



**DOING BUSINESS IN
KINGDOM OF SAUDI ARABIA:
A CONSTRUCTION PERSPECTIVE**

2011

Foreword

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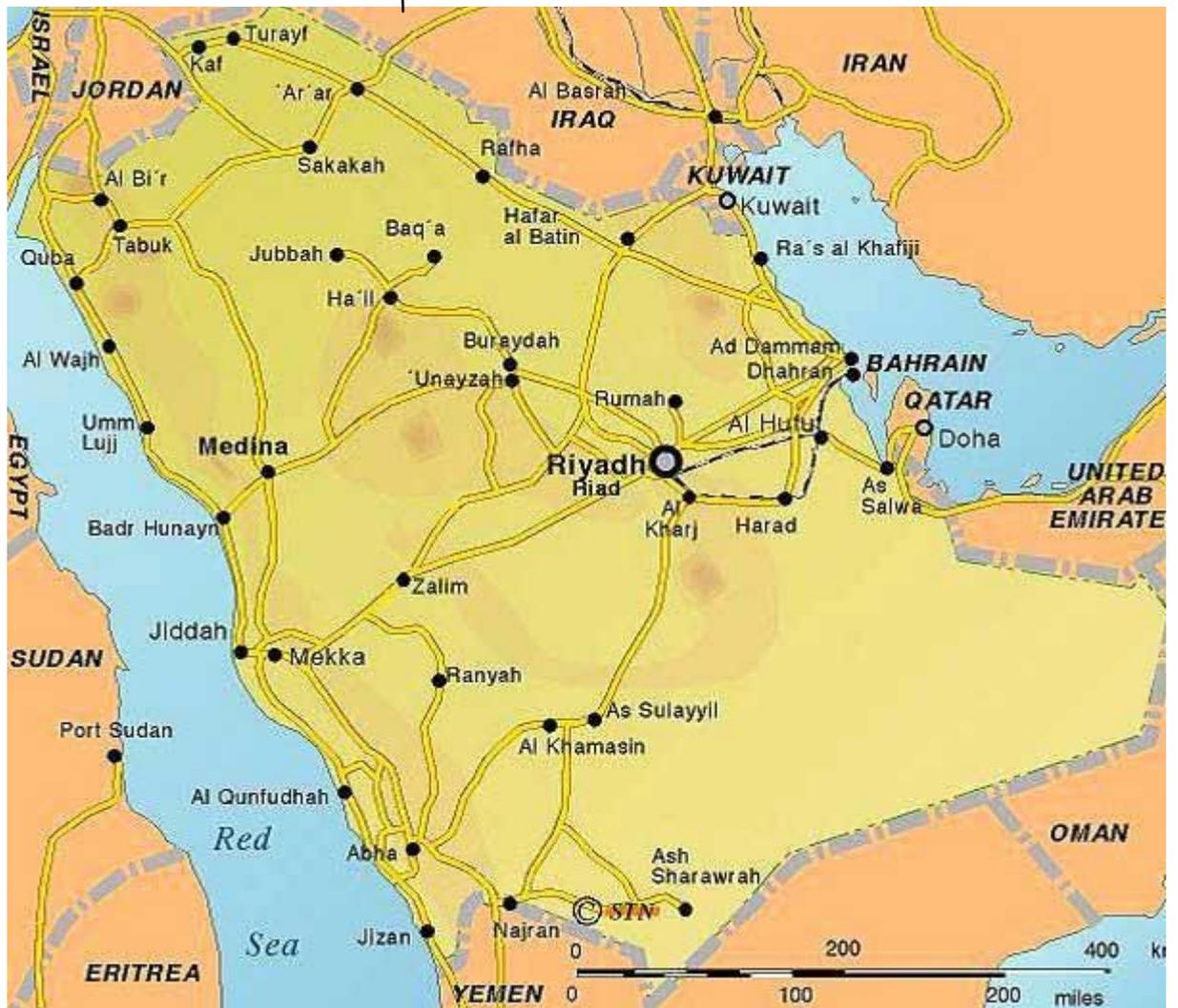
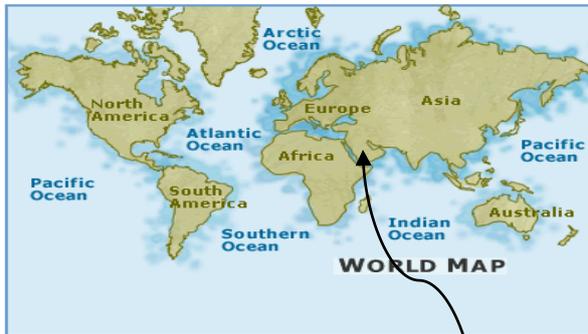
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1.0 BASIC COUNTRY DATA



Location: Saudi Arabia occupies four-fifths of the Arabian Peninsula. It is bordered to the northwest by Jordan, to the north by Iraq and Kuwait, to the west by the Red sea and to the east Qatar, the United Arab Emirates and Oman, and to the south by Yemen.

Area: 2,149,690 sq km. (source from www.cia.gov)

Land Area: The land area covered is 2,149,690 square kilometers

Population: 26,137,703 (July 2011 est.) (source from www.cia.gov)

Population density: 65 inhabitants per sq km

Capital: Riyadh

Administrative Division: 13 provinces (also known as mintaqat)

13 provinces are as per table:-

Al Bahah	Al Hudud ash Shamaliyah	Al Jawf
Al Madinah (Medina)	Al Qasim	Ar Riyad (Riyadh)
Ash Sharqiyah	Asir	Ha'il
Jizan	Makkah (Mecca)	Najran
Tabuk		

(source from www.cia.gov)

Time zone: GMT + 3 hours

Principal Languages: Arabic is the official language of the Kingdom of Saudi Arabia, but English is widely spoken. It is used in business and is a compulsory second language in schools. Among the non-Saudi population, many people speak Urdu, the official language of Pakistan, and other Asian languages such as Farsi and Turkish.

Principal religions: Muslim 100%. (source from www.cia.gov)

Education and literacy: Saudi Arabia's literacy rate stands at 78.8 per cent.
Female : 70.8 per cent
Male : 84.7 per cent (source from www.cia.gov)

Currency: Saudi Riyal (SAR)

Measures: Metric system

Business hours: The working week is Saturday to Wednesday, although some offices and businesses also operate on Thursday morning.

Government Offices	7.30 am to 2.30pm
Banks	8.00am to 12noon 5pm to 8pm
Private Businesses	8am to 12noon 3.00am to 6pm

(source from www.saudinf.com/main/q005.htm)

Credit Cards: Saudi Arabia is generally a cash society, but credit cards are accepted in most major department stores, and major hotel restaurants. Generally, other outdoor souks do not accept credit cards.

National Airlines: Saudi Arabian Airlines is the flag carrier airline of Saudi Arabia, based in Jeddah. The airline's main operational base is at King Abdulaziz International Airport, Jeddah.

Saudi Arabian Airlines flies between Jeddah and Kuala Lumpur and also from Riyadh and Kuala Lumpur.

(source from : www.saudiairlines.com/portal/site/saudiairlines)

Other Airlines Other airlines that fly to Jeddah from Kuala Lumpur are Malaysian Airlines, Emirates, Jet Airways, Garuda Indonesia and Oman Air.

The flight duration from Kuala Lumpur to Riyadh is about 7 hours 53 minutes and from Kuala Lumpur to Jeddah is 8 hours 47 minutes. Flight schedules for Malaysian Airlines can be obtained from the website:- www.malaysianairlines.com

Airport: There are three international airports

- King Abdulaziz International Airport (KAIA)
(Source from www.gaca.gov.sa)
- King Fahd International Airport in Dammam
- King Khalid International Airport in Riyadh

- Railway network:** The Saudi Railways Organization (SRO) is the national railway operator in Saudi Arabia. SRO provides freight services on two main lines which connects Riyadh with the Persian Gulf port of Dammam. SRO passenger trains operate between Riyadh and Dammam. SRO comprises 1,378 kilometres of standard gauge of 1.435mm gauge with branch lines and sidings. (Source from www.cia.gov and http://en.wikipedia.org/wiki/Saudi_Railways_Organization)
- Road network:** Roadways in Kingdom of Saudi Arabia is a total of 221,372 km of which 47,529 km paved which includes 3,891km of expressway.
(Source from www.cia.gov)
- Ports and Harbours:** The major ports in the Kingdom of Saudi Arabia are Jeddah Islamic Port, King Abdul Aziz Port, Commercial Port at Jizan, Jubail Commercial Port and Commercial Port at Yanbu. (Source from <http://www.asiatradeshub.com/saudiarabia/ports.asp>)
- Exchange rate:** RM 1 ~ 1.2571 SAR
USD1 ~ 3.7504 SAR
(Source from universal currency converter as of 08.08.2011)

Comparison with Malaysia

ITEM/COUNTRY	SAUDI ARABIA	MALAYSIA
Population	26,131,703 <i>(July 2011 est.)</i>	28,728,607 <i>(July 2011 est.)</i>
Land Size	2,149,690 sq. km	329,847sq. km
Reserves of Foreign Exchange and Gold	USD 456.2 billion <i>(31 December 2010 est.)</i>	USD106.5 billion <i>(31 December 2010 est.)</i>
GDP – Per Capita	USD24,200 <i>(2010 est.)</i>	USD14,700 <i>(2010 est.)</i>
GDP – Real Growth Rate	7.5 % <i>(2011 est.)</i>	5.5 % <i>(2011 est.)</i>
Debt - External	USD 82.92 billion <i>(31 December 2010 est.)</i>	USD 72.6 billion <i>(31 December 2010 est.)</i>
Inflation (consumer prices)	6 % <i>(2011 est.)</i>	2.8 % <i>(2011 est.)</i>
Labour Force	7.337 million <i>(2010 est.)</i>	11.62 million <i>(2010 est.)</i>
Corruption Perception Index Ranking (2010) Out of <u>178</u> countries	50	56

Source from : www.cia.gov (info correct as at 08.08.2011), en. wikipedia.org/wiki/Corruption_Perception_Index_2010 (info correct as at 08.08.2011) & world economic outlook database www.imf.org. (info as 08.08.2011)

2.0 SAUDI ARABIA AT A GLANCE

2.1 Geography & Climate

Saudi Arabia occupies most of the Arabian Peninsula, with the Red Sea and the Gulf of Aqaba to the west and the Persian Gulf to the east. Neighbouring countries are Jordan, Iraq, Kuwait, Qatar, the United Arab Emirates, the Sultanate of Oman, Yemen, and Bahrain, connected to the Saudi mainland by a causeway. Saudi Arabia contains the world's largest continuous sand desert, the Rub Al-Khali, or Empty Quarter. Its oil region lies primarily in the eastern province along the Persian Gulf.

With the exception of the province of Asir with its towns of Jizan on the western coast and Najran, Saudi Arabia has a desert climate characterized by extreme heat during the day, an abrupt drop in temperature at night, and slight, erratic rainfall. Because of the influence of a subtropical high-pressure system and the many fluctuations in elevation, there is considerable variation in temperature and humidity. The two main extremes in climate are felt between the coastal lands and the interior.

Along the coastal regions of the Red Sea and the Persian Gulf, the desert temperature is moderated by the proximity of these large bodies of water. Temperatures seldom rise above 38° C, but the relative humidity is usually more than 85 percent and frequently 100 percent for extended periods. This combination produces a hot mist during the day and a warm fog at night. Prevailing winds are from the north, and, when they blow, coastal areas become bearable in the summer and even pleasant in winter. A southerly wind is accompanied invariably by an increase in temperature and humidity and by a particular kind of storm known in the gulf area as a *kauf*. In late spring and early summer, a strong northwesterly wind, the *shamal*, blows; it is particularly severe in eastern Arabia and continues for almost three months.

The *shamal* produces sandstorms and dust storms that can decrease visibility to a few meters.

A uniform climate prevails in Najd, Al Qasim Province, and the great deserts. The average summer temperature is 45° C, but readings of up to 54° C are common. The heat becomes intense shortly after sunrise and lasts until sunset, followed by comparatively cool nights. In the winter, the temperature seldom drops below 0° C, but the almost total absence of humidity and the high wind-chill factor make a bitterly cold atmosphere. In the spring and autumn, temperatures average 29° C.

The region of Asir is subject to Indian Ocean monsoons, usually occurring between October and March. An average of 300 millimeters of rainfall occurs during this period--60 percent of the annual total. Additionally, in Asir and the southern Hijaz condensation caused by the higher mountain slopes contributes to the total rainfall.

For the rest of the country, rainfall is low and erratic. The entire year's rainfall may consist of one or two torrential outbursts that flood the wadis and then rapidly disappear into the soil to be trapped above the layers of impervious rock. This is sufficient, however, to sustain forage growth. Although the average rainfall is 100 millimeters per year, whole regions may not experience rainfall for several years. When such droughts occur, affected areas may become incapable of sustaining either livestock or agriculture.

2.2 History

The Kingdom Saudi Arabia is not only the homeland of the Arab peoples—it is thought that the first Arabs originated on the Arabian Peninsula—but also the homeland of Islam, the world's second-largest religion. The Holy Prophet, Muhammad founded Islam there, and it is the location of the two holy pilgrimage cities of Mecca and Medina. The Islamic calendar begins in 622, the year of the hegira, or Holy Prophet flight from Mecca. A succession of invaders attempted to control the peninsula, but by 1517 the Ottoman Empire dominated, and in the middle of the 18th century, it was divided into separate principalities. In 1745 Muhammad ibn 'Abd al-Wahhab began calling for the purification and reform of Islam, and the Wahhabi movement swept across Arabia. By 1811, Wahhabi leaders had waged a jihad—a holy war—against other forms of Islam on the peninsula and succeeded in uniting much of it. By 1818, however, the Wahhabis had been driven out of power again by the Ottomans and their Egyptian allies.

The kingdom of Saudi Arabia is almost entirely the creation of King Ibn Saud (1882–1953). A descendant of Wahhabi leaders, he seized Riyadh in 1901 and set himself up as leader of the Arab nationalist movement. By 1906 he had established Wahhabi dominance in Nejd and conquered Hejaz in 1924–1925. The Hejaz and Nejd regions were merged to form the kingdom of Saudi Arabia in 1932, which was an absolute monarchy ruled by shariah. A year later the region of Asir was incorporated into the kingdom.

2.3 Government

Saudi Arabia is a monarchy based on Islam. The government is headed by the King, who is also the commander in chief of the military.

The King appoints a Crown Prince to help him with his duties. The Crown Prince is second in line to the throne.

The King governs with the help of the Council of Ministers, also called the Cabinet. There are 22 government ministries that are part of the Cabinet. Each ministry specializes in a different part of the government, such as foreign affairs, education and finance.

The King is also advised by a legislative body called the Consultative Council (Majlis Al-Shura). The Council proposes new laws and amends existing ones. It consists of 150 members who are appointed by the King for four-year terms that can be renewed.

The country is divided into 13 provinces, with a governor and deputy governor in each one. Each province has its own council that advises the governor and deals with the development of the province.

Because Saudi Arabia is an Islamic state, its judicial system is based on Islamic law (Shari'ah). The King is at the top of the legal system. He acts as the final court of appeal and can issue pardons. There are also courts in the Kingdom. The largest are the Shari'ah Courts, which hear most cases in the Saudi legal system.

3.0 THE CONSTRUCTION INDUSTRY OUTLOOK & OPPORTUNITIES

3.1 The Construction Scenario

Saudi Arabia represents the largest and the fastest growing construction market in the Middle East today. This has been largely due to extra liquidity, spurred by the record high oil prices in recent years. The Kingdom has announced a USD430 billion financial stimulus to guarantee finance for development projects for the next five years from 2009 till 2013 in addition to the annual budget.

Despite the economic downturn in 2009, the construction industry has managed to weather the crisis through sustained government investment in infrastructure, a clearly planned diversification program such as the building of six economic cities across the Kingdom and other economic reforms. According to the Business Monitor International, Saudi Arabia Infrastructure Q3 2011 report, an estimated SAR66 billion (USD20 billion) worth of contracts were awarded up to July in the year 2009. This has risen to USD29 billion by 2010, further supporting the bullish outlook for the sector.

It was initially reported that the Saudi construction industry is poised to achieve a 4 percent growth to SAR87 billion (USD23.19 billion) this year, but the National Commercial Bank reports that construction contracts totaling SAR84.2 billion (USD22.4 billion) have already been awarded in the first half of 2011 indicating the robust growth of the construction industry and the implementation of the initiatives of the annual budget and King Abdullah's royal decree of the financial stimulus of USD430 billion to be expended over 5 years from 2009. Currently there are 460 projects with an estimated worth of SAR1.1 trillion (USD289 billion) that are under construction.

The Ninth Development Plan for the Kingdom of Saudi Arabia announced in August 2010 sets out investment of SAR1,444 billion (USD385 billion) between 2010 and 2014. The government is planning to devote 7% of investment to housing projects with the public and private sector partnering to build a planned one million housing units. Around 19% of the funds will be devoted to healthcare, with plans to build 117 hospitals and 750 primary care units.

A huge portion of Saudi Arabia investment is in physical infrastructure as it seeks to reduce its reliance on the oil industry. This includes a huge railway initiative, port expansion, power generation, upgrading works to airports and expansion of road networks.

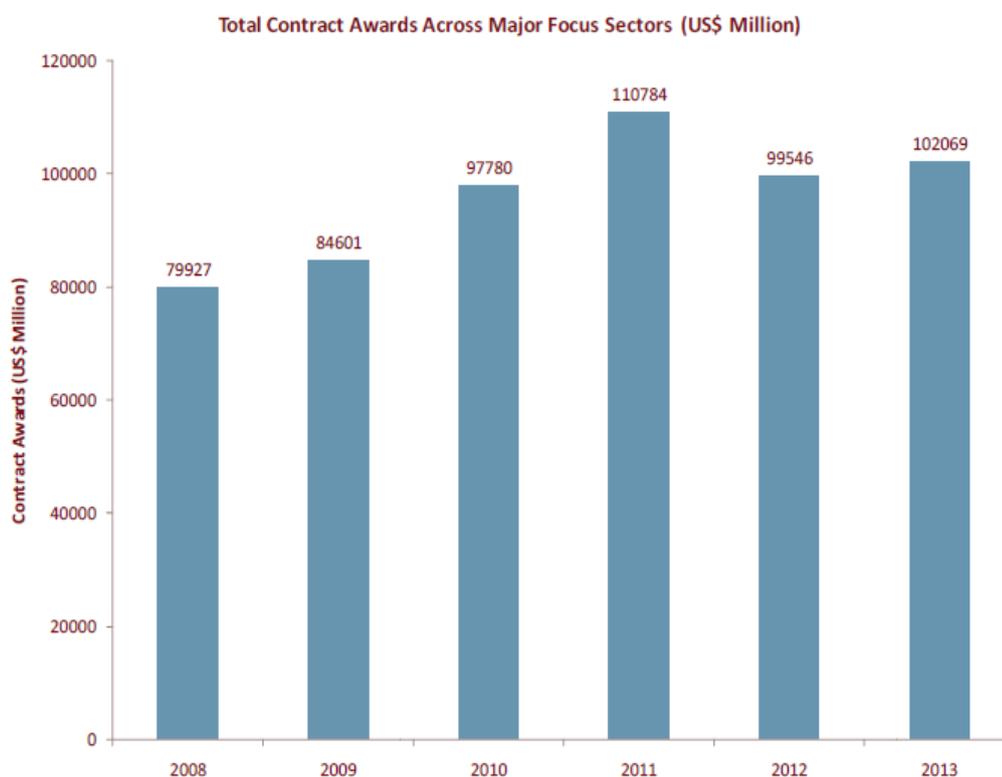
Currently there are at least 30 local contractors with capacity and capabilities to handle some of the constructions opportunities with the Bin Ladin Group and Saudi Oger Ltd as leaders. However there is a huge presence of international players to support the construction sector and more will be needed to fulfill the increasing demand of the industry. The recent financial crisis had caused a stagnation in the building industry in Qatar, Kuwait and the UAE. This had led to more regional contractors from GCC areas to seek opportunities in Saudi Arabia.

The government of Saudi Arabia has initiated to promote growth in the private sector by privatizing industries such as power, water, telecoms, railways and road infrastructure and has a well established public-private partnership (PPP) market. There are a number of contracts that have been executed under this model.

However, a growing number of projects have faced difficulties in respect of accessing credit and the government has stepped in to meet the funding requirements for some of the mega-projects such as the Ras Al Zour Independent Water and Power Project (IWPP), the Saudi Landbridge and the Haramain High Speed Railway (HHR). These actions has been reflected in a number of build, operate and transfer (BOT) contracts changed to engineering, procurement and construction contracts (EPC) midway through the implementation process.

Kingdom of Saudi Arabia (KSA) Construction Industry Focus Sectors Contract Awards

The following figure lists the trend in contract awards across the major focus of the KSA Construction Industry for 2008-2013.



Source: Ventures Onsite MENA Projects Database (www.venturesonsite.com)

3.2 The Challenges

The Gulf Cooperation Council (GCC) is generally categorized as an emerging market and are more volatile than developed markets. Thus, to succeed in the GCC markets, it is pertinent to consider doing business over long term rather than short term. It is advisable to maintain a presence for the market study to access reliable data and information before embarking on active participation. The importance of market intelligence, network and understanding government networks, policies and legislative changes cannot be stressed more for success in the ever increasing competition with new entrants especially from China and Korea.

The leading banks in Saudi Arabia are now rather more conservative with lending and credit facilities for the construction sector as they feel overexposed after five years of heavy lending, but this is expected to reverse with confidence in the sector returning.

The Saudi construction market is facing special challenges in respect of the policies on Saudization (quota on local participation, logistic and employment), approval of the mortgage law and the reluctance of adopting construction contracts based on International Federation of Consulting Engineers (FIDIC) model, all of which will impact the construction sector to a certain extent.

3.3 A SWOT Analysis

The following represents a brief on the current construction sector scenario.

3.3.1 The Strengths

- a. Saudi Arabia has one of the largest construction industries in the Middle East and has budgeted USD385 billion under the Nineth Development Plan for the Kingdom of Saudi Arabia between 2010 and 2014 in social and economic infrastructure.
- b. The government in planning to spend USD3 billion on 6,600 kilometers of new roads in 2011 alone.
- c. The confidence in the construction sector has been further boosted by many new projects under way and in the pipeline. The Kingdom plans to spend USD1 trillion on infrastructure investment over the next 15 years (contingent on oil prices of USD50 per barrel).
- d. Saudi Arabia has ambitious rail network development plan with USD30 billion of rail projects under development or at the bidding phase. These include the Saudi Landbridge, the Haramain High Speed Railway (Makkah, Madinah via Jeddah) and the North-South Railway.
- e. In addition to infrastructure development, there is strong activity in utilities, with new power plants as well as water and sewage plants under construction. New schools, universities and hospitals are also planned in the public and commercial sectors.
- f. Alongside active government spending, efforts are also being made to increase private investments.

- g. The Saudi Arabian General Investment Authority (SAGIA) is undertaking a multi-billion dollar development strategy centered around the establishment of Greenfield economic cities around the country. The economic cities are designed to attract foreign and domestic investment in the downstream energy, transport, industry and knowledge-based sectors. This development has spurred tremendously the need for tourism and the hospitality industries.
- h. The country has embarked on an ambitious residential development plan (with a population rising at a rate of 2.5 percent annually) to provide affordable housing to the tune of 250,000 houses per year totaling to 1.5 million homes by 2015.

3.3.2 The Weaknesses

- a. The construction industry is heavily reliant on government contracts rather than a free market driven by the private sector.
- b. Government contracts on project implementation and procurement are strongly regulated by several royal decrees and strongly favour Saudi and Gulf Cooperation Council (GCC) nationals. Foreign firms participating in government procurement are required to establish a training program for Saudi nationals.
- c. Tender regulation requires that Saudi individuals and firms are given preference over all other suppliers for government contracts. Preferences to other suppliers are given if Saudi nationals hold at least 51% of the supplier's capital. Exemption is granted only if proven that no Saudi company can provide goods and services to fulfill the requirement.

- d. All visitors to Saudi Arabia must have a Saudi sponsor and which must be verified by the local Chamber of Commerce before obtaining a business visa to enter Saudi Arabia.
- e. The government contracts do not recognize the FIDIC models and local laws supersede any ambiguities. Most contracts are based on Islamic Contract Law.
- f. Doing business in Saudi Arabia is a lengthy process requiring much patience and perseverance. It is advisable to allow at least 2 years to research and select the right partner to establish a good working relationship.

3.3.3 *The Opportunities*

- a. The number of large ongoing and planned projects indicates that many multinational firms would still be able to seek out opportunities and maintain a presence in Saudi Arabia.
- b. There is good potential for development in the oil industry and utilities besides infrastructure development.
- c. Increasing private investment in residential, commercial and hospitality activities should provide opportunities for large foreign contractors to increase their involvement in the country.
- d. Saudi Arabia has been able to mitigate the economic downturn, and the stagnate in the other gulf countries, has attracted many construction firms to seek out the opportunities.

- e. Payment delays on some government contracts have been observed and dispute resolution is a long and difficult process.

3.3.4 The Threats

- a. The declining construction in the other GCC countries will likely have a knock-on effect on confidence in Saudi Arabia's construction industry potential.
- b. There is inadequate legal framework in resolving commercial disputes resulting in large number of contracts terminated or delayed.

3.4 The Transport Infrastructure Opportunities

Saudi Arabia's transport infrastructure is being planned and developed on the needs of not only on the geographical and demographical needs but also on the basis of a fast rising population, the development of the industries, the diversification plans and inward tourism. The annual Haj pilgrimage to Makkah places tremendous pressure on the infrastructure framework and the government plans to cater from the current 3 million to 20 million pilgrims in the near future. Some of the major infrastructure projects that are on-going are listed below under the various sectors. These projects would offer subcontracting opportunities in many related activities for Malaysian contractors.

3.4.1 The Air Sector

The Kingdom has 3 international airports,

- i. King Abdulaziz International Airport – Jeddah
- ii. King Khalid International Airport –Riyadh, and
- iii. King Fahd International Airport – Dammam

In March 2010, the General Authority for Civil Aviation (GACA) has announced a budget of USD665.8 million for 34 airport projects to be implemented over the following five years.

The work includes:-

- i. the development of new airports
- ii. the expansion of King Abdulaziz's International Airport
- iii. the modernization projects at Prince Mohammad bin Abdulaziz Airport in Medina and the Taif Airport.
- iv. the expansion of King Khalid International Airport

3.4.2 The Road Networks

Currently Saudi Arabia has a total road network of approximately 221,372 kilometers in length, of which nearly 48,000 kilometers is paved. The current main network of highways are:-

- i. the Dammam-Abu Hadriya-Ras Tanuar (257km)
- ii. the Khaybar-al-Ola (175km)
- iii. the Makkah-Medina Al Munawarah (421km)
- iv. the Riyadh-Dammam (383km)
- v. the Riyadh-Sedir-al Qasir (317km)
- vi. the Riyadh-Taif (750km)
- vii. the Taif-Abha-Gizan (750km)

There are currently USD30 billion worth of projects underway for 2011 alone.

3.4.3 The Railways

There are currently two major railway lines in Saudi Arabia, that is the, core 570km Riyadh-Dammam, and the Riyadh-Hofuf line. The Kingdom has a total track length of 1,392km and a major expansion is expected as Saudi Arabia will be part of GCC's Gulf Railway Network. The country has allocated USD25 billion for rail projects to vastly improve the networks by another 3,900 kilometers, through three major railway projects as following:-

i. The Saudi Landbridge

The Saudi Landbridge is a 950km railway connecting Jeddah and Dammam through the existing Dammam-Riyadh to allow freight to be carried between the Red Sea and the Gulf. The project estimated at USD7 billion will now be funded by the government and implemented as an engineering, procurement and construction (EPC) contract after an earlier proposal as a build, operate and transfer (BOT) failed to take off.

ii. The Haramain High-Speed Railway

This projects is a 450km high speed rail link, which will connect the holy cities of Makkah and Medina via Jeddah and is expected to be commissioned by 2012.

iii. The North-South Railway

The North-South Railway is 2,400km in length and estimated to cost USD5.3 billion. This project has been prioritized to serve the current policy to develop the industrial base of the country. This rail link will serve the country's northern mineral belt with Riyadh and the industrial city of Jubail. The rail link will eventually be linked to the neighboring countries. Tenders for the passenger rail line is expected to be awarded in 2011.

3.4.3 The Ports

There are four major and two minor ports in Saudi Arabia. The major ports are:-

- - 1. Jubail,
 - 2. Yanbu,
 - 3. Jeddah, and
 - 4. Dammam

The minor ports are:-

- 1. Jizan and
- 2. Duba

Jeddah Islamic Port is currently undergoing an expansion program.

3.4.4 Energy and Water Infrastructure

a. Energy

Saudi Arabia has plans to invest USD80 billion by 2018 to increase the nation's power-generating capacity to meet the growing demand from a rapidly increasing population. The state-owned utility Saudi Electricity Company (SEC) aims to reach a power-generation capacity of 65,000MW (an increase of 20,000MW) by the end of 2018. The funding will come from a mix of private and public investment with SEC providing nearly 66% of the funds. The SEC has been awarding contracts at a rapid pace, with more than USD4 billion worth of contracts awarded in 2010 alone.

b. Water

Saudi Arabia is the largest consumer of water per capita in the world, but has limited groundwater to tap. Desalination forms the strategy of the government for water supply. The government has projected that more than USD53.3 billion will need to be invested in water projects within the next 15 years.

c. Independent Water and Power Projects

The government has responded to the dual demand of water and power through a key strategy of Independent Water and Power Projects (IWPP). There are currently three IWPPs, namely, (i) the Shuaiba, (ii) the Jubail, and (iii) the Ras Al Zour, all of which are expected to add 15,000 MW to the country's generating capacity.

However, the Raz Al Zour ran into difficulties and the government took over the project and retendered it as engineering, procurement and construction (EPC) contracts, separately for the water and power units. There are several more IWPP projects that are in pipeline.

3.4.5 Residential, Non-Residential and Social Infrastructure

Saudi Arabia currently experiences vast housing shortage due to a fast growing and relatively young population and lack of investment. The Shura Council's Economic Affairs and Energy Committee estimates that 18 to 20 million homes will need to be built over the next 10 years to meet the demand.

The government in February 2011 announced a USD35 billion package of social benefits and further in march 2011, King Abdullah pledged a further USD67 billion to build 500,000 housing units over and above the increased funding of USD15 billion announced earlier.

The lack of appetite for development of residential units by the private sector might be overcome with the forthcoming reforms to the country's mortgage law which has stifled home financing by the banking sector. This move apparently will mobilize more regional property developers to venture aggressively and capitalize on the back of a reliable and transparent mortgage market and increase in demand by more than 30 percent.

The depressed investment market in the rest of the middle-east and the stagnated construction industry largely in the gulf region after the last financial crisis has brought in many eager UAE property developers such as Arabtec Holdings and Emaar Properties to gain a firm foothold. This also includes Sorroh Investment, a Kuwaiti property development unit.

The following lists out the major developments that are being undertaken by the Government and major developers and will continue to offer opportunities in the many related activities:-

❖ King Abdullah Economic City (KAEC) (USD 93 billion)

Construction is underway by Emaar Company of a city along the Red Sea between Jeddah and Rabigh linking a seaport, industrial financial, resort areas, residential and educational zones.

❖ Prince Abdulaziz bin Mousaed Economic City (USD 53 billion)

Work is underway at Ha'il on a city to include a logistics centre, airport, an agricultural and entertainment zones and a residential area. The project is expected to be completed by 2025.

❖ Jeddah Project Mile High Tower (USD10 billion)

The Kingdom Holding Company is designing a 1,600 meter skyscraper to form part of the Jeddah projects, north of the city.

❖ Jizan Economic City (USD 30 billion)

Construction has begun on this city in southern Saudi Arabia close to the Yemeni border and will include a port, an aluminum smelter, a steel and copper processing plant, an oil refinery, fish processing and other industrial plants; a business district, residential areas, a marina, and educational and hospitality facilities.

❖ Shamieh Projects (USD9.3 billion)

This project in Mecca (Makkah) will include residential apartments, commercial centre, hotels, schools, mosques, hospitals, and related facilities, car parks and transport corridors to carry pilgrims. The development is located north of the Haram Mosque in Mecca.

❖ Medina Knowledge Economic City (USD7 billion)

This project is under construction for the Taiba Technological and Economic information Center and interactive museum on the life of the prophet Mohammed, a center for the study of Islamic civilization, and a center for medical studies, biosciences and integrated medical services. The project includes hotels and housing.

❖ Jabal Omar Project (USD5 billion)

Construction has begun in this project in Mecca features 39 buildings including residential towers, office tower, commercial center and five-star hotels. The Jabal Omar project is part of Saudi Arabia's attempts to develop Mecca's infrastructure to enable it to better handle the more than 13 million people who visit the city each year for religious pilgrimages.

❖ King Abdullah Sports City Development near Jeddah (USD4 billion)

Associated packages on the project includes an indoor arena, grand mosque and outdoor athletics stadium, sports academy, sports medical centre, residential complex for athletes, outdoor football pitches, aquatic centre, women's sports complex, and a railway station.

❖ Princess Noura bint Abdulrahman University (USD11.5 billion)

The project calls for construction of a new university for women. The university is expected to cover 8 million m² and will be located on King Khalid International Airport Road north of Riyadh. The total built up area is around 3 million m². The university will include administration buildings, 13 faculties, a 700-bed student hospital, laboratories, research centers and a residential area that includes accommodation for students and staff. The capacity of the university is around 26,000 students.

❖ King Abdullah Financial District (USD 40 billion)

The King Abdullah Financial District will house the large community of professionals working within the financial sector and related industries, hosting the head quarters of the Capital Market Authority (CMA), the Stock Exchange, hotels, banks, financial institutions and other service providers such as accountants, auditors, lawyers, analysts, rating agencies, consultants, and IT providers.

❖ King Abdullah Petroleum Studies Research Centre (KAPSARC) in Riyadh (USD2 billion)

KAPSARC's main building will be a crystalline structure composed of modular six-sided cells and connections between them. The development will also contain indoor and outdoor gardens, shaded outdoor areas and underground tunnels. The conference building will include a large multipurpose hall and various smaller halls, meeting rooms, and residential buildings.

❖ Sudair City Development: Schedule (USD40 billion)

MODON, Saudi Arabia's industrial development agency has short-listed 10 developers for Sudair City. The winning bidder will be responsible for hiring sub-contractors for the project. Sudair City is a mixed use development that includes residential, commercial, entertainment and educational facilities. Sudair City will span an area of 258 million m² north of Riyadh

❖ Ministry of Interior (MOI) Projects (USD11.5 billion)

The Ministry has tendered one of its biggest-ever construction contracts as part of plans to increase security services across the country. The contract covers the construction, operation and maintenance of 28 different types of facilities, to be built at 41 locations throughout the country. The facilities will be used to house, educate and train members of Saudi Arabia's public security, civil defense service, fire service, police force, passports division and special security and investigative forces. The compounds have been designed to include schools, mosques, theatres, civilian dormitories, military barracks, administration buildings, training facilities and buildings for recreation and entertainment.

❖ Other Projects around Jeddah

Projects announced in Jeddah include the Eastern Forest project, construction of bridges and tunnels at 12 intersections rainwater drainage projects (worth more than USD122 million), sewage water projects (over USD200 million). SEDCO, a Jeddah based company has signed a joint venture agreement with Keppel Land Ltd of Singapore to develop luxury residences on a site along the Corniche waterfront; the cost of this project is more than USD700 million. The Kingdom Tower in Jeddah, purported to be at least five times taller (1600metres) than the Burj Dubai Tower is expected to commence in the near future as the tallest skyscraper building in the world with an estimated cost of USD20 million.

3.5 Malaysian Companies currently active in Saudi Arabia

Company
1. MTD ACPI Engineering
2. Weida (M) Bhd
3. Malakoff Corporation Bhd

3.6 Basic Construction Material Prices in Saudi Arabia

Material	Price (SAR)
Cement (1 ton)	250.00
Reinforcing steel (1 ton)	2,900.00

Source from : <http://www.arabianbusiness.com/saudi-cement-prices-predicted-fall-in-2010-45114.html>, www.steelorbis.com/steel-prices/...steel-prices/

4.0 ESTABLISHING A CONSTRUCTION BUSINESS

4.1 Market Entry Strategy

1. The construction market is dominated by major local players of which there are at least thirty and lead player such as the Bin Laden Group and Saudi Oger Limited. Many other Gulf Cooperation Council (GCC) contractors and international companies have realized share of the market through joint ventures with incumbent local construction companies.
2. Saudi Arabia's government contracts are regulated by several royal decrees that strongly favour local and GCC nationals. Article 1(d) of the tender regulations requires that Saudi individuals and establishments be given preference over all other suppliers for government contracts. Preferences to other suppliers is given only if Saudi nationals hold at least 51 percent equity in the firm.
3. It must be noted that virtually all government purchasing is conducted by local tenders and in the majority of cases only Saudi Arabian companies may bid. Foreign companies need a Saudi agent to bid for Saudi Government tenders. The relationship between a foreign contractor and his Saudi agent is regulated by the Ministry of Commerce. It is recommended that the roles of all parties are very clearly defined and that competent legal advice is sought before signing any agreement.

4. It is easy to establish a construction company in Saudi Arabia, but you would need a classification registration for various types of activities with the relevant agencies to enter and prequalify for government bid projects. However, no classification is necessary for participation in private bids or entering the market as a subcontractor. Research ought to be conducted on the strength of local competition.
5. To do business in Saudi Arabia, it is important to do everything right to maintain conformity with the country's legal and tax system. It is generally recommended that the support of a financial advisor and a local, established lawyer be engaged to ensure compliance with state laws and regulations, as otherwise it may lead to serious complications.
6. The prelude to doing business in Saudi Arabia, like the rest of the region, could be a lengthy process and it is very pertinent to select the right partner and establish a good working relationship. It is very important that there be many familiarization visits, research on the local partner and good relationship established with all stakeholders including the local chamber of commerce. The key factor for success in the Kingdom of Saudi Arabia is the local partner who should be capable and influential with all those in the "power houses" and probably, including the royal household.
7. The above advise also supplies to all contractors who wish to enter the Saudi market either as sub-contractors or when establishing a strategic relationship as otherwise the consequences could be very tragic.

4.2 Understanding the Saudi Culture

The Saudi culture of doing business is quite legendary and there is a lot of emphasis on the importance of culture fit for all those embarking into the very conservative, culture business environment and towards succeeding in Saudi Arabia. The following are some of the cultural aspects Malaysians should focus when considering business in Saudi Arabia:-

a. Respect for Elders and Seniority

There is great emphasis on respect for elders through the use of appropriate titles and deference. Whilst there is delegation of authority in the business circles, decision making capacity is only attached to those in senior positions.

Dignity and respect are key elements in the Saudi culture and saving face, through the use of compromise, patience and self-control is a means by which to maintain these qualities. Preventing loss of face is equally important and is a concept adopted to solve conflicts, and avoid embarrassing or discomforting others.

b. Religion

Islam governs almost every aspects of society and shapes the values and rules concerning the appropriate way to behave and relate to family, community and business. Thus there is a need for those prospecting into Saudi Arabia to familiarize with the customs and social duties that influence the business world and the impact on the way business is conducted.

c. Communication

The communication style in Saudi Arabia relies very heavily on body-language, eye-contact and other non-verbal aspects such as tone of voice and silence. It is common to note that in business among the Arabs, silence is often used for contemplation whilst a direct negative decision is hardly used. It is also rare to obtain detailed information. Pressing for a decision could be considered rude.

d. Relationship

Relationship is fundamental in the development of one's business in Saudi Arabia. The Saudi businessman emphasizes a great deal on trust and thus relation building is a basic tenet to furtherance of your ventures.

Thus investment in personal relation building and aspects of networking will surely pave the way towards a successful business relation.

e. Attitude to time

Saudis generally have a flexible attitude towards time and business meetings too are conducted in a less serious manner.

It is paramount that appointments and meetings are not scheduled to intrude into prayers times. Thursday and Fridays are the normal days off in a week. Most Saudi businessmen are normally away for the summer holidays, and it is not advisable to seek appointments during the month of Ramadhan.

4.3 The Islamic Contract Law

The Saudi culture of contracting is founded on “word of mouth” and trust rather than with written contracts. Saudi Arabia has not ratified the FIDIC model of contract and rather applies a model based on the Islamic Contract Law. Some aspects of the Islamic Contract Law as extracted from “Saudilegal” (www.saudilegal.com) are summarized as below:-

Under the law of the Hanbali school, the overriding principle contained in the maxim “the Contract is the Law of Parties” (Al Aqd Shari’at Al Muta’aqdin) has become accepted, meaning that the parties to a contract are free to agree to the terms of their choosing, provided that these terms are not at odds with established Islamic law principles. The most important of these principles are as follows:-

a. Interest

There are numerous Qur’anic condemnations of “riba”, which literally translated means “increase”. The Hanbali school of Islamic law as interpreted in Saudi Arabia leave no room for doubts that agreements for the receipt or payment of interest are void and forbidden to believers.

b. Contractual Certainty

It is fundamental rule of Islamic Law that contracts must be free from uncertainty, which is known as “the rule against gharar”. In essence, for a contractual obligation to be enforceable it must be clearly defined.

Thus, an agreement to negotiate in good faith parts of a contract on which agreement was not reached at the time of its conclusion is not enforceable under Islamic Law. The rule against gharar also reflects the damages which are awarded by the Saudi Arabian courts.

Thus, damages for loss of anticipated profits, loss of business reputation and loss of goodwill are not ordinarily recoverable. Agreements stating liquidated damages impart certainty into a contract of defining the contracting parties' rights and obligations, are valid and enforceable under Islamic Law. This also extends to penalty clauses and limitations of liability.

4.4 Dispute Resolution

Based on records, dispute settlement in Saudi Arabia continues to be time-consuming and uncertain. Even after a decision is reached in a dispute, effective enforcement can still take years. It is quite common for parties doing business in the Kingdom of Saudi Arabia to select binding arbitration in the Kingdom, in a preferred foreign jurisdiction or in another GCC nation as the method for dispute resolution. The Saudi Arbitration Law confirms the right of parties to agree to settle their disputes through arbitration, provided the dispute is one in which conciliation would be permitted. Foreign arbitration clauses, however, are not allowed in government contracts without a decision by the Saudi Council of Ministers.

The Kingdom of Saudi Arabia as a member of the Arab League and the GCC is bound to comply on the enforcement of judgments on arbitrations. As a result, any final and conclusive judgment rendered in any member state will be enforceable in Kingdom of Saudi Arabia without re-examination of the merits of the case or re-litigation of the matters arbitrated upon, except, among other things, to ensure compliance with “Shariah” principles and public policy. The Saudi Board of Grievances, established under the Ministry of Justice has jurisdiction with respect to the enforcement of foreign judgments and arbitral awards in the Kingdom of Saudi Arabia. The reviews of all foreign arbitral awards to ensure Shari’ah compliance could take years, and outcomes are unpredictable.

Disputes in Saudi Arabia has caused serious problems for foreigners. There have been instances, Saudi business partners have blocked foreigners access to exit visas forcing them to remain Saudi Arabia against their will and in cases of alleged fraud, foreign partners have been jailed to prevent their departure from the country while awaiting police investigation or adjudication of the case.

It is very important therefore that before venturing into any investment or bid, a thorough research on the business record and character of the business partner is conducted, as well as retaining qualified legal service and fully complying with all legal requirements in the ventures and investment and as well as securing a well-drafted agreement.

5.0 STRUCTURES FOR DOING BUSINESS

5.1 The Overview

The formation and operations of business entities in Saudi Arabia are regulated by the Companies Law promulgated by a Royal Decree in 1965, as amended in 1967 and 1982 by subsequent Royal Decrees. The provisions of the Companies Law are extensive and cover all types of commercial activities in the Kingdom.

The Saudi General Investment Agency (SAGIA) is responsible for licensing all new foreign investment in Saudi Arabia. Commercial Registration companies operating in Saudi Arabia must register their businesses with the Ministry of Commerce and Industry and obtain a Commercial Registration (CR) number. You would also need to register with the Department of Zakat and Income Tax, Social Security and the labor office. Other requirements include approval from the Municipality and registration with the Chamber of Commerce.

5.2 The Business Entities

The companies Law recognizes mainly eight types of business entities which are:

- ❖ General partnership
- ❖ Limited partnership
- ❖ Partnership limited by shares
- ❖ Limited liability company
- ❖ Variable capital company
- ❖ Joint stock company (corporation)
- ❖ Cooperative company
- ❖ Joint venture

As mentioned below, increasing encouragement is being given for foreign investment to take the form of joint stock companies or limited liability companies, as many of the other forms require a degree of unlimited liability and are thus less appealing.

This different forms of enterprises may broadly be explained as follows:

❖ **General partnership**

A general partnership, also known as "joint liability partnership", consists of two or more partners who are jointly and severally liable for the debts of the partnership to the full extent of their assets.

❖ **Limited partnership**

A limited partnership, also known as "mixed liability partnership" consists of at least one general partner who is liable for the debts of the partnership to the full extent of his assets and at least one partner who is liable only to the extent of his capital contribution. A limited partner may not take part in external acts of management.

❖ **Partnership limited by shares**

In this form of limited partnership, which must have at least one general partner and four limited partners, the interests of the limited partners consist of negotiable shares of equal value, the value of each share being Saudi Riyal SAR 50 or more. The minimum share capital must not be less than SAR 1,000,000, 50% or more of which is required to be paid in upon formation.

❖ **Limited liability company**

A limited liability company, also referred to as "limited liability partnership or a Saudi limited liability company" is a private entity formed of two or more partners who are liable for company debts to the extent of their contributed capital. A maximum of 50 partners are allowed in such a company. The total share capital must be SAR 1,000,000 or more, divided into non-negotiable shares of equal value.

The company may not include in its objects the conduct of banking, insurance or savings. Inter alia, requirements are placed on the company in respect of audits, annual general meetings and filing of accounts. The company is required to transfer 10% of net profits each year to a legal reserve until such reserve reaches a level of 50 percent of the paid-up share capital, and an extra ordinary general meeting must be called if accumulated losses have eroded the share capital by 75% or more, to consider dissolving the company.

❖ **Variable capital company**

As the term implies, the capital of such a company may be varied in accordance with company's Memorandum and Articles of Association. The capital may be increased either by further contributions from the existing partners or by the admission of new partners, and it may be reduced either by the withdrawal of partners or by reduction of their capital.

❖ **Joint stock company**

A joint stock company or corporation consists of five or more shareholders who are liable for the debts of the company to the extent of their capital contribution. The company may be incorporated only upon the approval of the Minister of Commerce or upon the issuance of a Royal Decree.

The share capital must not be less than SAR 2,000,000, or SAR 10,000,000 if the public is invited to subscribe, and it must be divided into shares of equal value with a par value of SAR 50 or more. At least 50% of the capital is required to be paid in upon incorporation. Similar requirements to those in respect of a limited liability company apply in respect of audits, annual general meetings, legal reserves, filing of accounts and erosion of the capital base.

❖ **Cooperative company**

A limited liability company or a joint stock company may be incorporated as a cooperative for the purposes of achieving specific objects such as reductions in the cost, the selling price of certain products and services or improvements in their quality. Capital is variable and it must be divided into shares of equal value with the par value of each share ranging from SAR 10 to SAR 50.

❖ **Joint venture**

A joint venture in Saudi Arabia is not considered as a juristic entity. It is an association of two or more persons which is not made known to third parties. Third parties, therefore, have recourse only against the joint venture with whom they had business dealings. A joint venture is not subject to the publication requirements applicable to other forms of business entities. This form of business structure is different from the term " Joint Venture " used as common business practice within the Saudi community which is more often than not really a limited liability partnership with foreign participation.

5.3 Operational Requirements

5.3.1 Obtaining a Temporary License

A foreign company whose activity in the Kingdom consists exclusively of contracting with government entities may obtain temporary licenses. These temporary licenses are colloquially referred to as “representative offices.” In order to obtain a temporary license to carry out its contractual obligations with the Kingdom, the foreign company must file an application for temporary license with the Ministry of Commerce and Industry within 30 days of signing such government contract. As discussed in Section 11.1 above, a foreign investment license from the Saudi Arabian General Investment Authority must also be obtained.

5.3.2 Chamber of Commerce and Industry Membership

Newly formed companies, branch offices and technical support offices must become members of their regional chamber of commerce and industry before engaging in any business activities. Membership is paid annually and is divided into second class, first class and premier class. Each class of membership provides different benefits.

5.3.3 Other Government Registrations

Newly formed companies, branch offices and technical support offices must register with the Department of Zakat and Income Taxation for income tax purposes, and register with the General Organization for Social Insurance for employee benefits and insurance.

6.0 ECONOMY OVERVIEW

6.1 The Overview and Outlook

The Kingdom is a natural resource based economy focused primarily on petroleum, oil extraction and refinement with strong government controls over major economic activities. The Kingdom possesses the largest proven oil reserves in the world (about 20%), ranks as the largest exporter of petroleum and plays a leading in Organization of the Petroleum Exporting Countries (OPEC). The petroleum sector accounts for roughly 80% of budget revenues, 45% of GDP, and 90% of export earnings.

The Kingdom's economy has weathered the recent global economic turmoil better than most countries and the soaring oil revenues over recent years have created record budget and current account surpluses. The economy grew by 6.4% in 2010 and is expected to grow further by 7.4%.

Saudi Arabia is encouraging the growth of the private sector in order to diversify its economy and to employ more Saudi nationals. The Kingdom has announced huge stimulus packages on nearly USD500 billion to be spent on infrastructures. The diversification efforts are focusing on power generation, telecommunications, natural gas exploration, and petrochemical sectors.

Currently about 6 million foreign workers play an important role in the economy Saudi Arabia particularly in the oil and service sectors, while it is struggling to reduce unemployment among its own nationals. The Kingdom is particularly focused on employing its large youth population, which generally lacks the education and technical skills the private sector needs. The Kingdom has substantially boosted spending on job training and education, most recently with the opening of the King Abdullah University of Science and Technology – Saudi Arabia's first co-educational university.

The government has also embarked on the development of six “economic cities” in different regions of the country as part of the diversification strategy to develop various targeted sectors and promote foreign investment. The government plans to spend USD373 billion between 2010 and 2011 on these “cities” which involves massive social developments such as residential, commercial, healthcare and educational programs as well as infrastructure projects in line with a policy that focuses more on the social needs of a rapidly growing population.

The Saudi Government has initiated structural reforms since the 1990s to encourage privatization, liberalize foreign trade and reform investment regimes. Commercial laws were revised and initial steps were taken to free up foreign investment and privatize parts of the state sector. Saudi Arabia joined the World Trade Organization (WTO) in December 2005 and has progressively liberated some of its services sectors to foreign investment. The Saudi Electricity Company (SEC), the National Water Company and the Saudi Telecom Company (STC) have been privatized, including 50% of the national mining company Ma’adan.

6.2 Investment Climate

The Kingdom of Saudi Arabia is one of the least indebted countries in the world, and improvement of the investment climate continues to be a priority of the government’s broader program to diversify an economy overly dependent on oil and petrochemicals and promote employment for a young population. It has joined the WTO in 2005 and has moved towards liberalization of the country’s trade and investment regime. The country has also initiated reforms in the bureaucracy that has reflected significantly in the improvement of its position in the World Bank’s “Doing Business 2011” and the Transparency International’s “Corruption Perception Index 2010” indices.

The Ministry of Commerce has attached top priority to further consolidate the ranking of Saudi Arabia as the Organization for Economic Co-operation and Development (OECD) rating of “Best place to do business in the Region”. The membership in WTO and Organization for Economic Co-operation and Development, and the Foreign Investment Law of 2000 are testimony towards this policy. However there are further reforms that are in the pipeline towards developing the economy and opening it to outside investors.

The Government of Saudi Arabia established the Saudi Arabia General Investment Agency (SAGIA) under the Foreign Investment Act 2000 to promote and facilitate investment in the country. Full details of SAGIA are available at its website: www.sagia.gov.sa.

Besides entrusted to enhance the country’s competitiveness, SAGIA also functions as a one-stop agency for inward investment. SAGIA also oversees the construction of the six economic cities.

The Saudi population is one of the fastest growing in the world, and it is expected that there will be 29 million Saudis in 2020. 60 percent of Saudis are under 20 years old.

Massive investment will be required to meet the needs of this growing population, including USD200 billion in power and water alone by 2020, creating extensive investment opportunities. Major projects in power, water, oil & gas, petrochemicals, communications, transport, mining construction and social infrastructure add up to an estimated USD1,000 billion of investment opportunity over the next 20 years. 25% of the 2010 budget is devoted to education, training and manpower.

6.3 The Challenges

Despite the many opportunities that await investors, some of the challenges to foreign investors are outlined as below:-

1. The biggest challenges now lie in contract enforcement and dispute resolution. The judiciary and legal system is based on the Islamic Shari'ah law. Commercial Courts and a Court of Appeal are likely to be established soon to ease this issue.
2. The bureaucracy is perceived as rather lacking transparency and cold towards foreigners outside the GCC region.
3. The government has a 'Saudization' policy wherein there is a requirement to hire Saudi nationals in the private sector. It varies from 5 to 20 percent of the total force depending on the industry.
4. Payment delays on some government contracts have been a cause for concern as it could be protracted with little recourse for compensation.
5. It is a very cumbersome process to obtain a business visa to enter Saudi Arabia. You would need a letter of invitation from a Saudi firm and verified by the Chamber of Commerce before it can be issued. Foreign workers too find it difficult to obtain work permits and visas.
6. The cultural differences would need to be addressed for any successful ventures as there is a very conservative cultural environment and enforced segregation of the sexes in most business and social settings.

7. Religion attaches much importance in the way of life including conduct of business. The country is governed on the basis of Shari'ah , and a great majority of the population are Arabs who adhere to the Wahhabi sect of Islam. As a result there are customs and social duties that affect the Saudi Arabian business world and the way the business is dealt with. It is paramount to have significant knowledge on this as it could damage relations.
8. There are elements of security threats and tacit activities of terrorism in Saudi Arabia, but the government is focusing on mitigating this through socio-economic developments and tough security.

6.4 Measuring the Business Environment

The measurements of some of the above mentioned challenges and progress achieved by reforms initiated by government's policy and actions are measured through relative indicators and surveys that are published annually by leading international agencies that includes the World Bank (Ease of Doing Business); the Heritage Foundation (Economy Freedom); the World Economic Forum (Global Competitiveness Index); Transparency International (Corruption Perception Index) and Maplecroft (Global Risk Atlas) and the Political Risk Services Group (International Country Risk Guide)

6.4.1 *The World Bank Report on Ease of Doing Business*

The World Bank Report on Ease of Doing Business 2011 presents quantities, indicators on business regulations and the protection of property rights that can be compared across 183 economies. The report covers the period June 2009 through May 2010.

The indicators refer to a specific type of business and record all procedures that are officially required to start up and formally operate an industrial or commercial business. The study besides procedures also encompasses time, cost and paid-in minimum capital for a local, limited liability company based and operators in the country's largest city.

A set of regulations affecting 9 stages of a business's life is measured namely:-

1. Starting a business
2. Dealing with construction permits
3. Registering property
4. Getting credit
5. Protecting Investors
6. Paying taxes
7. Trading across borders
8. Enforcing contracts, and
9. Closing a business.

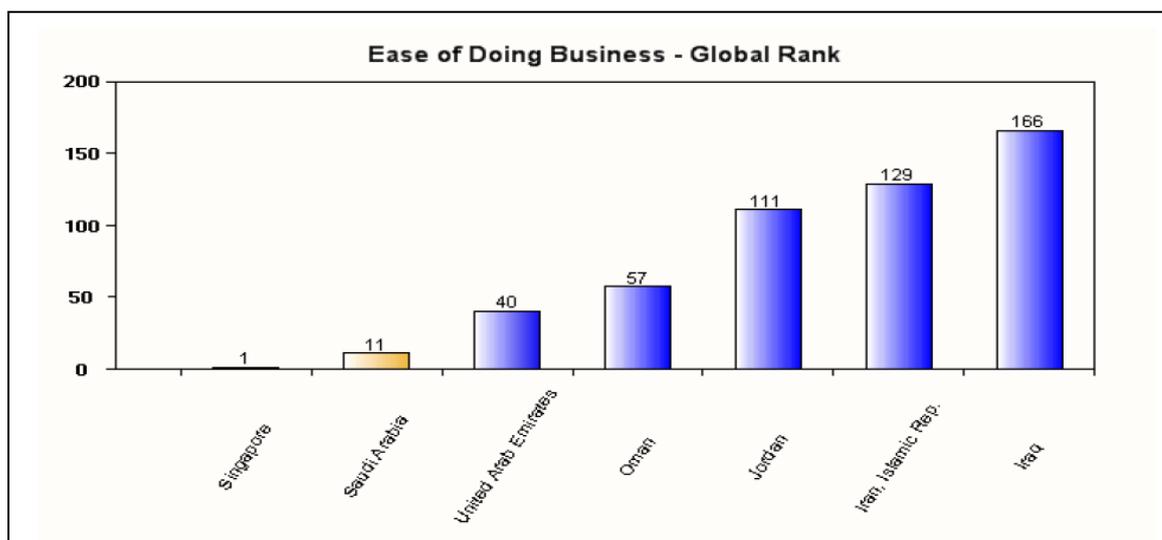
The World Bank's report ranks Saudi Arabia at number 11 out of the 183 countries in terms of how easy it is to do business in them for 2011. Singapore is the top ranked economy whilst Malaysia is ranked at 21. Saudi Arabia was ranked 12 out of 183 economics in the year 2010 (3 notch down) indicating an improvement in some of the criteria's towards ease of doing business in Saudi Arabia. It must be noted that when one country's ranking goes down, it could only be because of either its performance in the various indicators used for ranking is deteriorating or some other countries simply outperformed and overtook it even if it is doing well.

The ranking of Saudi Arabia in the various indicators for the Year 2010 and 2011 are as follows:-

	2010	2011
Rank	12	11
Starting a Business	13	13
Dealing with Construction Permits	30	14
Registering Property	1	1
Getting Credit	69	46
Protecting Investors	16	16
Paying Taxes	7	6
Trading Across Borders	19	18
Enforcing Contracts	139	140
Closing a Business	60	65

Saudi Arabia improved its ranking introducing new processes for dealing with construction permits and also through an amendment to the commercial lieu law, enhancing access to credit by making secured lending more flexible and allowing out-of court settlement in case of default.

The following graph is a representative of the ranking of Saudi Arabia and the economies in the region and also compared to good practice economy.



6.4.2 Open Economy and Freedom (The Heritage Foundation)

Economic freedom is defined as the fundamental right of every human to control his or her own labor and property. In an economically free society, individuals are free to work, produce, consume and invest in any way they please, with that freedom both protected by the state and unconstrained by the state.

The Heritage Foundation, based in Washington together with The Wall Street Journal, tracks and measures ten components of economic freedom, assigning a grade in each using a scale from 0 to 100, where 100 represents the maximum freedom.

The 10 components of economic freedom are related below together with the average score for Saudi Arabia in 2011.

- ❖ Business Freedom
- ❖ Trade Freedom
- ❖ Fiscal Freedom
- ❖ Government Spending
- ❖ Monetary Freedom
- ❖ Investment Freedom
- ❖ Financial Freedom
- ❖ Property Rights
- ❖ Freedom from Corruption
- ❖ Labor Freedom

The Heritage Foundation reports that Saudi Arabia's economy is the 54th freest in the 2011 Index. Its score is 2 points better than 2010, with strong gains in freedom and better control of government spending. Saudi Arabia is ranked 7th out of 17 countries in the Middle East/North Africa region, and its overall score is above the world average. Malaysia ranks 53rd in 2011.

❖ Business Freedom

Saudi Arabia's regulatory framework has been streamlined. Launching a business has become less time-consuming, and licensing requirements have been eased.

❖ Trade Freedom

Saudi Arabia's weighted average tariff rate was 3.9 percent in 2009. Import bans and restrictions, export controls, services market access barriers, non-transparent and inconsistent standards implementation, domestic bias in government procurement, and regulatory barriers add to the cost of trade. Protection of intellectual property rights has been significantly improved. Ten points were deducted from Saudi Arabia's trade freedom score to account for non-tariff barriers.

❖ Fiscal Freedom

Saudi nationals or citizens of the Gulf Cooperation Council and corporations pay a 2.5 percent religious tax mandated by Islamic law rather than traditional income or corporate taxes. Foreign citizens are subject to a flat 20 percent income tax. Tax liability for a joint venture depends on the foreign partner's share. Special tax rates for natural gas and oil production are as high as 85 percent. In the most recent year, overall tax revenue as a percentage of GDP was 6.6 percent..

❖ Government Spending

In the most recent year, total government expenditures, including consumption and transfer payments, declined to 29.1 percent of GDP. State participation in the economy remains substantial. The state-owned mining company was privatized in 2008, and authorities are working to prepare the national airline for partial privatization.

❖ Monetary Freedom

Inflation has been moderately high, averaging 6.1 percent between 2007 and 2009. The riyal is expected to remain pegged to the U.S. dollar. The government influences prices through regulation, extensive subsidies, and state-owned enterprises and utilities. Twenty points were deducted from Saudi Arabia's monetary freedom score to account for measures that distort domestic prices.

❖ Investment Freedom

All foreign investors must be licensed by the General Investment Authority. Licenses for projects may be required, and foreign investors must take local partners in certain sectors. Foreign investment is prohibited in 16 manufacturing and service sectors and sub-sectors. There are minimum capital requirements for foreign investors to establish a business, and investors must demonstrate a plan to hire Saudi nationals. Dispute resolution is cumbersome, local hiring requirements are burdensome, and the licensing process is time-consuming. There are no controls or restrictions on foreign exchange transactions or capital payments and transfers. Foreign investors may acquire land for business use.

❖ Financial Freedom

Improved regulatory, supervisory, and accounting standards have made the financial system more stable and transparent. The government has eased licensing requirements for foreign investment in financial services and has raised the foreign equity ceiling in financial institutions to 60 percent.

The government retains majority shares in the largest bank, the National Commercial Bank; holds minority shares in other domestically incorporated banks; and offers subsidized credit to preferred sectors.

All insurance companies must be locally registered and must operate according to the cooperative insurance principle. Insurance has undergone some liberalization to allow greater competition from foreign insurers. Capital markets are relatively well developed, and the stock exchange is the region's largest.

❖ Property Rights

Saudi courts do not always enforce contracts efficiently. The court system is slow, non-transparent, and influenced by the ruling elite. Laws protecting intellectual property rights are being revised to comply with the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement, but enforcement is weak, and procedures are inconsistent. Copyright piracy levels are the highest in the Gulf region, but the government has revised its Copyright Law, and the Ministry of Culture and Information referred the first-ever copyright violation case to the Board of Grievance in January 2010. Legal and societal barriers constrain women from asserting their limited property rights.

❖ Freedom from Corruption

Corruption is perceived as significant. Saudi Arabia ranks 63rd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a significant improvement over 2008.

The absence of transparency in government accounts and decision-making encourages a perception of corruption among members of the royal family and in the executive branch. Government procurement is an area of concern. Bribes, often disguised as “commissions,” are reportedly commonplace.

❖ Labor Freedom

Saudi Arabia’s labor regulations are relatively flexible. The non-salary cost of employing a worker is low, and dismissing an employee is not burdensome. Regulations on work hours are fairly flexible.

6.4.3 Country Governance (*The World Economic Forum*)

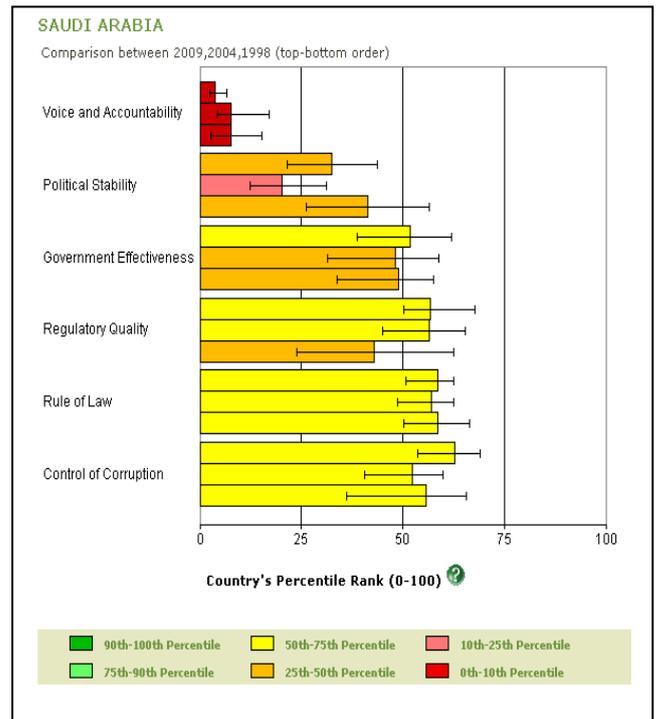
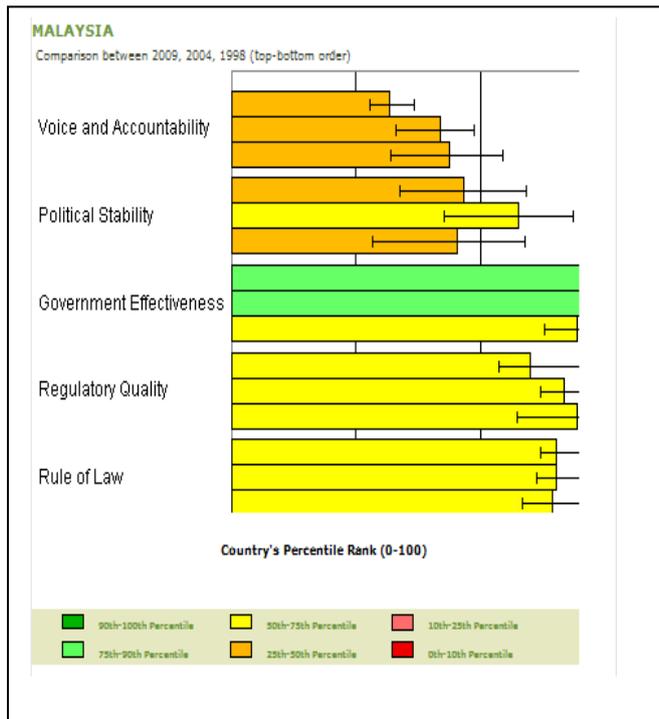
The World Bank Group, based on a long-standing research program, release the Worldwide Governance Indicators that capture six key dimensions of governance, namely:-

- (i) voice and accountability
- (ii) political stability and lack of violence
- (iii) Government Effectiveness,
- (iv) Regulatory Quality
- (v) Rule of Law and
- (vi) Control of Corruption.

The Worldwide Governance Indicator measures the quality of governance in over 200 countries based on close to 40 data source produced by over 30 different organizations worldwide and is updated on an annual basis. Full details on methodology adopted are available at the following website:- <http://info.Worldbank.org/governance/wgi/resources.htm>.

Comparison of Worldwide Governance Indicator (WGI) for Malaysia and Saudi Arabia

The following charts reflect the WGI indicators for Malaysia and Saudi Arabia. The charts with the explanatory notes will reveal a fair indicator of the progress of governance as ascertained by the World Bank Group.



This chart shows the percentile rank of the country on each governance indicator. Percentile rank indicates the percentage of countries worldwide that rate below the selected country. Higher values indicate better governance ratings. Percentile ranks have been adjusted to account for changes over time in the set of countries covered by the governance indicators. The statistically likely range of the governance indicator is shown as a thin black line. For instance, a bar of length 75% with the thin black lines extending from 60% to 85% has the following interpretation: an estimated 75% of the countries rate worse and an estimated 25% of the countries rate better than the country of choice. However, at the 90% confidence level, only 60% of the countries rate worse, while only 15% of the countries rate better.

6.4.4 Corruption Perception Index (Transparency International)

Transparency International is a global network including more than 90% locally established national chapters. These bodies fight corruption in the national arena in a number of ways. They bring together relevant players from government, civil society, business and media to promote transparency in elections, in public administration, in procurement and in business. The global network of chapters and contacts also use advocacy campaigns to lobby governments to implement anti-corruption reforms. Transparency International has in its efforts, has developed the Corruption Perception Index and produces an annual report which orders the countries of the world according to “the degree to which corruption is perceived to exist among public officials and politicians”.

Transparency International released the Corruption Perception Index 2010 in October 2010. The 2010 Corruption Perception Index (CPI) shows that nearly three quarters of the 178 countries in the index score below five, on a scale from 10 (very clean) to 0 (highly corrupt). Saudi Arabia ranked as 50 out of the 178 countries. Malaysia is ranked at 56.

6.4.5 Political Risk Rating – International Country Risk Guide (ICRG)

Political risk is a factor that decides on the business environment of a country. The Political Risk Services Group (PRS) formed and developed “International Country Risk Guide (ICRG)” in 1992 as a country risk analysis system. The ICRG has been independently acclaimed and has evolved as one of the world’s most trusted resources for evaluating and forecasting international risk, and being sourced by researchers, the International Monetary Fund (IMF), the World Bank, and a host of other financial institutions.

The aim of the political risk rating is to provide a means of assessing the political stability of the countries covered by ICRG on a comparable basis. This is done by assigning risk points to a pre-set group of factors, termed political risk components. The minimum number of points that can be assigned to each component is zero, while the maximum number of points depends on the fixed weight that component is given in the overall political risk assessment. In every case the lower the risk point total, the higher the risk, and the higher the risk point total, the lower the risk.

The political risk rating includes 12 components. Four of these components can be considered to directly impact the business environment, investment profile, corruption, law and order and bureaucracy audits. The other components which deal with government stability, socioeconomic conditions, internal/external conflict, military influence, religious/ethnic tensions and democratic accountability may be more political, but will certainly affect a business decision to invest.

The ICRG produces on a monthly basis, the political, economic, and financial risk ratings for 140 countries that are important to international business. The ICRG ratings form the basis of an early warning system for opportunities and threats, country-by-country. Full details on methodology and information on the ICRG ratings are available at the following website: <http://www.prsgroup.com/ICRG.aspx>.

Based on ICRG, Saudi Arabia was ranked 49th out of 140 countries monitored whilst Malaysia was ranked 43rd for the year 2010. The Business Monitor Internationals in a recent report analysis that Saudi Arabia political uncertainty will linger for awhile though it is under control while Saudi government will continue to announce more funds for socio-economic projects.

7.0 TRAVELLING TO SAUDI ARABIA

7.1 Visa

All citizens of Malaysia residing in Malaysia must apply for a visa to travel to Saudi Arabia in person at the Saudi Arabia Embassy in Malaysia either as tourists or on business trips. Saudi Arabia does not currently issue a visa for tourist travel. (Source : <http://saudi-arabia.travisa.com/VisaInstructions.aspx?CountryID=SA>)

Application for business visas has to be submitted to the Saudi Arabia Embassy. The requisites for a visa are:-

- ❖ Duly completed visa application (download from: <http://saudi-arabia.visahq.com/>)
- ❖ Passport of the applicant (validity at least 6 months).
- ❖ One recent 2 x 2 passport type photograph, in color, front view and with a plain/light background.
- ❖ **Official Invitation from Saudi Arabia:** Document certified by both the Saudi Chamber of Commerce and the Ministry of Foreign Affairs. The invitation should include inviting company's location and type of business. In addition, it must clearly state the applicant's name, nationality, position, length of visa, purpose of travel, and number of entries requested. The registration number of the host company will be printed on the invitation.
- ❖ **Business Letter:** Letter from employer or sponsoring company in Malaysia, on company letterhead, introducing the applicant, indicating the applicant's employment status/position held in the company, and clearly stating the purpose of visit to Saudi Arabia. The business letter must also indicate who will be financially responsible for the applicant and must provide detailed contact information in Saudi Arabia.

- ❖ Women travelling to Saudi Arabia on business would need to apply on the above basis but must be accompanied by a male who should either be her husband or her son.
- ❖ Visa fee for Malaysian Nationals – RM 160/- (USD54)

Embassy/ High Commission / Consulate for Malaysia

CONTACT DETAILS

Royal Embassy Of Saudi Arabia, Malaysia

No. 7, Jalan Kedondong off Jalan Ampang Hilir

55000

P.O. Box: 12002

Kuala Lumpur

Malaysia

Telephone: (+603) 42579825, (+603) 42579831, (+603) 42579433

Fax : (+603) 42561303

Email: myemb@mofa.gov.sa

Office hours : Monday to Friday 9.00am – 3.00pm

7.2 Flights and Airports

King Abdulaziz International Airport (KAIA) is the first international airport established as part of the programs prepared by the government of the Saudi Arabia for the development of the Saudi Arabia's international airports. It is located 19 km north of the city of Jeddah, the main port of Saudi Arabia and an important trading center.

Saudi Arabian Airlines, the national carrier of Saudi Arabia flies between Jeddah and Kuala Lumpur and also from Riyadh and Kuala Lumpur. Other airlines that flies from KAIA are Malaysian Airlines, Emirates, Jet Airways, Garuda Indonesia and Oman Air.

The other international airports in Saudi Arabia are:

- ❖ King Fahd International Airport in Dammam
- ❖ King Khalid International Airport in Riyadh
- ❖ Prince Mohammad Bin Abdulaziz International Airport in Madinah

7.3 Ground Transport and Hotels

7.3.1 Ground Transport

At Jeddah

King Abdulaziz International Airport is served by a number of limousine companies that transport passengers to Jeddah, Holy City of Makkah and Holy Madinah. Private Taxi cabs are also available to transport passengers from and to Jeddah city. The fees for limousines are fixed and determined according to the different residential regions. The fare of the taxi cab is fixed and the price list is posted inside the cars, and passengers may ask trip advisers before the relevant fare.

7.3.2 Hotels

The Dalat al- Mataar hotel is the ideal place for those who look for luxury, special services and a location near the shopping centers in Jeddah city. Dalat al- Mataar hotel is situated in King Abdulaziz International Airport. The phone number for this hotel is 966 (2) 6857788.

The Golden Tulip Hotel is situated in the middle of equatorial gardens overlooking the Red Sea and the Cornish parallel to it. It is near the commercial region and about 15 minutes from the airport and 20 minutes from the city center. The hotel phone is 966 (2) 4777694 and free toll is 0066 244 800.

Mecca	Hotel	Star	Telephone	Price (SAR)
	Ajyad Makkah	*****	966 (2) 5368444	480-1375
	Makkah Inter-Continental	*****	966 (2) 5434455	460-1460

	Hotel	Star	Telephone	Price (SAR)
Jeddah	Al Salam Holiday Inn	*****	966 (2) 6314000	330-430
	Crowne Plaza Al Fau Jeddah	*****	966 (2) 6611000	400-500
	Hyatt Regency Jeddah	*****	966 (2) 6521234	330-390
	Jeddah Marriot	*****	966 (2) 6714000	325-410
	Red Sea Palace	*****	966 (2) 6428555	280-365
	Sheraton Jeddah	*****	966 (2) 6992212	250-450
	Jedah Inter-Continental	*****	966 (2) 6611800	385-475
	Sofitel Jeddah Alhamra	*****	966 (2) 6602000	320-420
	Jeddah Kaki	****	966 (2) 6312201	250-325
	Jeddah Trident	****	966 (2) 6474444	345-449
	Kandara Palace	****	966 (2) 6312177	270-350
	Jeddah Sahari	***	966 (2) 6477744	150-214

	Hotel	Star	Telephone	Price (SAR)
Madinah	Sheraton Medina	*****	966 (4) 8460777	400-900
	Dallah Medina	*****	966 (4) 8360645	300-390
	Green Palace	*****	966 (4) 8269040	345-782
	The Medina	****	966 (4)8263355	-
	Oberoi			

For hotels located in other cities like Al Kobhar, Dammam, Dhahran, Riyadh, Yanbu, Jubail, Taif, Abha, Najran can be obtained from this website: <http://www.the-saudi.net/directory/hotels.htm#Jeddah>

7.4 Security and Health

7.4.1 Security

With the support of the U.S. Government, the Saudi government, have greatly improved the security environment. Even though there is improvement in the security climate but there remains an ongoing security threat due to the continued presence of terrorist groups, some affiliated with Al Qaida. Terrorists and insurgent groups continue to conduct large-scale, lethal attacks that often target Saudi government facilities and economic/commercial targets within the Kingdom.

During the stay in Saudi Arabia, visitors are strongly urged to avoid staying in hotels or housing compounds that do not appear to apply stringent security measure, and visitors are also advised to be aware of their surroundings when visiting commercial establishments that are frequented by tourists. Visitors should keep a low profile, vary times and routes of travel, exercise caution while driving, entering or exiting vehicles, and ensure that their travel documents and visas are current and valid.

Carjacking is quite common in Riyadh and the surrounding areas in Saudi Arabia. Travelers should exercise caution in all areas close to the Saudi-Yemen border.

It is pertinent for Malaysian to note that travelling to Saudi Arabia is still a security risk. The Foreign and Commonwealth Office of United Kingdom issues regularly updated travel advice. It is useful to check at their website www.fco.gov.uk for travel advice.

Other sites that provide travel advice are:-

- ❖ United States : http://travel.state.gov/travel/cis_pa_tw/cis/cis_1012.html#safety
- ❖ United Kingdom: <http://www.fco.gov.uk/en/travel-and-living-abroad/travel-advice-by-country/middle-east-north-africa/saudi-arabia>
- ❖ Australia : http://www.smarttraveller.gov.au/zw-cgi/view/Advice/Saudi_Arabia

7.4.2 Health

When travelling to Saudi Arabia, vaccinations are recommended for hepatitis A, hepatitis B, rabies, typhoid, Tetanus-diphtheria, Measles, polio and Meningococcal. Travelers to Saudi Arabia may be at risk for malaria.

Do not drink tap water unless it has been boiled, filtered, or chemically disinfected. Do not drink unbottled beverages or drinks with ice. Do not eat fruits or vegetables unless they have been peeled or cooked. Avoid cooked foods that are no longer piping hot. Cooked foods that have been left at room temperature are particularly hazardous. Avoid unpasteurized milk and any products that might have been made from unpasteurized milk, such as ice cream. Avoid food and beverages obtained from street vendors. Do not eat raw or undercooked meat or fish.

7.5 Climate, Etiquette and Customs & Business Etiquette and Protocol

7.5.1 Climate

Saudi Arabia has a desert climate. In seaside Jeddah it is warm for most of the year, though winter is probably the most pleasant time for a visit. Riyadh, which is inland, is hotter in summer and colder in winter, when occasional heavy rainstorms occur. Early spring and late autumn are lovely times to visit this desert capital. The Rub al Khali, or “Empty Quarter,” seldom receives rain, making Saudi Arabia one of the driest countries in the world.

7.5.2 Etiquette and Customs

Meeting Etiquette

- ❖ Men shake hands. Good friends may greet each other with a handshake and a kiss on each cheek.
- ❖ Women generally hug and kiss close friends.
- ❖ Men and women would not greet each other in public or from outside the family.
- ❖ When Saudis greet each other they take their time and converse about general things.

Gift Giving Etiquette

Gifts are not the norm as in many other countries.

- ❖ If you are invited to a Saudi's house bring something small as a thank you.
- ❖ Flowers do not make good gifts from a man, although a woman could give them to her hostess.
- ❖ Never give alcohol unless you are positive they partake
- ❖ Gifts are not opened when received.

Dining Etiquette

Saudis socialize primarily in restaurants and international hotels when entertaining expatriates whom they do not know well. After some time you will be invited to the home.

Entertainment will generally be same-sex only. If both sexes are included, they will be in separate rooms.

If you are invited to a Saudi's house:

- ❖ You would usually remove your shoes.
- ❖ Dress conservatively.
- ❖ Try to arrive at the invited time. Punctuality is appreciated but not crucial.
- ❖ Show respect for the elders by greeting them first.
- ❖ Accept the offer of Arabian coffee and dates even if you do not normally drink coffee.
- ❖ If you are invited for a meal, understand that there will be a great deal of socializing and small talk before the meal is served.

Table manners

- ❖ If the meal is on the floor, sit cross-legged or kneel on one knee
- ❖ Eat only with the right hand as the left is considered unclean.
- ❖ Try a bit of everything that is served.
- ❖ Meals are generally served family-style.
- ❖ Honored guests are often offered the most prized pieces such as a sheep's head.(so be prepared.)
- ❖ There is often more food than you can eat. Part of Saudi hospitality and generosity is to shower guests with abundance.
- ❖ There is little conversation during meals so that diners may relish the food.

7.5.3 Business Etiquette and Protocol

Relationships & Communication

- ❖ You will need a Saudi sponsor (wakeel) to enter the country. The sponsor acts as an intermediary and arranges appointments with appropriate individuals.
- ❖ Saudis do not require as much personal space as most western cultures. As such, they will stand close to you while conversing and you may feel as if your personal space has been violated.
- ❖ Saudis prefer to work with people they know and trust and will spend a great deal of time on the getting-to-know-you part of relationship building.
- ❖ You must be patient.
- ❖ Since Saudis will most likely judge you on appearances, dress and present yourself well.

Business Meeting Etiquette

- ❖ Appointments are necessary and should be made several weeks to one month in advance if at all possible.
- ❖ When meeting with government officials, a firm date will not be settled upon until you are physically in the country.
- ❖ Try to schedule meetings in the morning.
- ❖ You should arrive at meetings on time, although it is an accepted custom to keep foreigners waiting.
- ❖ It is not uncommon to have a meeting cancelled once you arrive.
- ❖ Meetings are generally not private until after a relationship of trust has been developed. This means you may expect frequent interruptions. Others may wander into the room and start a different discussion. You may join in, but do not try to bring the topic back to the original discussion until the new person leaves.

- ❖ Business meetings start after prolonged inquiries about health, family, etc. Never inquire about a Saudi's wife.

Business Negotiating

- ❖ Decisions are made slowly. Do not try to rush the process.
- ❖ The society is extremely bureaucratic. Most decisions require several layers of approval. It takes several visits to accomplish simple tasks.
- ❖ Saudis are tough negotiators.
- ❖ Business is hierarchical. Decisions are made by the highest-ranking person.
- ❖ Repeat your main points since it will be interpreted as meaning you are telling the truth.
- ❖ Do not use high-pressure tactics.
- ❖ Decisions are easily overturned.
- ❖ When discussing price, Saudis will often make an initial offer that is extremely low when they are buying. Conversely, when they are selling, their initial offer will be extremely high.
- ❖ You may need to compromise on a point if someone's dignity is at stake.
- ❖ There is a tendency to avoid giving bad news and to give effusive acceptances, which may only mean 'perhaps'.

Dress Etiquette

- ❖ Most Saudis wear long white robes. You would be expected to wear a suit.
- ❖ Dress well if you want to make a good impression.
- ❖ Business women should make certain that their collarbones and knees are covered and that their clothes are not form-fitting.

Business Cards

- ❖ Business cards are given to everyone you meet, although it may be an idea to be selective if you have few in your possession.
- ❖ Have one side of your card translated into Arabic. Be sure to check the translation carefully as there is often confusion with the order of western names.

7.6 Business Hours and Public Holidays

Government offices are open Saturday through Wednesday from 7.30 a.m. to 2.30 p.m. The official weekend holiday for the government and some private businesses is Thursday and Friday. Private business working hours vary but are generally from 7.30 or 8.00am to noon, and from 3.30 or 4.00pm until 7.00 or 8.00pm. General banking hours are from 8.00am to noon, and from 5.00pm until 8.00pm. Markets and shops are open from 8.00am until 10.00pm., with a rather long lunch break.

During the month of “Ramadan”, working hours are reduced. Government offices open from 10.00am to 2.30pm and private sector working hours are shortened to about six hours a day.

The annual public holidays observed are:-

- ❖ The Feast of the End of Ramadhan (Eid-ul-Fitr) - Observed officially for 10 days, by most private institutions from 3 to 7 days.
- ❖ The Feast of the End of Hajj (Eid-ul-Adha) - Observed officially for 10 days, by most private institutions from 5 to 7 days
- ❖ Saudi National Day (Al-Yaom Al-Watany) - Observed officially for 1 day, by some private institutions for 1 day.

Note : * Muslim festivals are timed according to local sightings of various phases of the moon and the dates given above are approximations.

7.7 Tipping

Bills from hotels invariably include a service charge while in other places tipping is discretionary; however, 10 per cent is usually considered a fair figure for taxi drivers and waiters.

7.8 Time Zone

Saudi Arabia is **5 hours** behind Malaysian Standard time (GMT + 3 hours)

7.9 Telecommunication

The country code for Iraq is 966

For calls from Saudi Arabia to Malaysia dial 00 + 60 + area code+ telephone number.

For calls from Malaysia to Saudi Arabia dial 00 + 966 + area code+ telephone number.

Saudi Telecom Company is the only provider for telephone lines in Saudi Arabia. The Kingdom of Saudi Arabia has one of the most efficient and reliable telephone services in the world. There is direct dialing to virtually every country in the world.

7.10 Currency

Saudi Riyal is the only official Saudi Arabia currency that is in operation within the kingdom. The currency structure of Saudi Arabia shows that each Saudi Riyal has been divided into one hundred Halalah. The currency format of Saudi Arabia resembles the Indian currency in its structure, where 1 Riyal equals 100 Halalahs.

The Riyals are actually bills and are obtained in bill notes of 1, 5, 10, 20, 50, 100, 200 and 500. The Halalahs are coins, which are found in denominations of 5, 10, 25, 50 and 100. Saudi Arabia currency has been maintaining a fixed exchange rate with the US currency since the July of 1986. At present SR3.75 equals \$1.00 of the US.

Currency exchange within the Saudi Arabian kingdom is not much of a problem because, exchange counters can be found at all commercial banks across the country. Most of the established credit and debit cards are accepted within the Saudi Arabian economy. However, it is always advisable that foreigners carry adequate exchange money in Saudi Riyals so as to avoid additional exchange rates. Currency of all foreign nations can be freely imported into and exported from Saudi Arabia, but Israeli currency is prohibited in the country.

7.11 Electricity

Electricity in Saudi Arabia is 127/220 volts, alternating at 60 cycles per second.

Outlets in Saudi Arabia generally accept 3 types of plug that are

- ❖ Flat blade plug
- ❖ Two round pins
- ❖ Two parallel flat pins with round pin

7.12 Malaysia Embassy/ High Commission / Consulate for Saudi Arabia

CONTACT DETAILS

Embassy of Malaysia in Saudi Arabia

Diplomatic Quarters

PO Box 94335

11693 Riyadh

Saudi Arabia

Phone: +966-1-4887100, +966-1-488488, +966-1-4887098

Fax: +966-1-4824177

Email: mwriyadh@awalnet.net.sa

Malaysia Consulate , Saudi Arabia

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PO Box 593

21421 Al Rehab District

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Fax: +966-2-6760877

Email: mwjedda@awalnet.net.sa

8.0 FINANCE AND BANKING

8.1 The Overview

The Saudi Arabian Monetary Agency (SAMA) regulates all banking and finance in Saudi Arabia. The Saudi banking system remains one of the strongest and most profitable in the region.

The difficulty in obtaining a banking license to operate in Saudi means that only 12 Saudi and Saudi-foreign joint venture banks operate, dominated by Al-Rajhi bank, the country's most profitable and the world's largest Islamic banks, and the National Commercial Bank the largest by asset size in both Saudi Arabia and the whole GCC. A number of international banks have entered the market by taking stakes in domestic firms, such as HSBC's 40 per cent stake in Saudi British Bank (SABB) and ABN Amro's 40 per cent stake in Saudi Hollandi Bank. Five GCC banks are licensed to operate in Saudi Arabia, National Bank of Pakistan, and J.P. Morgan Chase.

Foreign banks are permitted to enter joint venture companies in Saudi Arabia with a previous foreign equity cap of 40% raised to 60%. Now, they can also open direct branches.

Currently, the Capital Market Authority has licensed 95 foreign and local companies to provide financial services and brokerage services from dealing and managing portfolios to arranging and advisory services, including Morgan Stanley, KPMG, Merrill Lynch, J.P. Morgan, Credit Suisse, HSBC, and Goldman Sachs, among others. The Saudi Government has also opened up asset management, advisory and brokerage services to foreign institutions.

Pursuant to the Foreign Investment Act, which allows entities wholly owned by a foreign investor or in the form of a joint-venture with a national investor (natural or juristic person), banks may open bank accounts in Saudi Riyals and foreign currencies for such entities after fulfilling the documentation and requirements specified by SAMA based on the entity structure. There are two types of bank accounts; saving accounts and current accounts.

Categories of documentation and requirements depend on the entity structure; the bank will consider whether the business is:

- ❖ A joint venture owned by a national investor and a foreign investor;
- ❖ An entity wholly-owned by a foreign investor;
- ❖ A corporate individual or mixed foreign Corporate foreign institution or individual or mixed firm investor (more than one foreign partner); or
- ❖ A foreign investor - branches of foreign companies and corporations.

It is worth mentioning that most of the documentation for the above categories can be successfully fulfilled if a SAGIA license has been issued because the SAGIA requirements and SAMA requirements are relatively similar in terms of legality.

8.2 Ability to access local financing (e.g. local lending)

Granting credit facilities to foreign investors varies according to the credit appetite of local banks. Thus, the willingness of the banks to lend locally varies with the economic status of the entity, as well as the following factors:

- ❖ Business activity;
- ❖ Type of resident company;

- ❖ How long business operations have been carried on for;
- ❖ Investor capacity;
- ❖ Financial position; and
- ❖ Company management.

For any transaction, it is important to know that the signatories of the bank accounts must have valid resident IDs (IQAMA).

8.3 Restrictions on accessing cash through a local bank account

The foreign investor should actively operate the account, otherwise nil transactions for an extended period will freeze the account. Moreover, it is important to avoid freezing or blocking the account and to update the account prior to the expiry date of 1) the Company Registration (CR); and 2) the authorized signatories' IDs.

The foreign investor is fully responsible for updating the bank in the following cases:

- ❖ Change in shareholders;
- ❖ Change in legal type; and
- ❖ Any Amendments of Article of Association.

Finally, SAMA periodically reminds local banks to update customers' documentation and Know Your Customer forms (KYC) either every five years or in the case of any of the above mentioned changes taking place.

8.4 Foreign Exchange Controls and Money Laundering

At present time, there are no exchange control regulations governing the repatriation of funds, profits or capital after corporate dissolution.

Banks and financial institutions in the Kingdom of Saudi Arabia are, pursuant to the Anti Money Laundering Law, required to develop and adopt internal systems, policies and measures to combat money laundering and to keep records of transactions for a minimum of ten years.

Individuals are required to declare any cash or valuables that exceed SAR 60,000 in value in their possession when exiting the Kingdom.

9.0 LABOUR, LEGISLATION, RELATION AND SUPPLY

9.1 The Environment Overview

Saudi Arabia has a labour force of 6.922 million – 60% of which are non-nationals (2009 estimate).

Unemployment among young Saudis is an issue for the government: the official overall unemployment rate is 11.6% (2009 estimate) but some economists estimate it is much higher, nearer 25%. And most of the Saudi population is young: the numbers of Saudis up to the age of 15 years represents about 45% of the total population – a proportion that is continuously growing.

The Government has been active in improving its human resource development program, which includes establishing public and private educational, technical, research, and training institutions for young Saudis to meet employment demands of the growing private sector market.

The program offers investors more opportunities to select skilled, semi-skilled and technical labor for projects at different rates, which vary according to their employees' respective status.

The Kingdom's Human Resources Development Fund provides incentives for companies that employ nationals and it includes paying for a percentage of the salaries of Saudi labor employed by the private sector.

The Labor and Workmen Law regulates all matters relating to Labour in the Kingdom.

9.2 Labour relations

The Labour Law does not allow the formation of labour and trade unions in the Kingdom. Disputes between employers and employees are referred to the "Commission for Settlement of Disputes" which has the exclusive jurisdiction to render decision on such matters. The law provides for inspection of business premises by inspectors from the Ministry of Labour to ensure compliance with the provisions of the Labour and Workmen Law.

9.3 Working hours, holidays and vacations

The law stipulates the maximum working hours to be 8 per day or 48 hours per week in all months of the year with the exception of Ramadan (the Muslim holy month of fasting) when the maximum number of working hours are restricted to 6 per day or 36 hours per week. In the case of businesses such as hotels, restaurants, seasonal enterprises and where approval has been granted by the Minister of Labour, the maximum number of daily working hours may be increased to nine. Similarly the number of daily working hours may be reduced for people employed in industries or operations classified as hazardous or harmful by the Minister of Labour.

Friday is the weekly holiday in Saudi Arabia as it is in most other Muslim countries. Presently there are 10 days of public holidays each year. In addition to these public holidays employees are entitled to a minimum of 15 days vacation after one year of service or 21 days after three years of service. However, the normal practice in the Kingdom is 30 days annual vacation in addition to the public holidays.

9.4 Termination of employment

A labour contract entered into for a specified term terminates upon the expiry of its term. If both parties mutually agree to apply the contract thereafter then it is deemed to have been renewed for an unlimited duration. Contracts of unlimited duration may be cancelled for a valid reason by either party to the contract provided a 30 days prior notice is given if the employee is paid monthly. For other employees a 15 days prior notice is necessary.

On the expiry of specified-term contracts or the termination of unlimited duration contracts by employers, employees are entitled to a service award of half a month's salary for each of the first five years of service and one month's salary for each year thereafter. The current rate of pay is taken as the basis for computation of the service award. If an employee with an unlimited duration contract resigns, he is entitled to one-third of the specified-term award if his period of service is between two and five years; it is two-thirds of the specified-term award if his service period is more than five and less than ten years; and the full specified-term award if his service period is more than ten years.

9.5 Pay rates, overtime and bonuses

The rates of pay in the Kingdom vary considerably from industry to industry and between nationalities.

The Labour Law provides for the minimum overtime rate as 150% of the normal rate. Bonuses are payable at the discretion of the employer. It is, however customary for banks and petrochemical companies to give their staff annual bonuses.

9.6 Social insurance

Social insurance in the Kingdom is administered by the General Organization for Social Insurance. Employers are required to make contribution at the rate of 9% of salary (including benefits in kind) for Saudi employees who are required to contribute same percentage of their salary in respect of social insurance. In addition, employers are required to contribute 2% of the basic salary of both Saudi and non-Saudi employees to cover the job hazards risk.

Certain categories of employees such as certain government employees, armed forces and diplomatic personnel, domestic servants etc are exempt from social insurance contributions.

10.0 TAXATION

10.1 Overview

The tax system of Saudi Arabia is administered by the central government through royal decrees, ministerial decisions and circulars of the Department of Zakat and Income Tax (DZIT) (www.dzit.gov.sa) of the Ministry of Finance and National Economy. The DZIT is exclusively responsible for the administration of tax and zakat matters.

The principle taxes in the Kingdom of Saudi Arabia are (i) Income Tax (ii) Zakat and (iii) Withholding Tax. A comprehensive Tax Law was enacted in 2004 and pursuant to the law, persons or entities subject to various forms of taxation are as follows:-

- ❖ A resident capital company on its non – Saudi shares
- ❖ A resident non-Saudi natural person who conducts activities in the Kingdom of Saudi Arabia
- ❖ A non-resident person who conduct activities in the Kingdom through a permanent establishment
- ❖ A non-resident person who has other income that is subjected to tax from sources within the Kingdom.
- ❖ A person engaged in natural gas investment activities, and
- ❖ A person engaged in oil and other hydrocarbon production.

10.2 Income Tax

A 20% income tax rate is applicable to the taxable income of non-Saudi individuals in business, companies registered in Saudi Arabia, and non-resident individuals and companies carrying business activities through a permanent place of business in the Kingdom.

A Natural Gas Investment Tax (NGIT) is applicable on taxable income derived from exploration, production, collection, treatment, transportation, processing and fractionation of natural gas, natural gas liquids and gas condensates. The NGIT rate for any taxable year is determined based on the internal rate of return on the cumulative annual cash flows of the taxpayer from the natural gas investment activities. Based on the NGIT rates table, the NGIT rate can range from a minimum of 30% for an internal rate of return of 8% to a maximum of 85% for internal rates of return of 20% and above.

A tax rate of 85% is applicable to the taxable income from oil or other hydrocarbon production activity in the Kingdom.

10.3 Zakat

Zakat is an Islamic tax on wealth and is levied on Saudi Arabian and GCC natural persons, wholly Saudi Arabian or GCC-owned entities, and Saudi Arabian or GCC shareholders of companies. While the calculation of Zakat is complex, the effective rate for natural persons is 2.5 percent of their net worth and for companies is 2.5 percent of their total capital resources. The tax base for calculation of Zakat for companies excludes fixed assets, long-term investments and deferred costs from total capital resources, but include profits from foreign investments that do not consist of investment in real property. Profits of foreign non-real property investments are estimated by the Department of Zakat and Income Tax (DZIT) to be 15 percent of the revenues in cases where no specific information is made available.

10.4 Withholding tax

Payments made to non-residents by a resident or a permanent establishment of a non resident, that are from a source in the Kingdom, are subject to withholding tax. Depending upon the nature of payment, the payer is required to withhold the tax at the following rates:

Type of payment		Rate
Management fees		20%
Royalties, payments to head office or related parties for services		15%
Dividends, loan charges, insurance/reinsurance premiums, rental (lease), technical and consulting services, air tickets, air freight , shipping, and international telecommunication services		5%
Other payments	Not to exceed	15%

The person withholding the tax, irrespective of whether or not he is a taxpayer under the tax law, is required to register with the DZIT, and pay the tax so withheld within 10 days after the end of the month in which such payments are made. The payer is also required to issue a certificate to the payee stating the amount of payment and the tax withheld.

At the end of each tax year, the payer is required to submit the names, addresses and other details of the payees to the DZIT.

A delay penalty of 1% of the amount of unpaid withholding tax is applicable for each 30 days of delay from the due date of the tax till such time the tax is paid.

10.5 Other taxes

At present the following taxes are not imposed in the Kingdom:

- ❖ Personal tax on employee's remuneration.
- ❖ Value-added tax.
- ❖ Capital gains tax
- ❖ Estate and gift taxes.

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