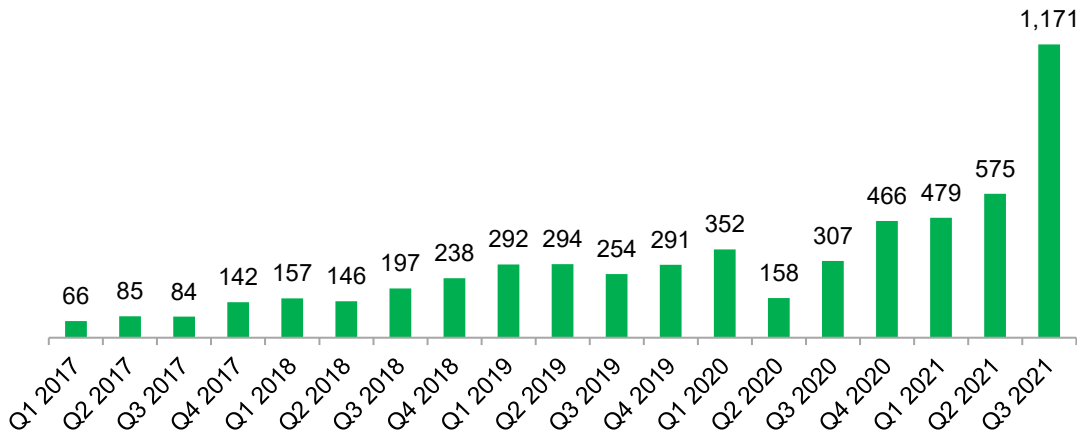
(\$11.4 billion). Saudi investments into the U.S. meanwhile totaled SAR23.6 billion (\$6.3 billion). The U.S. investment position is expected to increase further in 2021 following major divestment deals in the energy and water sectors. Over the past three years, U.S. FDI into the Kingdom has averaged a net SAR855 million (\$228 million) per year.

In December, Saudi Aramco announced a second landmark divestment deal to sell a 49 percent stake in its natural gas pipelines assets. A global consortium led by BlackRock and Hassana Investment Company, the investment arm of the General Organization for Social Insurance (GOSI), signed the SAR58.1 billion (\$15.5 billion), 20-year lease and leaseback deal with Saudi Aramco.

Foreign Licensing

Foreign licenses have also resumed a strong growth trajectory this year, hitting the highest quarterly level on record in Q3 with 1,171 new foreign investment licenses issued. Saudi-issued foreign licenses have already surpassed last year's levels as non-oil and service sector industries rebounded from 2020 lows. The leading sector was 'Retail & E-Commerce,' which accounted for 507 licenses as the service industry normalized from the pandemic. Other top sectors were 'Manufacturing' (182 licenses), 'Construction' (176 licenses), and 'Food & Accommodation' (98 licenses). The fastest growing sectors for foreign licenses were 'Retail & E-Commerce' (+555 percent), 'Water Supply' (+200 percent), 'Food & Accommodation' (+156 percent), and 'Real Estate' (+100 percent). 'Construction' and 'Manufacturing' licenses also rose 60 percent and 44 percent, respectively.

Number of New Foreign Investment Projects



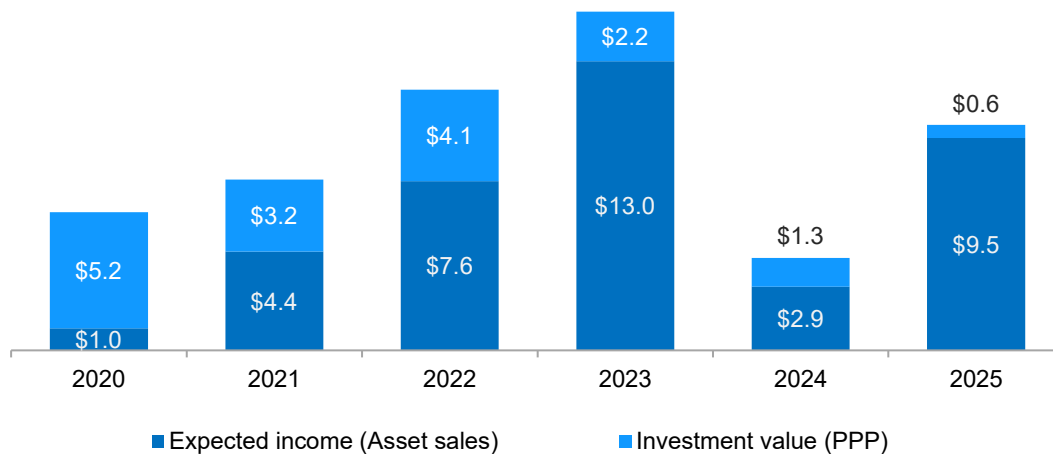
Source: Ministry of Investment

Privatization

The Kingdom has also moved ahead with the privatization of key state assets in the water and agriculture sectors, with plans to raise SAR207 billion (\$55 billion) through public-private partnerships and asset sales in those sectors in addition to power, healthcare, and transportation. The National Center for Privatization (NCP) launched a four-year plan (2021-2025), covered in greater detail in our [Privatization Economic Brief](#), which outlines 160 projects in 16 sectors identified for PPP or asset sales, 96 of which have received government approval. Of the SAR207 billion (\$55 billion) in expected value from privatization deals through 2025, approximately 70 percent will be from asset sales.

Several key 2020 goals from the government’s delivery plan have been achieved, including the sale of four state-owned milling companies and the signing of several build-own-transfer (BOT) contracts in the ports sector, while others have stalled or seen delays, including the privatization of the postal service and the Ras Al-Khair power station. The government’s sale of its flour-milling sector for SAR5.8 billion (\$1.5 billion) to a consortium of local and international investors represents the most lucrative asset sale made during 2020. The water sector, which encompasses desalination, wastewater treatment, and power generation, has also been a strong focus due to its dominance in the Saudi economy. Most recently, Saudi Arabia closed deals to partially or fully privatize the Rabigh, Jubail 3A and 3B, Shuqaiq-3, and Yanbu 4 IWPP projects.

Expected Value of Privatization Projects (USD Billion)

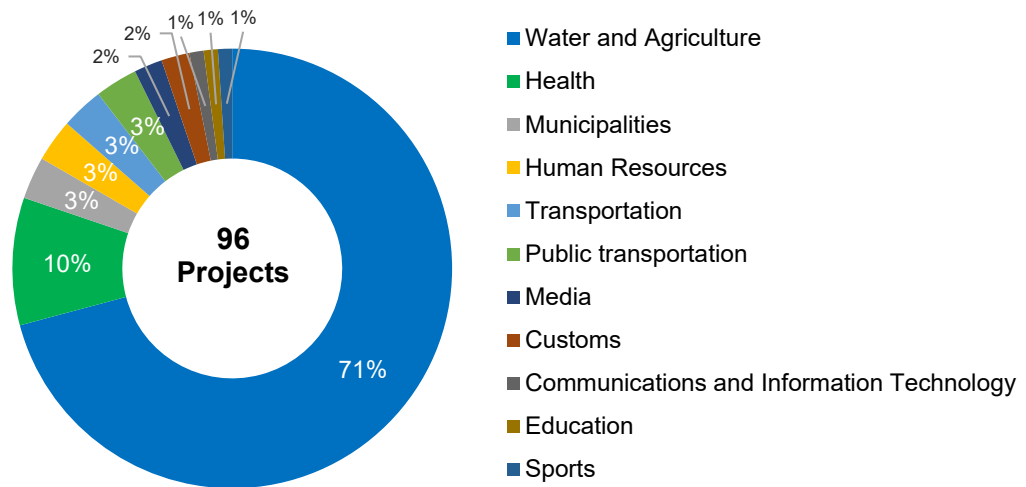


Source: National Center for Privatization
*Excludes Saudi Aramco deals

The Kingdom has also recently pursued Independent Sewage Treatment Plant (ISTP) contracts, which follow a build-own-operate-transfer (BOOT) concession model. Saudi Arabia’s first ISTP contract was awarded to a consortium led by Dubai’s Metito Group in January 2019 and was valued at SAR919 million (\$245 million). The Dammam West ISTP project was followed by two additional ISTP contracts in Jeddah and Taif which were signed in 2020. Saudi Arabia has 204 wastewater treatment plants in operation of which 15 are to be privatized during the first phase of the water sector privatization plan implemented by the National Water Company (NWC).

The health sector also saw the first privatization of a government-owned healthcare entity following the majority stake acquisition of Saudia Medical Services Company by Dr Soliman Abdel Kader Fakeeh Hospital Company. Healthcare privatization is expected to be a leading sector of the government’s four-year plan, which has been subject to less privatization opportunities relative to the water sector. Major deals were also closed in the transportation sector, including build-own-operate (BOT) concession contracts for the container terminals at Jeddah Islamic Port valued at SAR9 billion (\$2.4 billion) and King Abdulaziz Port Dammam valued at SAR7 billion (\$1.9 billion). Over the next four years, privatization of state assets will remain a major draw for foreign investment.

Approved Privatization Projects



Source: National Center for Privatization

Strategic Alignment

As Saudi Arabia pursues an ambitious goal to raise net FDI to SAR388 billion (\$103.5 billion) annually by 2030, the government introduced new strategies in 2021 to better align investment opportunities with long-term economic development and competitiveness. The Shareek (“partner”) program is a cooperative framework aiming to drive SAR5 trillion (\$1.3 trillion) in private investments from large corporations in Saudi Arabia over the next eight years. A separate framework called the National Investment Strategy (NIS) aims to attract SAR4 trillion (\$1.1 trillion) in local and foreign direct investment by 2030 and will be guided by investment strategies for the following sectors: manufacturing, renewable energy, transportation, logistics, tourism, digital infrastructure, and healthcare. The NIS is understood to comprise several existing Vision 2030 initiatives under its umbrella. The Public Investment Fund (PIF) is also expected to contribute SAR3 trillion (\$800 billion) through 2030 to drive non-oil economic growth. The NIS, supported by PIF, also expects to introduce special economic zones in the near-term that will serve as a key vehicle to attract FDI over the coming decade.

Regulatory Developments

Saudi Arabia has implemented several regulatory changes to improve the Kingdom’s business environment for both domestic and international investors. Recent laws and amendments pertaining to investment have mostly either liberalized restrictions or clarified existing commercial arrangements. These regulatory developments include:

Pharmaceutical Law (In effect: April 2020) – Replacing the previous Pharmaceutical Law, the new law significantly liberalizes ownership of pharmaceutical and herbal medicines establishments in the Kingdom. Businesses including wholesale warehouses and medicinal consultation centers which previously required a Saudi owner may now be 100 percent foreign-owned and managed. However, pharmacies and medical manufacturing plants retain Saudi ownership requirements.



In Focus:

Key Insights from Mr. Abdulrahman Bakir, VP - U.S. Office at Ministry of Investment

What is MISA's mandate in terms of attracting world class companies to the Kingdom?

"The Ministry of Investment under the leadership of HE Minister Khalid AlFalih, has an expanded mandate and now oversees the Kingdom's entire investment ecosystem. The ministry is working with its partners across the government to reenergize the landscape - streamlining and improving the investor journey, bolstering effective policy reform, and driving the continuous growth of the Kingdom's resilient economy. We have been tasked with developing, attracting and expanding quality investment to help fuel sustainable national economic growth and achieve an approximately twentyfold increase in FDI flows (to 5.7 percent of GDP) by 2030."



How will Saudi Arabia's incoming FDI be different with the recently released National Investment Strategy?

"Our National Investment Strategy – which was unveiled by HRH the Crown Prince in October 2021 – aims to unleash Saudi Arabia's investment potential as part of Vision 2030 and enhance the economy's openness and competitiveness.

Vision 2030 has already brought significant changes to the landscape. One hundred percent foreign ownership is now allowed across most sectors, and we have reduced the time required to obtain a foreign investment license from three days to three hours. And investors have responded. Comparing pre- and post-Vision 2030 performance, we see that active foreign investment licenses in the Kingdom has increased by 264 percent in Q2 2021, compared to 2015.

The National Investment Strategy aims to take this project to the next level. It has three overall investment objectives: 1) To triple investment volume by 2030, to 30 percent of GDP, 2) More than double the overall domestic investment component of our Gross Fixed Capital Formation, or GFCF, to SAR 1.65 trillion, at an average annual growth rate of some 9 percent; and 3) Achieve an approximately twentyfold increase in FDI flows (to 5.7 percent of GDP)."

What trends have you noticed among U.S. investments in Saudi Arabia?

"We have a long-held partnership with the United States that stretches back 90 years – we are proud of the contributions that this partnership has had for the citizens of both our nations and we are excited about the potential for it to grow from strength to strength in the coming years. As Saudi Arabia undergoes a fundamental economic transformation, there are many opportunities for American investors to be at the heart of this change.

Renewable Energy

For the last 80 years, Saudi Arabia has been a key player in the global energy industry. We now want to ensure the Kingdom secures its role in the future of the sector by becoming a global leader in green energy, as we aim to increase the share of renewables in our energy mix to 50 percent by 2030. We are building our first green hydrogen plant – the world's largest – with the US industrial gas giant Air Products & Chemicals with an investment worth close to 5 billion US dollars, which will produce 650 tons of green hydrogen daily from 2025. And this is only the beginning.

Healthcare & Life Sciences

The ongoing pandemic has highlighted the vital importance of the sector. Research that led to record-breaking vaccine developments has demonstrated the power of innovation and helped us mitigate the impact of the pandemic and build resilience for the future. In the last couple of months we have held several events, reflecting the importance of this sector. We co-organized a Global Medical Biotechnology Summit, which gathered international industry leaders and innovators from the US and across the world. Additionally, MISA led a



workshop on “Health Data Governance in the Digital Age” in cooperation with the PhRMA group with the aim of enhancing the value of health data in the Kingdom and developing policies. As well as strong demand, the Kingdom also offers vast scope for fostering co-investment and strategic collaboration with top-tier universities, research centers, and SMEs.

Tourism and Hospitality

“Our tourism and hospitality sector is an example of a nascent industry that is set to benefit from long-term investment. In recent years, Saudi Arabia issued its first tourist visas, providing an opportunity for visitors from across the world to experience the stunning nature and fascinating culture and history the Kingdom offers. As a sign of our ambitions, we have announced an aim to significantly increase the annual number of tourists by a factor greater than five, and to double the annual number of pilgrims to Mecca, by 2030. To accommodate these numbers, we urgently need to develop significantly more hotels and resorts. The total investment value for these amounts to \$70 billion, which will bring 50,000 new hotel rooms by the time of completion.”

Which financial incentives, existing or planned, will have the biggest impact in Saudi Arabia meeting its FDI goal of SAR375 billion (\$100 billion) by 2030?

“In the National Investment Strategy, we outlined a broad range of incentives and reforms that we will look to introduce in the coming years – from specialist sector-focused investment funds, to new funding mechanisms, to the introduction of special economic zones. We do not see any of these incentives as a magic solution. They are being developed through detailed analysis of individual sectors and consultation with existing and potential investors so that they address any challenges as effectively as possible. And we will continue to review and update them as required through an enhanced process of investor consultation and feedback supported by a new investor council.”

What investment opportunities represent the greatest potential for U.S. expertise in Saudi?

Mega and Giga Projects

“Our mega and giga projects are large-scale, multipurpose investment projects that aim to transform the wider economy and are linked to Vision 2030. They include NEOM, the Red Sea Project, Qiddiya, Al Ula, as well as the Diriyah Gate Project. Unique in both scope and ambition, these massive developments represent some of the largest standalone projects globally across both established and emerging sectors, offering investors an exceptional chance to redefine industries and capture market share.

Their success will depend on attracting innovative investors who are capable of realizing this vision – and America is home to more world-leading innovative businesses than anywhere in the world. Finally, outside these projects, lucrative opportunities exist pertaining to resorts developments, theme and water parks, live events, and the movie industry.”

Information & Communications Technology (ICT)

“Saudi Arabia has invested heavily in its digital ecosystem and was ranked 2nd globally in the Digital Competitiveness Report for 2021. We are now looking to leverage our already large and growing ICT sector by transforming our country into a globally competitive tech and cloud hub serving the wider region through a range of incentives. Broadly, we see investment opportunities in ICT across three categories: software, digital infrastructure – which includes large-scale data centers – and digital content creation, of which gaming is an important component.”

Logistics & Supply Chains

“With regards to supply chain development, we can see at the moment the impact that brittle supply chains can have on economies across the world. And given the geopolitical environment and rise in economic nationalism, it is more important than ever that companies and governments focus on supply chain resilience, diversification of sources, and strong and well-integrated regional networks.

For companies in virtually all sectors, there is a unique opportunity to do exactly this by establishing production capacity in the Kingdom, a major market in itself and one which also offers a strategic location at the heart not



only of the Middle East but also of three continents – Asia, Europe, and Africa – serving over 50 percent of the world’s population within five hours of travel. To leverage this global shift, Saudi Arabia is launching a Supply Chain Relocation Program. This Program will incentivize companies across sectors such as metals, pharmaceuticals, batteries, and chemicals by leveraging our core competitive advantages. We also have our National Industrial Development and Logistics Program, which focuses on transforming Saudi Arabia into an industrial powerhouse and a global logistics hub, by maximizing the value of our energy, mining, industry, and logistics sectors.”

Healthcare

“There are opportunities for investors across the sector as we are seeing growing demand from a rapidly expanding population while also looking to increase private provision of healthcare services. This creates two compelling drivers underpinning opportunities in the sector. This is also being backed by expanded government spending – we will be spending an estimated cumulative \$220 billion on healthcare over the next five years – as well as looking to support the development of the pharmaceuticals and biotechnology sectors.

Broadly speaking, we are creating a competitive investment landscape, which includes accelerating progress through game-changing regulatory reform to enable quality investments. Opportunities can be accessed through investsaudi.sa.”

Commercial Courts Law (In effect: June 2020) – This law is an overhaul of the Kingdom’s Commercial Court system which implements several new procedures such as mandatory pre-action protocols, e-filing, alternate dispute resolution, and filing limitation periods in an effort to reduce the burden of unmeritorious claims and improve confidence in business-related mediations.

Mining Investment Law (In effect: December 2020) – The long-anticipated Mining Investment Law opens up the vast mineral wealth of Saudi Arabia to foreign investment by offering concessions to private mining firms across 15 types of minerals that have known “commercially viable quantities” in the Kingdom. The law specifies procedures for businesses to obtain mining licenses up to a 30-year duration.

Chambers of Commerce Law (In effect: December 2020) – The new law allows foreign investors to become members of the board of directors or chairpersons of chambers of commerce for the first time. The law also provides an exemption for new companies and establishments joining Saudi chambers from fee payments for a three-year period following receipt of their commercial registration.

Private Sector Participation (PSP) law (In effect: July 2021) – The PSP law will introduce several changes that seek to level the playing field for foreign investors, allow direct collection of public fees and revenues, and permit some exemptions to Saudization employment policies at the discretion of NCP and the Ministry of Human Resources & Social Development. Many of these regulatory changes reflect an effort to make PPP more attractive to foreign investors. The new law covers any relationships between the pipeline infrastructure. Information technology (IT) and telecommunications have also seen an active role from U.S. leaders Google, Oracle, Cisco, and IBM, which are investing in cloud connectivity and cybersecurity.

Regional HQ law (Planned: January 2024) – Foreign companies seeking government contracts will be ineligible for consideration starting January 1, 2024 if they do not have a regional headquarters in Saudi Arabia. MISA announced 44 multinational companies have so far received licenses to move their headquarters, including U.S. companies PwC, PepsiCo, Fluor, Deloitte, The Greenbrier Companies, Lilly, Hewlett Packard Enterprise, Boston Scientific, and Katerra.



U.S. Investments

The U.S. was the second largest national source of foreign investment deals in Q3, according to MISA. From the beginning of 2021, the U.A.E., China, the U.S. and the U.K. were the main investors in Saudi Arabia, with a total of 42 deals. U.S. private equity and asset management firms led international consortiums to take a record SAR105 billion (\$28 billion) private stake in Saudi Aramco's pipeline infrastructure. Information technology (IT) and telecommunications have also seen an active role from U.S. leaders Google, Oracle, Cisco, and IBM, which are investing in cloud connectivity and cybersecurity.

The Kingdom has also seen a pickup in pharmaceutical deals, in line with the National Industrial Development & Logistics (NIDL) strategy, to boost local manufacturing of biologics, generics, and other medicinal products. For example, Saudi Chemical Holding subsidiary AJA Pharma signed an agreement with Eli Lilly Saudi Arabia to manufacture insulin in-Kingdom. The Indianapolis-based firm has since opened a regional headquarters in Riyadh and pursued nationalizing its Saudi workforce and operating clinical trials in-Kingdom. U.S. e-commerce giant Amazon further expanded its presence in Saudi Arabia in 2021, creating another 3,400 jobs and expanding its delivery network.



Highlighted U.S. Direct Investment Activity

Company	Value (\$M)	Description
Energy		
EIG Global Energy Ventures	12,400	Consortium led by EIG acquired 49 percent stake in Aramco Oil Pipelines Co.
BlackRock	15,500	Consortium led by BlackRock acquired 49 percent stake in Aramco Gas Pipelines Co.
Finance		
Western Union	200	Bought 15 percent in STC's digital payment unit
Media		
Warner Music Group	200	Bought minority stake in Rotana Music
Information Technology		
Cisco	265	Investments to increase cloud connectivity
Oracle	-	Plans to open second cloud region in KSA
Google	-	Google/Aramco agreement to establish cloud region in KSA
IBM	280	Five-year agreement with Mobily for comprehensive IT services
Medical/Pharmaceutical		
Johnson & Johnson	-	Five-year agreement with MISA to support private investment; agreements with SaudiVax, SPIMACO, and KAUST for local medical manufacturing
MSD Animal Health	125	Establish local JV, Dammam Pharma, to manufacture 20 products
Eli Lilly	-	Establish local JV with AJA Pharma to manufacture insulin in KSA
Defense		
Halliburton	100	Constructing reactor plant for the manufacture of chemicals at King Salman Energy Park
Water		
General Electric	-	Announced investment to build first desalination plant in KSA using clean energy
Hospitality		
IHG Hotels & Resorts	-	Signed agreement with RIVA Development to open seven new hotels in KSA
Hilton	-	Plans to increase number of hotels in Saudi from 15 to 75 over the next five years
Industrial		
Baker Hughes	-	Formed 50/50 joint venture, Novel, to develop non-metallic products
Newpark Resources	-	Announced plans to form joint venture with TAQA to produce specialty chemicals
Automotive		
Lucid Motors	-	Announced intention to build manufacturing facility in KSA
E-Commerce		
Amazon	-	Created 3,400 jobs in KSA, opened five new delivery stations

Source: USSBC, public outlets



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