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# RUBIX COUNTRY INSIGHTS

## KINGDOM OF SAUDI ARABIA

After a slight decline in 2023, primarily due to reduced oil production and oil prices, Saudi Arabia's economy is expected to grow marginally in 2024. Growth projections are higher for 2025 based on the assumption of higher oil revenues, supplemented by increasing contributions from non-oil sectors.

### EXECUTIVE SUMMARY

- Saudi Arabia's economy is predominantly dependent on oil, but the country is vigorously pursuing diversification efforts and investing in infrastructure and human capital to transform its future. For instance, in 2023, non-oil activities in Saudi Arabia reached a 50% share of the country's real GDP, marking a record high. This milestone was largely due to a 57% increase in private-sector investment over the past two years.
- The Saudi Vision 2030 Plan spearheaded by Crown Prince Mohammed bin Salman, is central to this shift, aiming to diversify the economy by developing sectors such as tourism, entertainment, and technology.
- The 0.8% drop in real GDP in 2023 was largely due to the contraction in the country's oil sector that followed the production cuts under the OPEC+\* agreement. The country's oil production fell by 9% in 2023 compared to 16% growth in 2022.
- Saudi Arabia is witnessing a range of significant infrastructure initiatives, including the USD 500 billion futuristic city of NEOM, alongside investments in emerging sectors like tourism, leisure, video games, and renewable energy. To finance these efforts, public debt as a percentage of GDP is projected to rise modestly from 26.2% in 2023 to 27.5% by 2025.
- Saudi Arabia's imports have grown at 1% CAGR from 2019 to 2023, whereas exports have grown at 3% CAGR. Its primary structural vulnerability stems from its heavy dependence on oil exports,

\*The Organization of Petroleum Exporting Countries (OPEC) formed the so-called OPEC+ coalition with 10 of the world's leading non-OPEC oil exporters, including Russia, at the end of 2016.

which makes the country susceptible to various risks, including fluctuations in oil prices, geopolitical uncertainties, shifts in global demand, changes in trade relationships, and exchange rate fluctuations.

- India is Saudi Arabia’s 4<sup>th</sup> largest import partner (i.e., imports into Saudi Arabia from India) and 3<sup>rd</sup> largest export partner (i.e., exports from Saudi Arabia to

India). In September 2023, Saudi Arabia and India signed over 50 agreements at the Saudi Investment Forum in areas of Information & Communications Technology (ICT), entrepreneurship, chemicals, energy, and advanced manufacturing.

## Key Economic Indicators: Summary

Indicator	2021	2022	2023 (E)	2024 (F)	2025 (F)	Forecast
GDP, current prices (USD Billion)	874	1,110	1,070	1,110	1,170	●
Real GDP growth (%)	5.1	7.5	-0.8	1.7*	4.7*	●
GDP per capita, current prices (USD '000)	28.4	34.5	32.5	33.0	34.3	●
Inflation rate, average consumer prices (%)	3.1%	2.5%	2.3%	2.3%	2%	●
General government gross debt (% of GDP)	28.6	23.9	26.2	27.5	27.6	●
Current account balance (% of GDP)	-3.5	4.8	13.7	0.5	-0.6	●

Note: ● = positive outlook; ● = negative outlook; ● = stable/unchanged

\*Updated value from the IMF World Economic Outlook Update, July 2024. Source: International Monetary Fund

## Political Landscape

Saudi Arabia’s political structure is highly centralised, with power concentrated in the monarchy and the Royal Family. The King of Saudi Arabia acts as the Monarch and is considered the Head of State and the Head of the Government. The Royal Family, i.e., The House of Saud, is the ruling family, with members holding significant positions within the Government. The Council of Ministers is headed by the King and is composed of ministers appointed by the King. It is responsible for implementing policies and overseeing various Government ministries. The Shura Council is an advisory body that provides recommendations on legislation and policy but does not have legislative power.

Since 2017, Saudi Arabia has undergone significant social and economic changes, driven largely by the Vision 2030 initiative, a plan introduced by Crown Prince Mohammed bin Salman to diversify the economy and modernise the country.

There have been positive changes in women’s empowerment as well. In June 2018, Saudi Arabia lifted the ban on women drivers, allowing women to obtain driver’s licenses and drive cars for the first time. Since then, there has been an increase in the participation of women in the workforce. The Government has also encouraged women to take on roles in various sectors, including previously restricted ones, which has led to the share of women in the Kingdom’s workforce now standing at 36%, up from just over 17% in 2017<sup>1</sup>.

In the recent past, the country has also hosted international concerts, festivals, and sporting events. Notable events include the Formula E races (the first one took place in 2021) and concerts featuring global artists. The lifting of the ban on cinema in 2018 allowed movie theatres to reopen after decades. The Government is also supporting local film production and international collaborations.

## Overview of the Business Landscape

With the world’s second-largest proven oil reserves and a leading position in oil production and export, oil constitutes a major part of Saudi Arabia’s revenue and GDP. The state-owned company Aramco is the largest oil producer in the world. Consequently, Saudi Arabia’s economic framework is heavily reliant on oil, but it is actively pursuing diversification and investing in infrastructure and human capital to reshape its future.

In an effort to reduce its oil dependency, Saudi Arabia is undergoing a significant economic transformation. The Saudi Vision 2030 Plan, launched in 2016, is central to this shift and aims to diversify the Saudi economy by developing sectors such as tourism, entertainment, and technology.

Key projects under Saudi Vision 2030 include the development of NEOM, a futuristic mega-city, the

<sup>1</sup> Arab News, November 2023.

Red Sea Project, which focuses on luxury tourism and sustainable growth, and the King Abdullah Economic City (KAEC), located on the Red Sea Coast and designed to be a large-scale economic and industrial hub. The country is making substantial investments in urban infrastructure, including new airports, high-speed rail systems, smart city projects, and modern housing.

These diversification efforts are supported by regulatory reforms designed to foster entrepreneurship, protect investors, and lower business costs. The Saudi Public Investment Fund (PIF) is also playing a crucial role in stimulating private-sector investment. Additionally, initiatives like 'Saudization' aim to increase the employment of Saudi nationals and reduce the reliance

on foreign labour.

The Saudi Riyal is pegged to the US Dollar, which provides economic stability but limits monetary policy flexibility. While the Government has been generally able to manage inflation, it is highly dependent on external factors, such as oil production targets set by the Organization of the Petroleum Exporting Countries (OPEC), oil demand and prices, and geopolitical factors.

Overall, despite the continuing importance of the oil sector, Saudi Arabia is actively working to transform its economic landscape through diversification, modernisation, and greater global integration.

## Business Entities in Saudi Arabia



According to the Saudi Ministry of Commerce, more than 95,000 commercial registers were issued during the fourth quarter of 2023, an increase of 23% year-on-year, bringing the total existing commercial registers at the end of 2023 to more than 1.4 million.<sup>2</sup>

Saudi Arabia offers a variety of business structures to suit different needs. Here's an overview of the most common company types<sup>3</sup>:

Type of Company	Brief Details
Sole Trader	It can be established by a single entrepreneur who is personally liable for the venture's debts and responsibilities. This business type can only be founded by Saudi or Gulf Cooperation Council (GCC) citizens.
Limited Partnership	It requires at least two members: one partner serving as a general member and another as a limited member. It also requires at least one director.
Limited Liability	It can be registered by a single shareholder and can have up to 50 shareholders. While there are no financial requirements for establishing this form of company, municipal authorities may impose a capital requirement based on the specific business activity.
Joint Stock Company	It must have at least two stockholders and three directors. There are specific nationality requirements for stockholders. This type of corporation can be entirely owned by one or more natural persons or Saudi Arabian companies, including foreigners, and can engage in a variety of operations. To establish a Joint Stock Company, clearance from the Saudi Ministry of Commerce is required.
Foreign Companies	Foreign Companies can establish their presence in Saudi Arabia through a branch or a representative or liaison office, both of which are completely controlled by the parent corporation. Alternatively, they can establish subsidiaries that are recognised as domestic firms. In this case, the parent company will be the sole stakeholder of the subsidiary, which can only exist as a limited liability business.

<sup>2</sup> Asharq Al Awsat, January 2024

<sup>3</sup> Batic Firm



## Key Economic Indicators: Major Insights

### GDP

**Voluntary oil production cuts, coupled with lower prices, adversely impacted Saudi Arabia's GDP<sup>4</sup> in 2023.**

The 0.8% drop in real GDP in 2023 was largely due to the contraction in the country's oil sector that followed the production cuts under the OPEC+ agreement. Saudi Arabia (the largest oil-producing country among OPEC), along with other members of the OPEC+ alliance, has been reducing crude oil output as a part of the alliance's efforts to 'balance the market'. Therefore, oil production fell by 9% in 2023 compared to the 16% growth in 2022. However, the price of crude Brent fell by about 10% in 2023 due to higher-than-expected supply from non-OPEC countries and concerns about lower crude demand owing to global uncertainties.

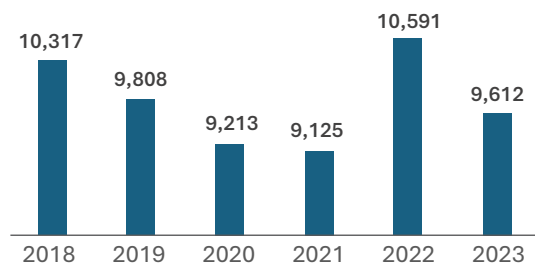
In February 2024, Saudi Arabia announced it would extend its voluntary cut of 1 million barrels per day to the end of Q2-2024. The production cap is in addition to the voluntary cut of 500,000 barrels per day (bpd) announced by the Kingdom in April 2023, which will remain in effect until the end of December 2024.

### Inflation

**Inflation is expected to be contained on the back of domestic subsidies and price caps, and higher financing cost<sup>5</sup>.**

In July 2023, the US Federal Reserve increased its interest rate by 25 basis points, a move that Saudi Arabia matched with a similar rate hike. This action reduced local market liquidity and helped keep Saudi inflation at 2.3% for 2023, down from 2.5% in 2022. In early 2024, inflation eased further, averaging 1.7% year-on-year, partly due to domestic subsidies, price caps, and the strength of the Saudi Riyal (SR). With the SR pegged to the USD (USD 1 = SR 3.75), the Saudi Arabian Central Bank's key policy rates remained aligned with those of the US Federal Reserve. In June

**Saudi Oil Production (1,000 b/d), 2018-2023**



2024, the Saudi Central Bank (SAMA) held interest rates steady for the seventh consecutive period, maintaining its repo rate at 6%, thus aligning with the US Federal Reserve.

Looking ahead, inflation is expected to stay low, supported by price controls, and a slowdown in the real estate market.

### Public Debt

**The Government has marginally increased the share of public debt to GDP to fulfil its Saudi Vision 2030<sup>6</sup>.**

As part of Saudi Vision 2030, the country is undertaking several major infrastructure projects and investing in new sectors such as tourism, leisure, video games, and renewable energy.

Data released by the Saudi General Authority for Statistics shows that FDI inflows into Saudi Arabia in 2023 were USD 19 billion. With crude oil trading at around USD 80 a barrel and Foreign Direct Investment (FDI) standing at USD 19 billion, the country has turned to global borrowing to finance the investments required for Saudi Vision 2030. This need for borrowing is reflected in the slight 'forecasted' increase in public debt from 23.9% in 2022 to 27.6% in 2025. In fact, Saudi Arabia is now the top issuer of international bonds among emerging markets, surpassing China with USD 33.2 billion in bond sales to date.

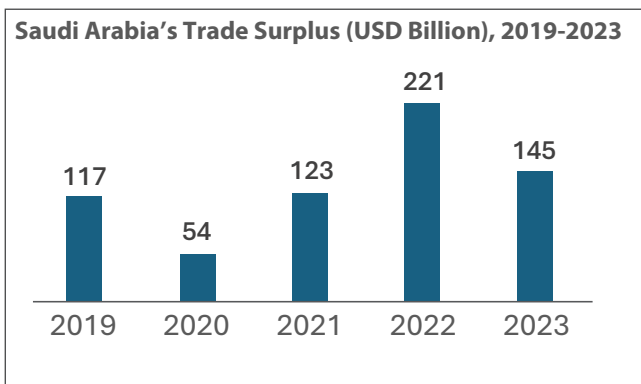
<sup>4</sup> OPEC, International Monetary Fund and The National, March 2024

<sup>5</sup> Saudi Central Bank, Audi Group

<sup>6</sup> Le Monde, July 2024; Asia Business Outlook, June 2024; EY, September 2023

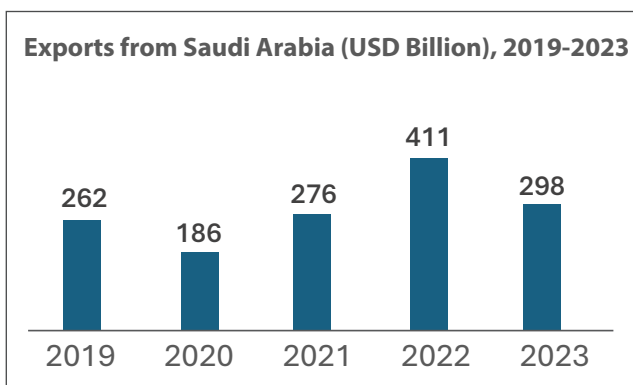
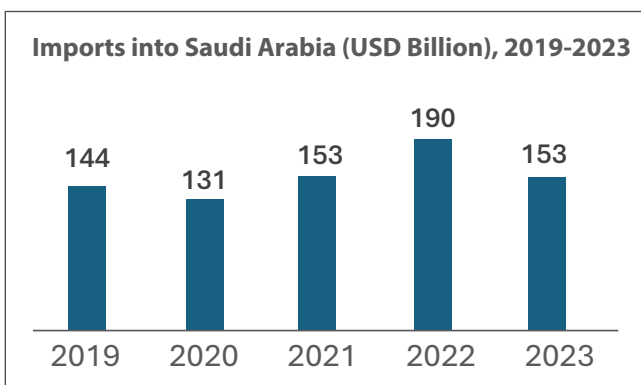
## Cross-Border Trade Dynamics

Saudi Arabia's trade surplus has grown at 5% CAGR from 2019 to 2023.



Saudi Arabia's imports grew at 1% CAGR from 2019 to 2023. On a y-o-y basis, imports declined by 19% in 2023. Meanwhile, its exports declined by 27% y-o-y in 2023, driven by a drop in oil exports. For the period 2019 to 2023, exports grew at 3% CAGR. Saudi Arabia's main structural vulnerability arises from its heavy reliance on oil exports, which exposes the country to several risks related to oil price fluctuations, geopolitical risks, global demand shifts, trade relationships, and exchange rate risks.

Note: Trade Surplus = Exports - Imports. Source: International Trade Centre (ITC)



Source: International Trade Centre (ITC)

## Country-wise Trade

India's share as a trading partner in Saudi Arabia's cross-border trade has increased in the past five years.

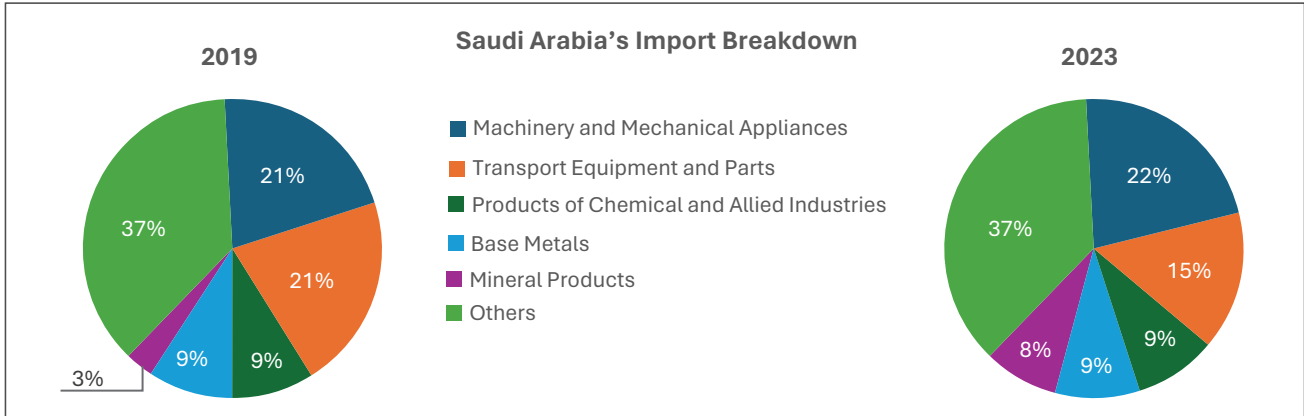
Top 5 Countries from which Saudi Arabia Imported			Top 5 Export Destinations for Saudi Arabia		
Country	Share in 2019	Share in 2023	Country	Share in 2019	Share in 2023
China	19%	21%	China	4%	17%
US	12%	9%	Japan	0.3%	10%
UAE	7%	6%	<b>India</b>	<b>1%</b>	<b>9%</b>
<b>India</b>	<b>4%</b>	<b>6%</b>	South Korea	0.4%	9%
Germany	5%	4%	UAE	3%	5%
Others	53%	54%	Others	91.3%	50%
Total	100%	100%	Total	100%	100%

Note: All figures are rounded. Source: International Trade Centre (ITC), Bank Audi Saudi Arabia Economic Report June 2024, General Authority for Statistics (GASTAT), Saudi Arabia.

The Top 5 countries to which Saudi Arabia exported, collectively accounted for a 50% share of total exports in 2023. This is a major shift from 2019 when these 5 countries accounted for only 9% of Saudi Arabia's exports.

## Major Imports

Demand for electronic integrated circuits has risen sharply in the last 5 years; its share in imports increased from 23% in 2019 to 35% in 2023.



Source: General Authority for Statistics (GASTAT), Saudi Arabia

## Major Exports

In an economy heavily dependent on oil and allied products (upstream as well as downstream), the share of mineral fuels, oils, and waxes in total exports has remained constant at 77% between 2019 and 2023.



Source: General Authority for Statistics (GASTAT), Saudi Arabia



**“We actually intentionally decided to spend more and cause the deficit knowingly, consciously in the belief that deficits of up to 3% are absolutely fine... if you spend that money right.”**

Mr. Khalid Al-Falih, Minister of Investment, Kingdom of Saudi Arabia,



## Brief Snapshot of Key Developments in Saudi Arabia: Impact Metrics

Key Developments	Impact		
	1–2 years	3–5 years	6–10 years
Saudi Vision 2030: Moving towards being recognised as a global model of excellence	High	High	High
US-Saudi landmark agreement	High	High	High
Normalisation of Saudi-Israel diplomatic ties	High	High	High
Aramco stake sale to fund projects in non-oil sectors	High	High	High
NEOM: Challenges facing ambitious NEOM plan	High	High	High
Introduction of Government-backed savings bonds for individuals	High	High	Medium
Relaxed corporate income tax rules for attracting foreign companies	High	High	Medium
Initiating free trade agreement negotiations with Türkiye	High	High	Medium

### Key Developments

#### Saudi Vision 2030: Moving Towards Being Recognised as a Global Model of Excellence<sup>7</sup>

Saudi Arabia’s Vision 2030 centres around three main themes: a vibrant society, a thriving economy, and an ambitious nation.

To create a vibrant society, the Kingdom will focus on enhancing its people’s quality of life and deepening its Islamic heritage. Key actions include: increasing Umrah visitors from 8 million to 30 million annually; establishing the world’s largest Islamic Museum; doubling the number of Saudi heritage sites on the UNESCO list; expanding cultural and entertainment options; increasing the ratio of individuals exercising at least once a week from 13% of the population to 40%; and developing three Saudi cities to rank among the Top 100 globally.

To build a thriving economy, Saudi Arabia will diversify and generate new job opportunities through education, entrepreneurship, and innovation. This involves privatising state assets and creating a sovereign wealth fund, partly funded by Saudi Aramco’s IPO, developing sectors like manufacturing, renewable energy, and tourism; modernising educational standards to place at least five Saudi universities among the world’s top 200 by 2030; and increasing the contribution of SMEs from 20% of GDP to 35% by 2030.

To achieve its goal, Saudi Arabia will emphasise governance improvements, focusing on accountability, transparency, and effectiveness. This will include: enforcing zero tolerance for corruption; expanding online services and enhancing governance; launching the King Salman Program to train over

500,000 government employees in best practices; and strengthening the non-profit sector for greater efficiency and impact.

#### US-Saudi Landmark Agreement

Saudi Arabia and the United States are nearing completion of a landmark agreement designed to deepen bilateral trade and defence cooperation. This proposed defence treaty would solidify a seven-decade security alliance, bringing the two nations closer together, even as America’s rivals Iran, Russia, and China expand their influence in the Middle East. Experts characterise the deal as a “comprehensive set of understandings” offering Saudi Arabia security, economic, and technological assurances, including support for its civilian nuclear program.

The broader agreement involves three interconnected components: a series of US-Saudi accords, the normalisation of Saudi-Israeli relations, and a pathway to Palestinian statehood. Progress on each component is contingent upon advancements in the others.

Despite significant progress, the deal’s finalisation remains uncertain. Ongoing challenges such as the Gaza conflict and the upcoming US Presidential election have delayed negotiations.

#### Normalisation of Saudi-Israel Diplomatic Ties

Saudi Arabia is regarded as the leader of the Arab and Islamic world. While Israel has normalised relations with several Arab and Islamic countries, including UAE, Bahrain, Morocco, and Sudan, Saudi Arabia has not recognised Israel formally. Normalisation of the Saudi-

<sup>7</sup> Vision 2030, Kingdom of Saudi Arabia, Embassy of the Kingdom of Saudi Arabia

Israeli relationship is vital for peace and prosperity in the Middle East. Potential advantages include better security and anti-terrorism ties between both countries, trade growth, direct telecommunication links, overflight rights for airlines, etc.

Negotiations for an agreement between both countries were progressing well before the October 7, 2024 attack by Hamas on Israel. This attack, followed by Israel's massive ongoing retaliation in Gaza, has caused negotiations to stall. Saudi Arabia is pushing for an end to the conflict in Gaza and wants to see a practical pathway to a Palestinian state.

However, the conflict in the Middle East has intensified after the recent assassination of the senior Hamas leader Ismail Haniyeh in Tehran. Iran and the Lebanon-based Hezbollah have been drawn into the conflict, which threatens to spiral out of control. As a result of this geopolitical volatility, the normalisation of Saudi-Israeli ties has been indefinitely stalled.

### **Aramco Stake Sale to Fund Projects in Non-oil Sectors<sup>8</sup>**

In June 2024, Aramco sold 0.7% of its stock in a secondary listing that was priced at SAR 27.25 per share and raised USD 12.35 billion. Saudi Arabia owns 81.5% of Aramco and the state-owned Public Investment Fund holds a further 16%.

The share sale deal will help finance large domestic projects and investments in sectors such as renewable energy, technology, tourism, logistics, and manufacturing. The Kingdom is also utilising its sovereign wealth fund to invest in various initiatives, including electric vehicles, sports, and a new airline, to reduce its reliance on oil and boost long-term economic growth.

### **NEOM: Challenges Facing the Ambitious NEOM Plan<sup>9</sup>**

Initiated in 2017 by Crown Prince Mohammed bin Salman, NEOM represents Saudi Arabia's ambitious venture to establish a futuristic megacity. Envisioned as a vast urban stretch spanning over 105.63 miles (170 km) of desert and mountain terrain along the Red Sea coast, NEOM is the country's flagship project with an estimated investment of USD 1.5 trillion.

In the recent past, challenges such as lower oil prices, hurdles in attracting foreign investment, and budget constraints have prompted adjustments to NEOM's plans. Originally set to accommodate 1.5 million residents by 2030 in 'The Line', a futuristic linear city

at the heart of the project, Saudi Arabia has reportedly scaled back its ambitions and is now anticipating fewer than 300,000 residents by 2030. As NEOM enters a new phase of its development, it is encountering both opportunities and obstacles. While construction is advancing, with a workforce projected to exceed 200,000 by next year, uncertainties linger regarding the project's long-term trajectory. However, despite reports of scaling back, Saudi Arabia has maintained that all NEOM megaprojects will go ahead as scheduled.

### **Introduction of Government-backed Savings Bonds for Individuals<sup>10</sup>**

In February 2024, the Saudi Ministry of Finance and the National Debt Management Center (NDMC) announced plans to introduce Government-backed savings bonds for individuals. This initiative is a part of the Financial Sector Development Program, a key element of its Saudi Vision 2030, which aims to boost personal savings rates by encouraging periodic savings. The new product is designed to expand the range of available savings options, enhance financial literacy, and raise awareness about the importance and benefits of saving. Additionally, this initiative is intended to stimulate private sector collaboration by encouraging banks, fund managers, fintech companies, and other entities to develop and offer a variety of savings products tailored to different individual needs.

### **Relaxed Corporate Income Tax Rules for Attracting Foreign Companies<sup>11</sup>**

In December 2023, Saudi Arabia introduced a highly attractive tax incentive program designed to encourage foreign companies to set up their regional headquarters in the country. This program offers a 0% income tax rate and withholds taxes for 30 years to companies, immediately upon the receipt of a regional headquarters license by them. In addition to these tax benefits, the initiative includes relaxed Saudization requirements (i.e., targets for hiring Saudi nationals) and streamlined work permit processes for the spouses of executives based at these regional headquarters. This comprehensive package aims to make Saudi Arabia a more appealing destination for multinational corporations looking to establish a significant regional presence.

### **Initiating Free Trade Agreement Negotiations with Türkiye<sup>12</sup>**

In March 2024, Türkiye and the Gulf Cooperation Council (of which Saudi Arabia is a member) signed a deal to launch negotiations for a Free Trade Agreement (FTA). In July 2024, the first round of FTA negotiations

<sup>8</sup> *Gulf Business*, May 2024

<sup>9</sup> *Middle East Briefing*, April 2024

<sup>10</sup> *Asharq Al-awsat*, February 2024

<sup>11</sup> *Saudi Gazette*, February 2024

<sup>12</sup> *General Authority for Foreign Trade (GAFT)*, July 2024



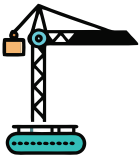
between the GCC and Türkiye took place in Ankara. The FTA between the GCC and Türkiye will give a large boost to economic and trade ties and has the potential to create 'one of the world's largest FTAs' with a USD 2.4 trillion trade opportunity.

Polymers and petroleum products are the most commonly exported Saudi goods to Türkiye; machinery, machine tools and parts, and carpets are the most significantly imported products from Türkiye.

## Key Sectoral Insights

### Construction

#### Construction as a cornerstone for economic diversification via non-oil activities<sup>13</sup>



In 2023, non-oil activities in Saudi Arabia reached a 50% share of the country's real GDP, marking a record high. This milestone was largely due to a 57% increase in private-sector investment over the past two years. Driven by economic growth, a growing population, and modernisation efforts, Saudi Arabia has emerged as the most active player in construction in the Middle East and North Africa (MENA) region. The Kingdom leads the MENA region's construction project pipeline worth USD 1.5 trillion, which constitutes 39% of the region's projects.

In 2023, the real estate sector led the country's construction market. In Q1 2024, leisure and hospitality projects dominated the construction sector, representing USD 4 billion or 23% of the total project value awarded. According to MEED Projects, the construction sector experienced a significant surge in awarded projects, totalling USD 97 billion in 2023 compared to USD 60 billion in 2022. This figure, which aligns with Saudi Vision 2030's economic diversification and investment goals, accounts for only 6% of the potential pipeline, indicating considerable opportunities within the sector.

### Auto Manufacturing

#### Emergence of Saudi Arabia as an Auto Manufacturing Hub<sup>14</sup>



Saudi Arabia's automotive industry is experiencing notable expansion, driven by Government initiatives, its strategic location, and ambitious plans to become a key manufacturing hub. This growth is fuelled by a young population, a rising number of female drivers, and a significant influx of expatriates, resulting in over 729,466 new car sales in 2023, 16.9% higher than the prior year. The Kingdom is positioning itself for a future-ready automotive market through transformative projects such as developing King

Abdullah Economic City (KAEC) into an auto cluster.

Original equipment manufacturers (OEMs) and suppliers like Ceer, Lucia, and Hyundai have already established a presence there, and more companies are expected to join.

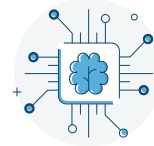
Saudi Arabia has set an ambitious goal to build a comprehensive automotive manufacturing cluster, with existing deals to establish local operations for both OEMs and tier-I suppliers.

The National Industrial Development Centre (NIDC) plans to invest in large-scale light vehicle manufacturing projects for regional and global markets by 2026-2027 and in Fuel Cell Electric projects for commercial vehicles by 2030. This aligns with the development of an automotive parts ecosystem focused on components compatible with both Battery Electric Vehicles (BEV) and Internal Combustion Engine (ICE) vehicles.

Although still in its early stages, the Saudi auto industry is set to grow over time, aspiring to rival more established automotive manufacturing hubs.

### Artificial Intelligence Technology

#### Investing in New Age Technologies<sup>15</sup>



Saudi Arabia plans to establish a USD 40 billion fund dedicated to investing in Artificial Intelligence (AI), as it aims to become a global leader in this rapidly growing sector. This initiative would position Saudi Arabia as the world's largest investor in AI and support its Saudi Vision 2030 goal of diversifying its economy beyond oil. The fund is expected to launch in the latter half of 2024, with potential participation from global venture capital firms. In addition to this, Saudi Arabia is heavily investing in cloud computing and other digital infrastructure essential for AI development. Foreign interest is also strong; for instance, in March 2024, Amazon Web Services (AWS) announced at Riyadh's LEAP Tech Conference that it will invest USD 5.3 billion in the Kingdom's tech sector, starting with the establishment of cloud data centres in 2026.

<sup>13</sup> Saudi Press Agency, May 2024, General Authority for Statistics (GASTAT), Middle East Economy, June 2024

<sup>14</sup> Arab News, June 2024 and Messe Frankfurt Exhibition GmbH, May 2024

<sup>15</sup> AI Monitor, March 2024

## Tourism



### Launch of New Airlines to Further Support Tourism Growth<sup>16</sup>

By 2030, the Saudi Vision 2030 plan aims for tourism to contribute over 10% of the GDP and to generate at least one million additional jobs, with mega projects like NEOM, Amaala, and the Red Sea Project drawing global tourists seeking cultural and beach experiences. In 2023, Saudi Arabia achieved its goal of attracting 100 million tourists, reaching this milestone seven years ahead of plan. The country has now set an ambitious revised target of welcoming 150 million tourists by 2030.

To support this goal, Saudi Arabia's second flag carrier Riyadh Air was launched in March 2023, with an ambitious plan to connect the Kingdom's capital city, Riyadh, to over 100 international destinations, and potentially create around 200,000 jobs. The airline has ordered 39 Boeing 787s, with the first deliveries anticipated in 2025. Additionally, Riyadh Air's launch will allow Saudia (the country's first flag carrier) to concentrate on Jeddah and the religious pilgrim market. The Kingdom also plans to introduce NEOM Airlines in the latter half of 2024.

## Tourism

### Tourism Investment Enabler Programme (TIEP) and Construction of High-end Hotels to Meet the 2030 Tourism Target<sup>17</sup>



The tourism and hospitality industry, which contributes 6% to the country's GDP, is well on its way to achieving the Government's target of 10% by the decade's end. As an indication of the strong support for the hospitality sector, Saudi Arabia is planning to construct 320,000 new hotel rooms by 2030. Approximately 67% of the proposed hotel room inventory in the country would fall under the 'upscale' or 'luxury' categories, indicating 4-star and 5-star accommodation.

This move aims to cater to the massive rise in tourism, with an estimated 150 million tourists expected in 2030. Of these 150 million tourists, Saudi Arabia will receive 70 million international visitors, while 80 million will be domestic travellers.

The Saudi Government, demonstrating its strong commitment to promoting the sector, has actively implemented various strategies to attract international travellers, including developing cultural and

entertainment offerings nationwide. The Saudi General Entertainment Authority licensed 24 new theme parks in 2023, and Boulevard World in Riyadh is a noteworthy addition. Furthermore, Riyadh's successful bid to host the 2030 World Expo is expected to provide a significant economic boost of USD 94.6 billion to the country's capital, with an estimated 40 million visitors expected during the six-month-long exhibition.

In March 2024, the Government launched the Tourism Investment Enabler Programme (TIEP) to boost the country's fast-growing tourism sector through a range of strategic enablers, which include facilitating access to government-owned land, streamlining project development processes, and reducing barriers to market entry through regulatory adjustments. This will make it easier and more cost-effective for international and local investors to do business in the Saudi tourism sector.

TIEP is expected to catalyse private investments in this sector to the tune of USD 11 billion and drive an annual GDP increase of USD 4 billion by 2030.

## Logistics

### New Rules and Regulations for Bonded Zones to Increase Attractiveness of Logistics Sector<sup>18</sup>

On January 26, 2024, Saudi Arabia's Zakat, Tax and Customs Authority (ZATCA) unveiled new regulations governing Bonded Zones within the Kingdom.



Bonded Zones are special customs areas that permit logistics companies, exporters, and importers to store goods and carry out logistics activities and operations under suspension of customs duties, Value-Added Tax (VAT), and excise tax, until they enter the local market or re-export.

The regulations outline the licensing procedures, requirements, conditions, and specifications for establishing Bonded Zones. They detail the permissible activities within these zones, the responsibilities of operators, and the oversight role of ZATCA.

These new regulations are expected to offer logistics companies improved liquidity management, foster a more supportive environment for goods movement, and provide greater flexibility in clearance, storage, and re-exportation.

This initiative aims to enhance trade flow and position Saudi Arabia as a global logistics hub by granting logistics firms greater flexibility and control over their operations.

<sup>16</sup> OAG Aviation Worldwide Limited, June 2024, Ministry of Tourism

<sup>17</sup> Tourism Review, April 2024 and Ministry of Tourism

<sup>18</sup> Hong Kong Trade Development Council (Regulatory Alert - Middle East and Africa - Trade and Investment) February 2024

## Saudi Arabia – India Relations

The relationship between India and the Arab world dates back centuries, resulting in deep cultural and trade ties. This relationship has deepened into a robust partnership between Saudi Arabia and India since both nations have a synergy of interests as they confront global challenges.

For India, Saudi Arabia has become a key strategic partner in trade and investments. In response to evolving global economic conditions, Saudi Arabia is actively pursuing an economic diversification strategy that extends beyond hydrocarbons. This includes exploring overseas investment opportunities and forging new global collaborations.

Details of some key agreements between Saudi Arabia and India:

- At the G20 Summit in September 2023 in New Delhi, India, Saudi Arabia, the EU, France, Germany, Italy, the UAE, and the US signed an MoU to set up the India-Middle East-Europe Economic Corridor (IMEC). IMEC is a significant infrastructure project connecting India, the Middle East, and Europe and aims to establish a network of transport corridors, including railways and sea lanes. IMEC is seen as a response to China's Belt and Road Initiative (BRI).
- In September 2023, Saudi Arabia and India signed more than 50 agreements at the Saudi Investment Forum to collaborate in areas of ICT, entrepreneurship, chemicals, energy, and advanced manufacturing. This included an MoU between the energy ministries of both countries for cooperation in renewable energy, energy efficiency, hydrogen, electricity, and potential grid interconnection.
- In January 2024, India and Saudi Arabia signed the Bilateral Haj Agreement 2024, allocating a total quota of 175,025 pilgrims to India. The agreement

reserves 140,020 seats for the Haj Committee, benefiting first-time pilgrims, while 35,005 seats are designated for Haj Group Operators.

- The two countries established the India-Saudi Arabia Strategic Partnership Council (SPC) in 2019. This initiative aims to advance mutual cooperation across economic, investment, social, political, and security areas. India is only the fourth country (besides the UK, France, and China) with which Saudi Arabia has set up a Strategic Partnership Council.

Current areas of cooperation between both countries focus on energy, renewable energy, transfer of energy, hydrogen production, petrochemicals and fertilisers, carbon capture and reuse technologies, technologies associated with the Circular Carbon Economy, food security, technology, services, and logistics.

Total investments by the Saudi Public Investment Fund (PIF) in India reached USD 3.3 billion in February 2024<sup>19</sup>. Significant investments include the PIF's USD 1.5 billion acquisition of a 2.32% stake in Reliance Jio Platforms and USD 1.3 billion for a 2.04% stake in Reliance Retail Ventures Limited. Other major Saudi investors include Saudi Arabian Oil Co. (ARAMCO), Saudi Basic Industries Corporation (SABIC), and Zamil Industrial Investment Company (ZAMIL). For instance, SABIC has committed over USD 100 million to its technology and innovation centre in Bengaluru.

Indian investments in Saudi Arabia span various sectors, including management and consultancy services, construction, telecommunications, IT, financial services, and pharmaceuticals. Prominent Indian companies, such as Larsen & Toubro (L&T), Tata Motors, Wipro, Tata Consultancy Services (TCS), Telecommunications Consultants India Ltd (TCIL), Shapoorji Pallonji, etc., have established a strong presence in Saudi Arabia.

<sup>19</sup> As written by Mr. Faisal bin Farhan Al Saud, Minister of Foreign Affairs, Saudi Arabia in Observer Research Foundation, February 2024

<sup>20</sup> Ministry of Commerce and Industry, GoI

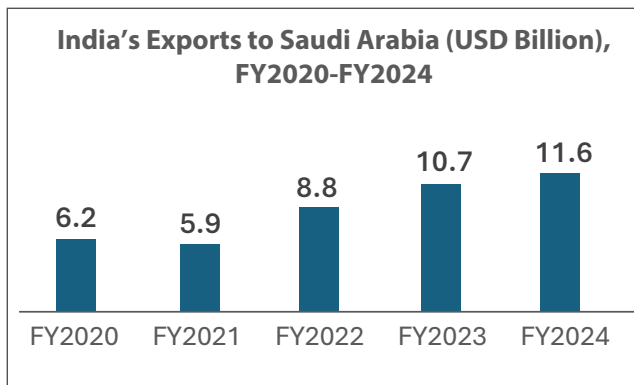
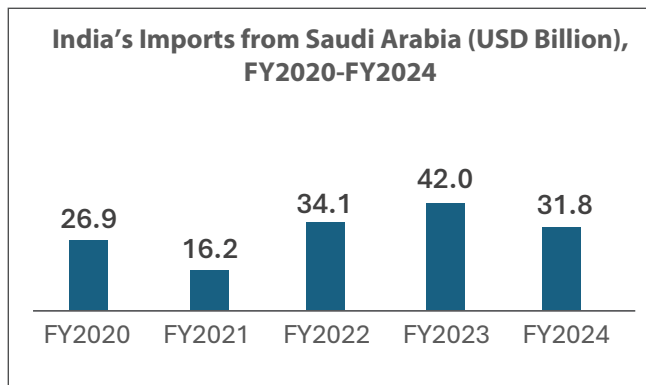
**“We are very proud to be partners with India and hopefully seen here as contributors to this great success. We are blessed by many things in Saudi Arabia and India. I think one of the most important blessings we have is two of the world's most energetic, effective, and visionary leaders. It is because we realised that going forward, the centre of gravity of the global economy has already moved to the global south.”**

Mr. Khalid Al-Falih, Minister of Investment, Kingdom of Saudi Arabia

## Saudi Arabia – India Trade Dynamics

Saudi Arabia is India's fifth-largest trade partner and India is Saudi Arabia's second-largest trade partner<sup>20</sup>. From FY2020 to FY2024, India's imports from Saudi Arabia registered a CAGR of 4% and reached USD 31.8 billion. Saudi Arabia's share in India's total imports increased from 5.5% in FY 2020 to 5.9% in FY2024.

For the same period, India's exports to Saudi Arabia were worth USD 11.6 billion, registering an increase of 17% CAGR. Saudi Arabia's share in India's total exports grew from 1.7% in FY2020 to 2.4% in FY2024.



Note: 4-digit HS codes have been considered for the analysis.

Source: Ministry of Commerce and Industry, Department of Commerce

Major commodities that are exported from India to Saudi Arabia are rice, vehicles, petroleum products, and tiles. Whereas, the major commodities imported by India from Saudi Arabia are crude oil, LPG, fertilisers, polymers, etc.

From the data it is clear that Saudi Arabia is a key energy partner for India; petroleum oils (including crude oil) accounted for nearly 69% of India's total imports from Saudi Arabia in FY2024. This is, however, lower than

in FY2020, when petroleum products constituted 76% of the total imports from Saudi Arabia. This is because India has started diversifying its oil imports and is buying from other countries. For example, after the commencement of the Russia-Ukraine conflict in 2022, Russia began supplying crude oil at discounted prices to India. As a result, India's imports of petroleum oils from Saudi Arabia declined by nearly 24% in FY2024 compared to the previous year.

### India's Exports to Saudi Arabia and Imports from Saudi Arabia, FY2020–FY2024

Major Products Exported by India to Saudi Arabia			Major Products Imported by India from Saudi Arabia		
Product	Share in FY2020	Share in FY2024	Product	Share in FY2020	Share in FY2024
Rice	16%	12%	Petroleum oils and oils obtained from bituminous minerals, crude	76%	69%
Motor vehicles	11%	11%	Petroleum gases and other gaseous hydrocarbons	8%	7%
Petroleum oils other than crude oil	9%	7%	Fertilisers	3%	3%
Cyclic hydrocarbons	7%	6%	Polymers of ethylene in primary form	1%	2%
Copper wire	0.001%	7%	Gold	1%	2%
Others	56%	57%	Others	11%	17%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>Total</b>	<b>100%</b>	<b>100%</b>

Note: All figures are rounded. 4-digit HS codes have been considered for the analysis.

Source: Ministry of Commerce and Industry, Department of Commerce, GoI



## OUTLOOK



The Middle East is a cauldron of significant conflict and instability, driven by a range of geopolitical, sectarian, and economic factors. The Israel-Palestinian conflict in Gaza and the West Bank continues to exact a significant humanitarian toll, despite the efforts of several countries like the US, Qatar, and Egypt to mediate. Israel and Iran are fighting a covert proxy war, that threatens to explode into a full-fledged armed conflict. The relationship between Iran and the US remains strained due to tensions over Iran's nuclear program, its regional influence, and its role in proxy conflicts. Relations between Gulf Arab states and Iran are tense due to issues ranging from maritime security to regional influence. As the largest economy in the Middle East, Saudi Arabia plays a crucial role in maintaining regional stability. Its economic influence and political standing make it a key player in resolving conflicts and fostering cooperation among regional powers.

Moving on to its domestic affairs, the Saudi economy is recovering and is expected to grow marginally in FY2024 from a contraction of 0.8% in FY2023. Economic fundamentals remain strong and an increase in public sector investments, along with a series of social and economic reforms, have bolstered the non-oil economy. The Kingdom's future GDP growth is expected to be supported by continued public and private sector investments, improvements in the business environment, gradually lower interest rates, strong credit growth, and advancements in retail and tourism. This is going to result in employment gains for both Saudis and expatriates. Saudi Arabia is undergoing a major economic and social transformation under its

Saudi Vision 2030 initiative. As the country moves towards 2030, there will be a significant acceleration in investment projects aimed at establishing new industries, such as tourism, mining, entertainment, renewable energy, etc., and diversifying the economy away from its heavy dependence on hydrocarbons. The International Monetary Fund (IMF) forecasts an average real GDP growth rate of 4.0% for the country over the next 5 years. IMF anticipates inflation to remain contained at 2.3% in 2024 and stay lower at an average of 2% over the next 5 years.

Headline inflation is expected to stay moderate, primarily due to subsidies, price caps on certain goods, and a slowdown in the real estate market. The Saudi Central Bank is likely to continue aligning its policies with the US Federal Reserve, given the currency peg.

OPEC+ oil production cuts are expected to remain in effect until the end of 2025 to maintain global oil market stability. OPEC+ plans to gradually phase out the voluntary cuts of 2.2 million barrels per day from October 2024 to September 2025. The IMF predicts that Saudi oil output will rise to 10 million barrels per day by early 2025, up from a near three-year low of 9 million barrels. Saudi Arabia's megaprojects are vital to achieving its goals, making their cancellation unlikely despite potential declines in oil revenues. Saudi Vision 2030 will see substantial spending by the Public Investment Fund (PIF) and other government entities to strongly support infrastructure and construction projects. This is likely to present an upside for project financing, especially for those significantly contributing

to Saudi Arabia's project pipeline. The construction industry is forecasted to grow at a real rate of 4.3% annually, with a long-term growth rate of 4% expected from 2025 to 2033<sup>21</sup>.

In tourism, a steady increase in arrivals is likely from 2024 to 2027, with an average annual growth rate of 7.7%. This growth is expected to be driven by enhanced marketing efforts, investments in hotels and resorts, and improved transport links. Occupancy rates are projected to rise, reaching 82.2% between 2025 and 2028<sup>22</sup>.

The IMF forecasts an average annual growth rate of 4.3% for imports and 4.7% for exports from Saudi Arabia between 2026 and 2029, indicating a potential improvement in the trade surplus. Despite these positive trends, there are risks, including high economic and fiscal vulnerability to fluctuations in oil demand and prices, long-term risks from global carbon transition, and political risks from regional geopolitical tensions. However, the Kingdom's economic strengths and opportunities are expected to significantly outweigh these challenges in the foreseeable future.

<sup>21</sup> BMI Research, Fitch Ratings

<sup>22</sup> Bank Audi Report, June 2024

## RECENT CREDIT RATINGS FOR SAUDI ARABIA

Date	Credit Rating Agency	Outlook	Brief Details
May 2024	Moody's	Affirmed Saudi Arabia's 'A1' Credit Rating with 'Positive' Outlook	The rating is a reflection of the country's large and wealthy economy, supported by its vast hydrocarbon reserves, policy effectiveness and the Government's balance sheet, including large foreign currency buffers.
February 2024	Fitch Ratings, Inc.	Long-term Foreign-Currency Issuer Default Rating (IDR) at 'A+' with a Stable Outlook	The rating reflects the Kingdom's strong fiscal and external balance sheets, with government debt to GDP and Sovereign Net Foreign Assets (SNFA) considerably stronger than both the 'A' and 'AA' medians and significant fiscal buffers in the form of deposits and other public sector assets.
March 2024	S&P Global Ratings	Affirmed its foreign and local currency sovereign credit ratings of the Kingdom of Saudi Arabia at 'A/A-1' with Stable Outlook.	Under the Saudi Vision 2030, Saudi Arabia is undergoing a swift economic and social transformation. As the country progresses toward 2030, the rating agency anticipates a surge in investment projects to develop new industries like tourism and reduce the economy's heavy dependence on the upstream hydrocarbon sector.

Source: S&P Global Ratings, Fitch Ratings Inc., and Moody's country ratings

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