



Final Research Report on Investment Environment and Market in Saudi Arabia - Tourism industry -

Content

- 1 Market Overview
- 2 Market Entry Information

Content

- I Market Overview
 - I.1 Saudi Tourism Introduction
 - I.2 Key Tourism Statistics
 - I.3 Top Touristic Attractions and Events

Saudi Country Profile



- Islamic country with a monarchy system
- Home of Islam's two holiest cities
- The 14th largest country on Earth
- Place for the largest sand desert on Earth
- Possess approx. 22% of the world's oil reserves
- Rated as the best place to do business in the Middle East by the World Bank
- Has one of the most advanced banking systems



Area sq km

2,149,690



Population

34.2 mil



GDP USD

793 Bn



GDP / Capita USD

23,138



Unemployment¹

12%



Median Age

31 Years



Average Time to Start a Business

18 Days



T&T Index Global Ranking²

69



Total Inbound Visits

17.53 Mil

Saudi Tourism – SWOT Analysis

Traditionally being focused on religious tourism, Saudi has taken strategic measures to expand country's tourism in line with its Vision 2030

Strengths

- Home to two very important holy mosques
- Numerous archaeological sites of historic and religious significance
- Continued government efforts in expansion and upgrade of current infrastructure, facilities and services
- Increased openness to foreign investors

Opportunities

- Vision 2030 to boost attractiveness of Saudi to foreign investors
- Multiple mega projects supporting growth of travel sector
- Deregulation of low-cost airlines provides entry opportunity of new airlines
- Huge demand for domestic / regional air travel favors set-up of regional hub

Weaknesses

- Restructuring of workforce and Saudization program impacts provision of qualified workforce in tourism industry
- Underdeveloped entertainment industry
- Poor public transport infrastructure
- Religious seasonality impacts supply and demand in lodging

Threats

- Continued travel ban due to Covid-19 pandemic
- Strong competition from regional peers
- Continued political uncertainty in the region

Saudi Tourism – Vision 2030

Within its Vision 2030, Saudi is taking serious steps to unlock tourism sector’s potential and boost its GDP contribution

Tourism Targets Vision 2030	2018 (Baseline)	2030
Annual Visits	58.59 mil	100 mil
Tourism GDP Contribution	3.6%	10%
Tourism Jobs	553,000	1.6 mil

Saudi is already working on developing main infrastructure and services in the Kingdom in line with its tourism strategy:

- Over 150,000 hotel rooms are underway to be delivered over the coming three years
- Several MoUs with a total value exceeding 115 billion SAR (30.7 bn USD) being signed to improve infrastructure and increase number of available hotel rooms
- Seven new airports being constructed to accommodate 25 mil passengers annually
- Tourist Visa launched in 2019
- Ahelha program activated – a human capital development program for the development of tourism capacities
- Haramain high-speed train initiated to connect further the holy cities

Saudi Tourism – Main Institutions

In recent years, Saudi has introduced drastic changes in tourism landscape and instigated multiple institutions to oversee the regulatory, promotional, development and inspection activities within tourism sector (1/2)



Policy-Making

وزارة السياحة
Ministry of Tourism



Promotion and Development

SAUDI الهيئة
TOURISM السعودية
AUTHORITY للسياحة



الهيئة العامة للترفيه
General Entertainment Authority

Tourism صندوق
Development التنمية
Fund السياحي



The Red Sea
Development
Company

الهيئة الملكية لمحافظة العلا
Royal Commission for AlUla



Monitoring and Reporting

وزارة السياحة
Ministry of Tourism



الهيئة العامة للإحصاء
General Authority for Statistics

Saudi Tourism – Main Institutions (1/2)

In recent years, Saudi has introduced drastic changes in tourism landscape and instigated multiple institutions to oversee the regulatory, promotional, development and inspection activities within tourism sector (2/2)

 Institution	 Brief Mandate
 Ministry of Tourism	Organize, regulate, steer tourism sector and collecting tourism data and conduct research and related studies
 Saudi Tourism Authority	Support the growth of the travel and tourism sector
 General Entertainment Authority	Organize, develop, and lead entertainment sector and enrich lifestyle
 Saudi Tourism Fund	Stimulate investments and funding in tourism sector
 Diriyah Gate Development Authority	Preserve and celebrate historic Diriyah
 The Red Sea Development Company	Develop and promote a new international luxury tourism destination
 Royal Commission of Al Ula	Preserve and develop the ancient archaeological and historical site of Al-Ula
 General Authority for Statistics	Conduct national surveys and studies

Covid-19 Impact on Saudi Tourism

Saudi tourism has been massively impacted by the current pandemic and is expected to decline by 35-45% by end of 2020 – The country however implemented several measures to revitalize domestic tourism



Covid-19 Pandemic Impact

- The economic recession caused by the pandemic greatly affected the tourism sector, mainly the aviation and hotel segments
- Decline of passengers is estimated at 26 million
- Number of jobs in the sector being affected by the pandemic is estimated at 200,000
- Tourism sector is expected to see 35-45% decline by 2020 EoY
- Saudi is expected to resume tourist visas by 2021 amid Covid-19 restrictions



Country's Measures Amid Pandemic

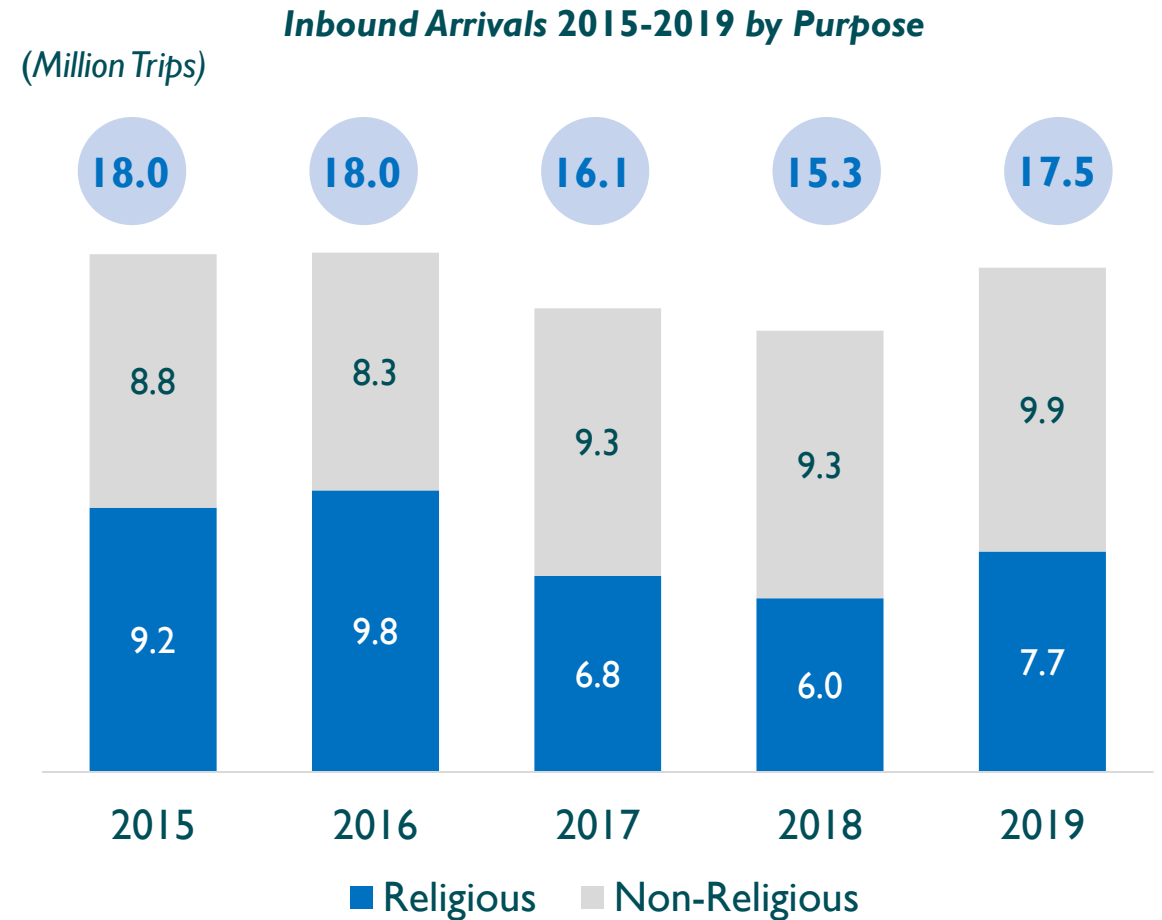
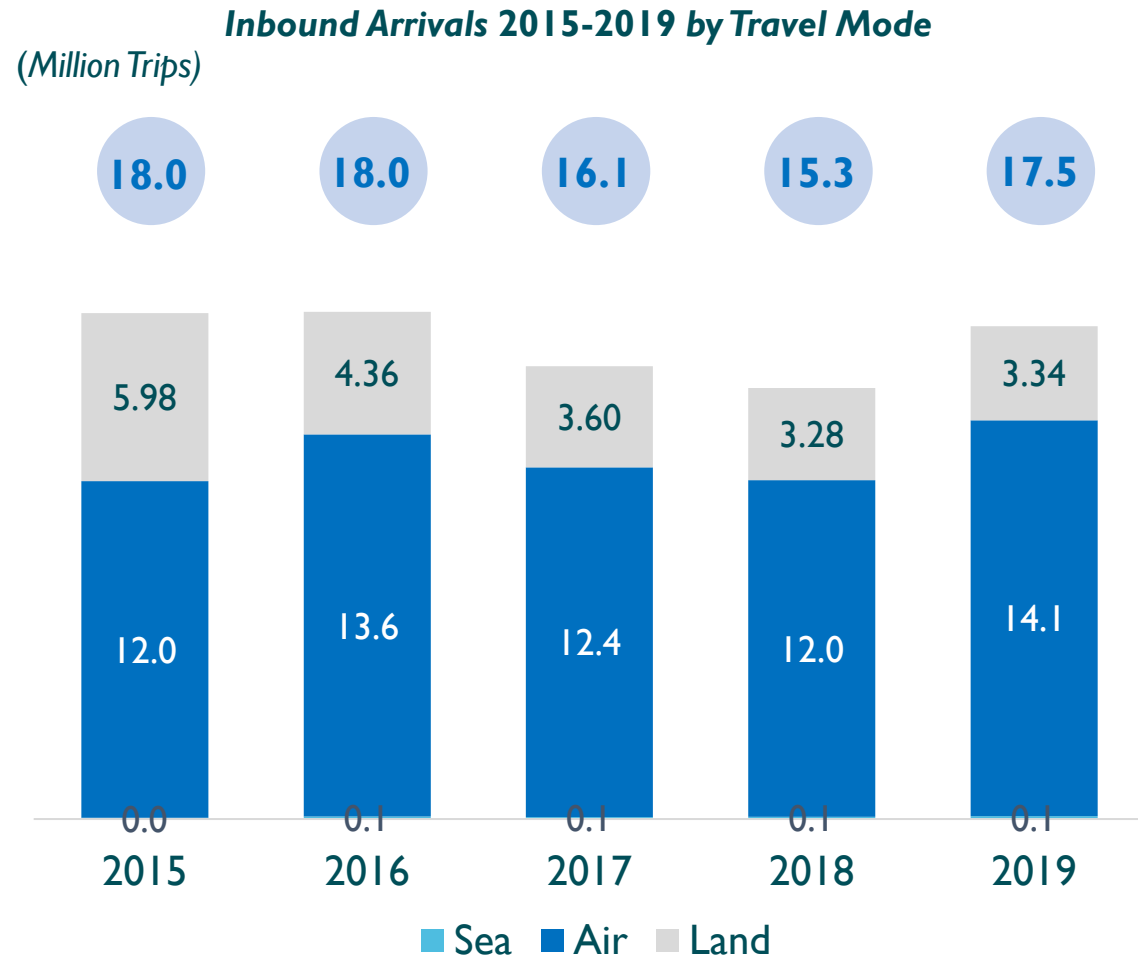
- Multiple initiatives launched to support the economy during the pandemic with a budget of 120 billion SAR (32.0 bn USD)
- One initiative designed to support the Saudis' salaries in private sectors with a budget of 9 billion SAR (2.4 bn USD) incl support targeted to tourism sector
- Ajeer program activated to exchange benefits among tourism facilities to offset losses
- Fees related to tourism and municipalities have been dropped
- Hotels welcomed over 50,000 citizens traveling back to Saudi through “the return of the citizen” initiative, being hosted in over 13,000 hotel rooms for periods extending between one to two weeks
- In order to stimulate local tourism, the Kingdom has launched the Saudi Summer Season that covers 10 tourist destinations nationwide

Content

- I Market Overview
 - I.1 Saudi Tourism Introduction
 - I.2 Key Tourism Statistics
 - I.3 Top Touristic Attractions and Events

Inbound Tourism – Key Statistics

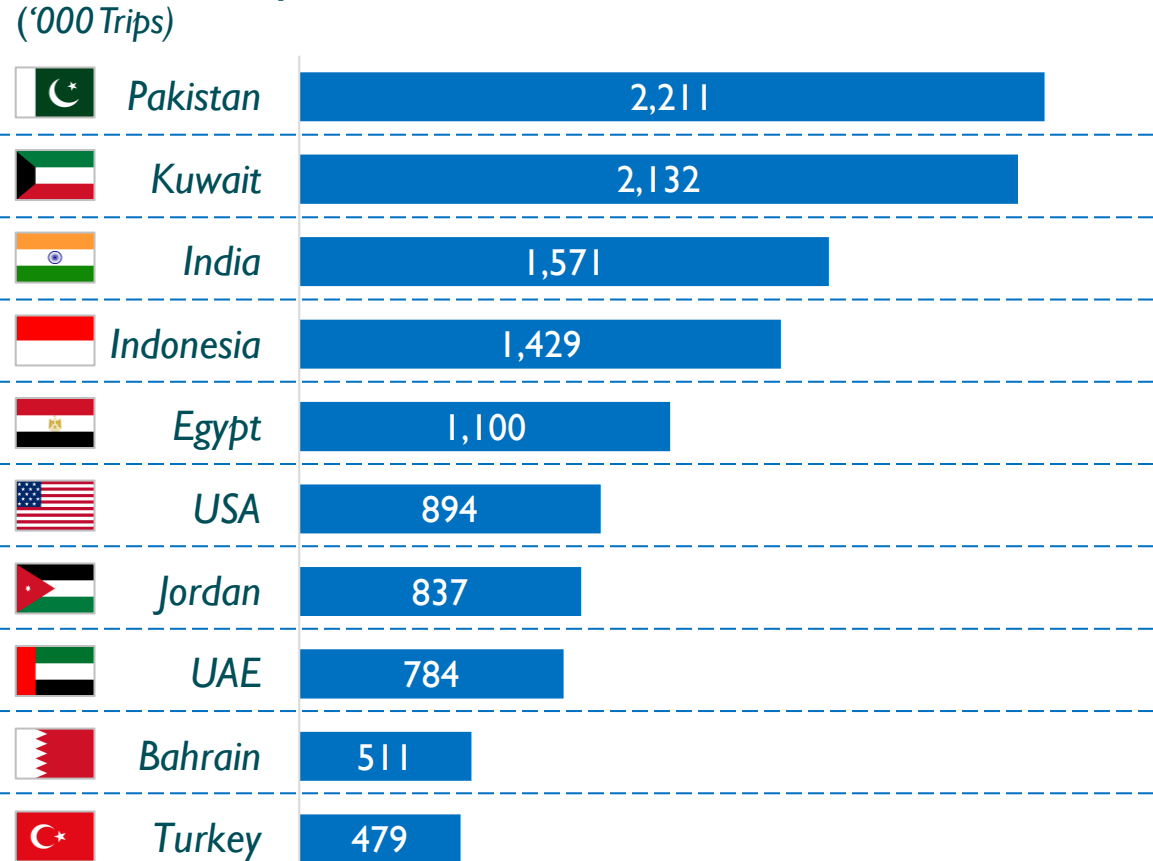
Saudi inbound tourism has achieved a 14% growth rate in 2019, with the majority of inbound tourism taking place through air (81%) for non-religious purposes (56%)



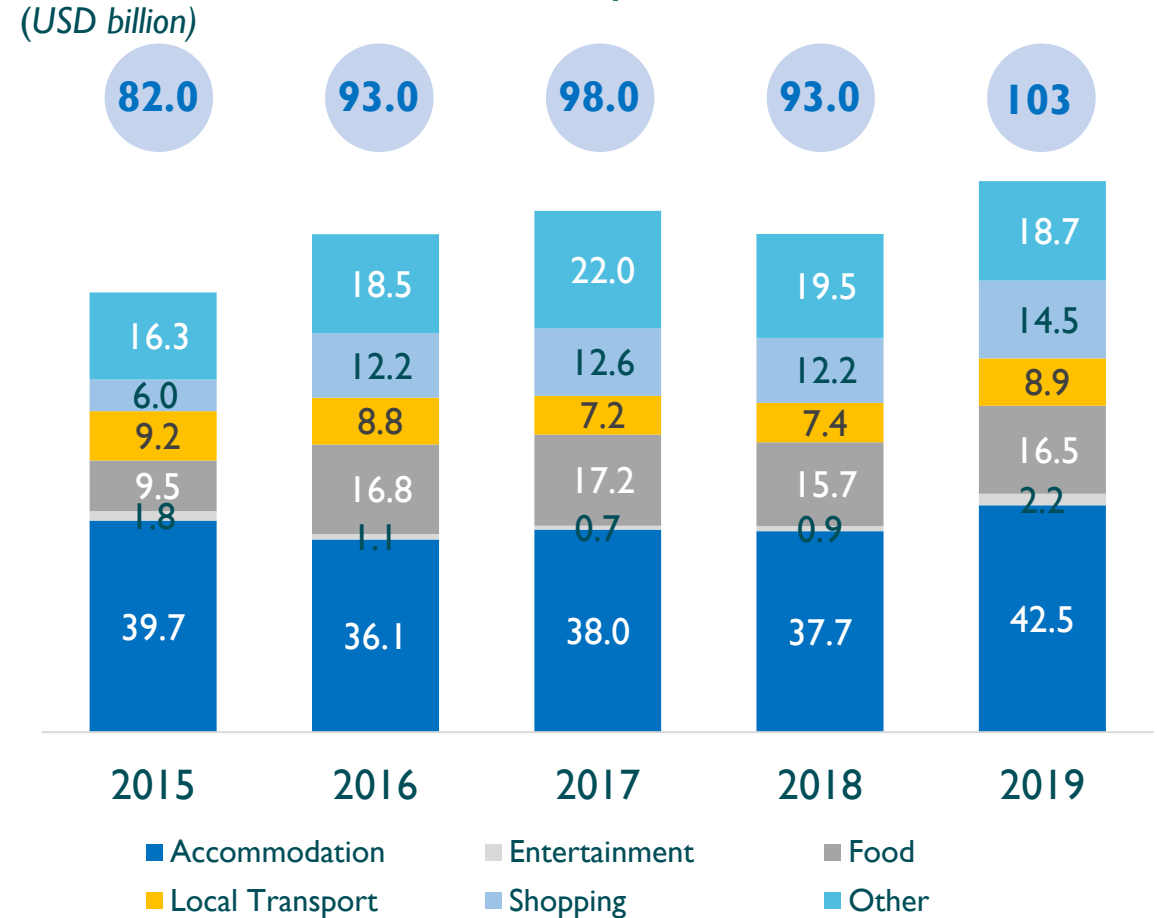
Inbound Tourism – Key Statistics

Top 10 sources countries contribute almost 90% of total inbound traffic in 2019 while top spending categories by inbound tourists are accommodation and food (~57% of total in 2019)

Top Source Countries – Inbound Arrivals 2019

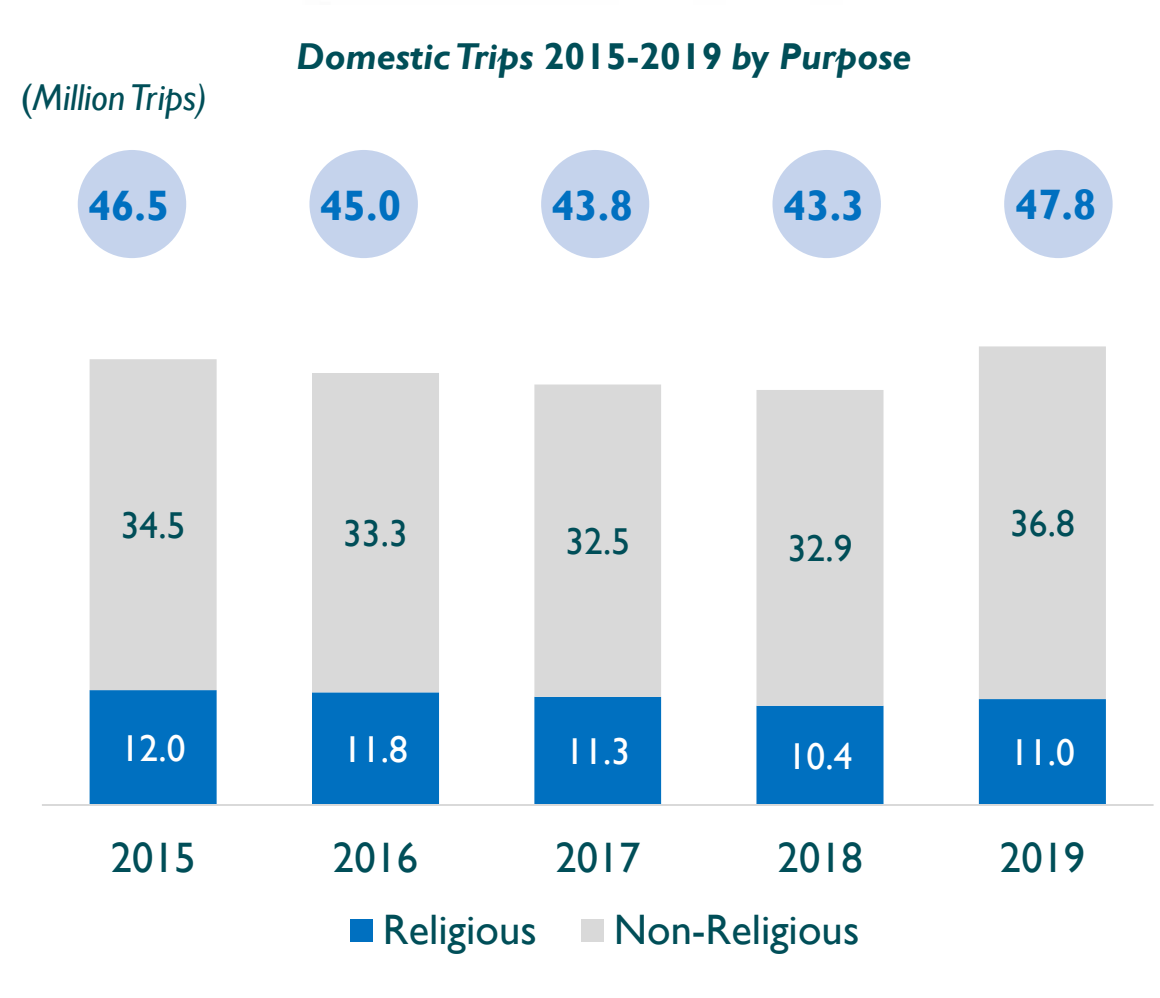
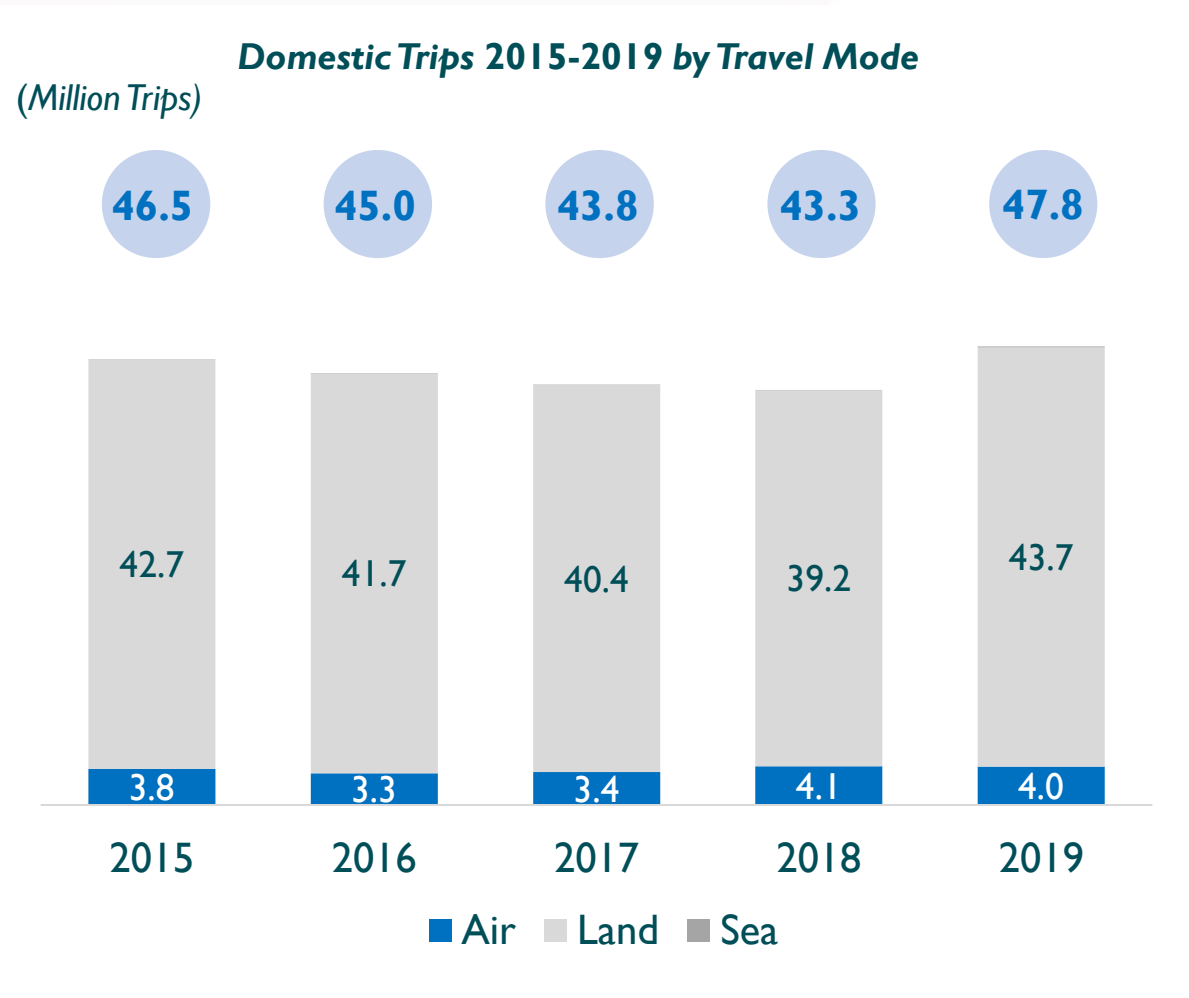


Inbound Receipts 2015-2019



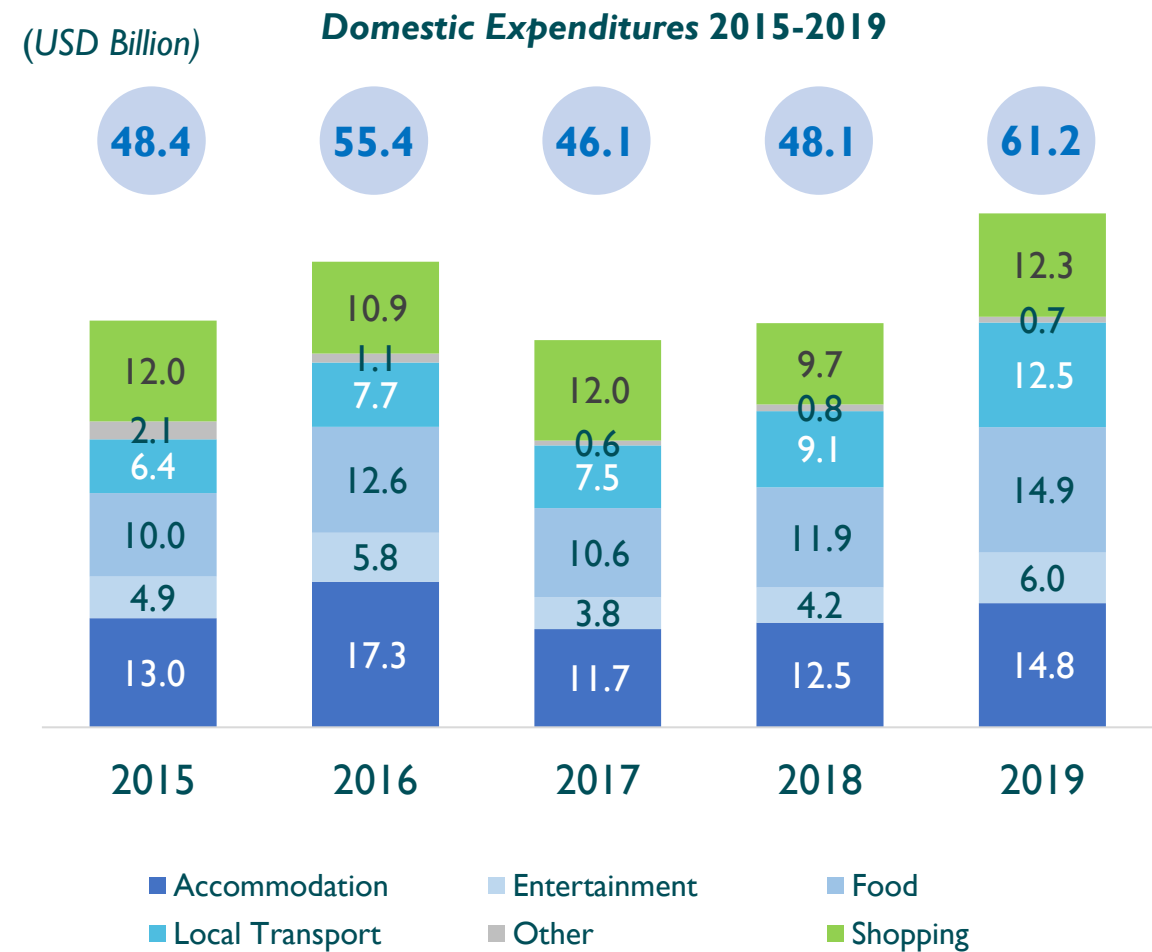
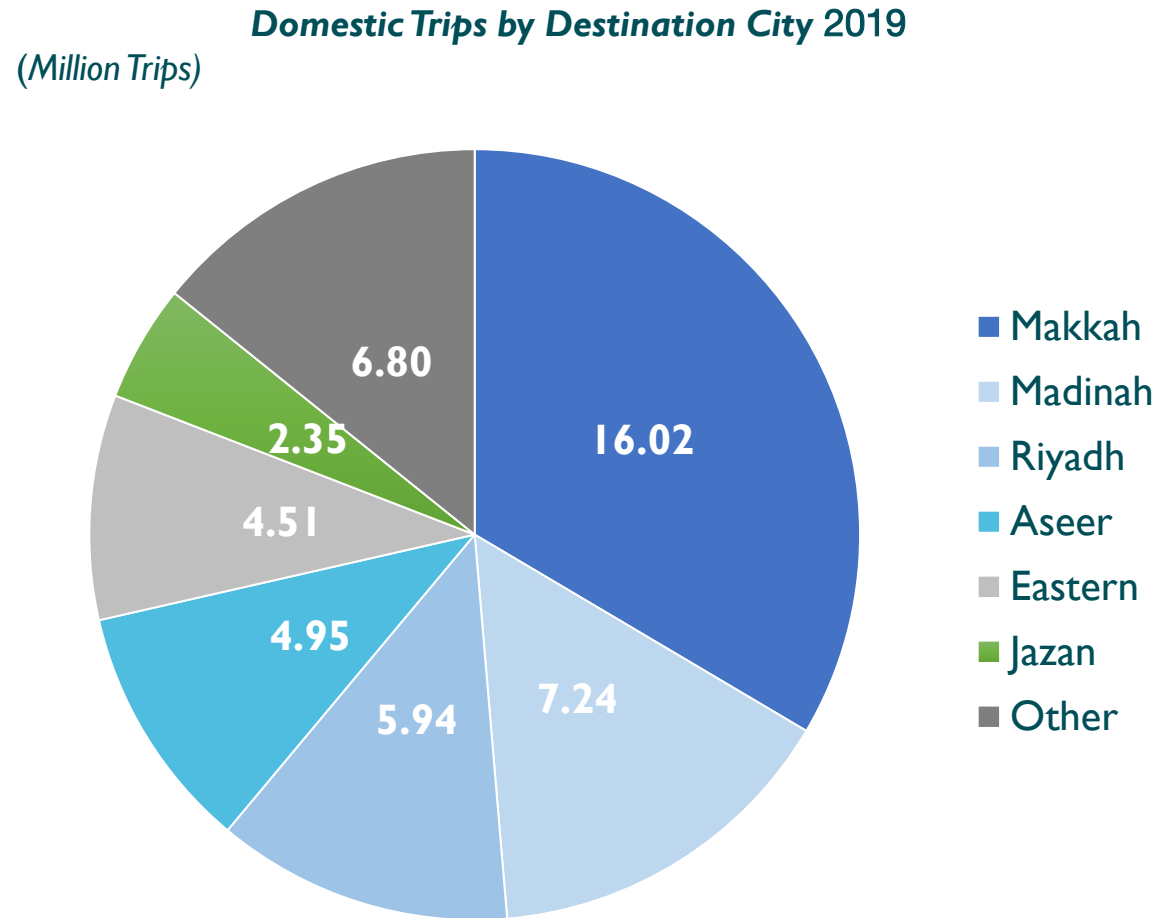
Domestic Tourism – Key Statistics

Saudi domestic tourism has achieved an 11% growth rate in 2019, with the majority of domestic tourism taking place through land (91%) for mainly non-religious purposes (77%)



Domestic Tourism – Key Statistics

Makkah city remains the most visited of entire Saudi contributing around 34% of total domestic trips – On the other hand the food category amounted to 24% of overall spend



Content

- I Market Overview
 - I.1 Saudi Tourism Introduction
 - I.2 Key Tourism Statistics
 - I.3 Top Touristic Attractions and Events

Saudi Major Touristic Attractions

Saudi is home of diverse high-potential tourism sites that would offer authentic experience to visitors (1/2)

Scenic / Natural Sites	Historical / Cultural Sites	Religious Sites	Adventure Sites
<ul style="list-style-type: none"> ● Al Ahsa Oasis ● Farsan Islands Conservation ● Uruq Bani Ma'arid Conservation ● Al Asfar Lake ● Al Feel Mountain ● Al Ghat National Park 	<ul style="list-style-type: none"> ● Hegra (Mada'en Saleh) ● Rock Art (Hail Region) ● Jeddah Old Town ● Historical Diriyah ● Zee Ain Heritage Village ● Dumatal Jandal ● Rijal Alma'a Village ● Hima Wells ● Al Faw Ancient Village ● Hijaz Railway ● Darb Zubaydah ● Egyptian Hajj Road ● Syrian Hajj Road ● Shaqra & Ushaiqer 	<ul style="list-style-type: none"> ● The Holy Mosque ● Mosque of the Prophet Muhammad ● The Museum of the Two Holy Mosques ● Jabal Al Nour ● Taneem Mosque ● Mount Arafat ● Jannat Al Mualla Cemetery 	<ul style="list-style-type: none"> ● Red Sea Coast ● Edge of the World ● Heet Cave ● Rub Al Khali Desert ● Amaala Island ● Al-Habala

Saudi Major Touristic Attractions

Saudi is home of diverse high-potential tourism sites that would offer authentic experience to visitors (2/2)



1. Holly Mosque



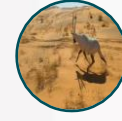
2. Al-Masjid Nabawi



3. Al-Hasa Oasis



4. Farsan Islands



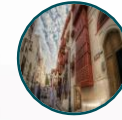
5. Uruq Bani Ma'arid



6. Madain Saleh



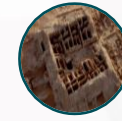
7. Jubbah Rock Art



8. Jeddah Old Town



9. Dir'iyah



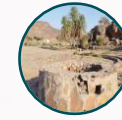
10. Ain Ancient Village



11. Dumatal Jandal



12. Zee Ain Village



13. Hima Wells



14. Rijal Alma'a Village



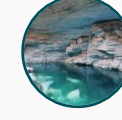
15. Hijaz Rails



16. Shaqra & Ushaiqer



17. Edge of the World



18. Heet Cave



Hegra (Mada'en Saleh)



Jeddah Old Town

Top Sites



Al Ahsa Oasis



Historical Diriyah



Rijal Alma'a Village



Hijaz Rails

Top Sites



Zee Ain Heritage Village



Rock Art (Hail Region)



Edge of the World



Heet Cave

Top Sites



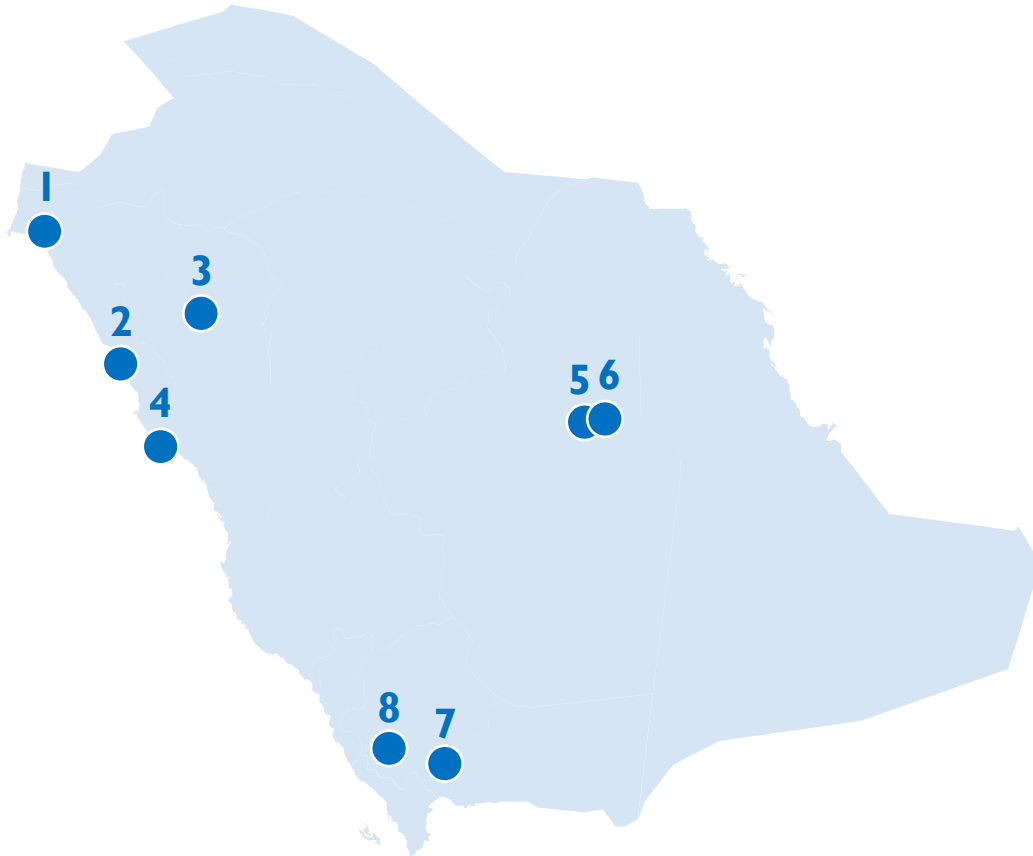
Shaqra & Ushaiqer



Red Sea

Saudi Mega Projects

Saudi is currently developing mega projects that would significantly boost local tourism infrastructure



	Project Name	Nbr of Keys ¹	Est. Capex USD ²	Est. Launch
1	Neom	35,000	22.9 bn	2021
2	Amaala	2,500	13.3 bn	2021
3	Al Ula	5,500	TBD	2021
4	Red Sea	7,900	2.9 Bn	2022
5	Qiddiya	1,400	TBD	TBD
6	Diriyah Gate	1,300	13.6 Bn	TBD
7	Salwan	11,800	TBD	2022
8	Al Soudah	2,500	TBD	2022

Saudi Major Touristic Events

To encourage and support domestic and external tourism, Saudi has sponsored and conducted various tourism events across the country

Cultural Events	Sports / Adventure Events	Seasons / Entertainment Events
<ul style="list-style-type: none"> ● Janadriyah ● Souk Okaz ● Historic Jeddah Festival ● Winter at Tantora ● Al Qassim Date Festival ● Red Sea Cinema Festival ● Taif Rose Festival 	<ul style="list-style-type: none"> ● Hail International Rally ● King Abdulaziz Falconry Festival ● Formula E ● King Abdulaziz Camel Racing Festival ● Diriyah Equestrian Festival 	<ul style="list-style-type: none"> ● Riyadh Season ● Jeddah season ● Jeddah season ● Middle Beast ● Taif season ● National Day season ● Al-Diriyah season ● Ramadan Season



Hail International Rally



Winter at Tantora

Top Events



Souk Okaz



Janadriyah



Historic Jeddah Festival



Qassim Date Festival

Top Events



Camel Racing Festival



Formula E

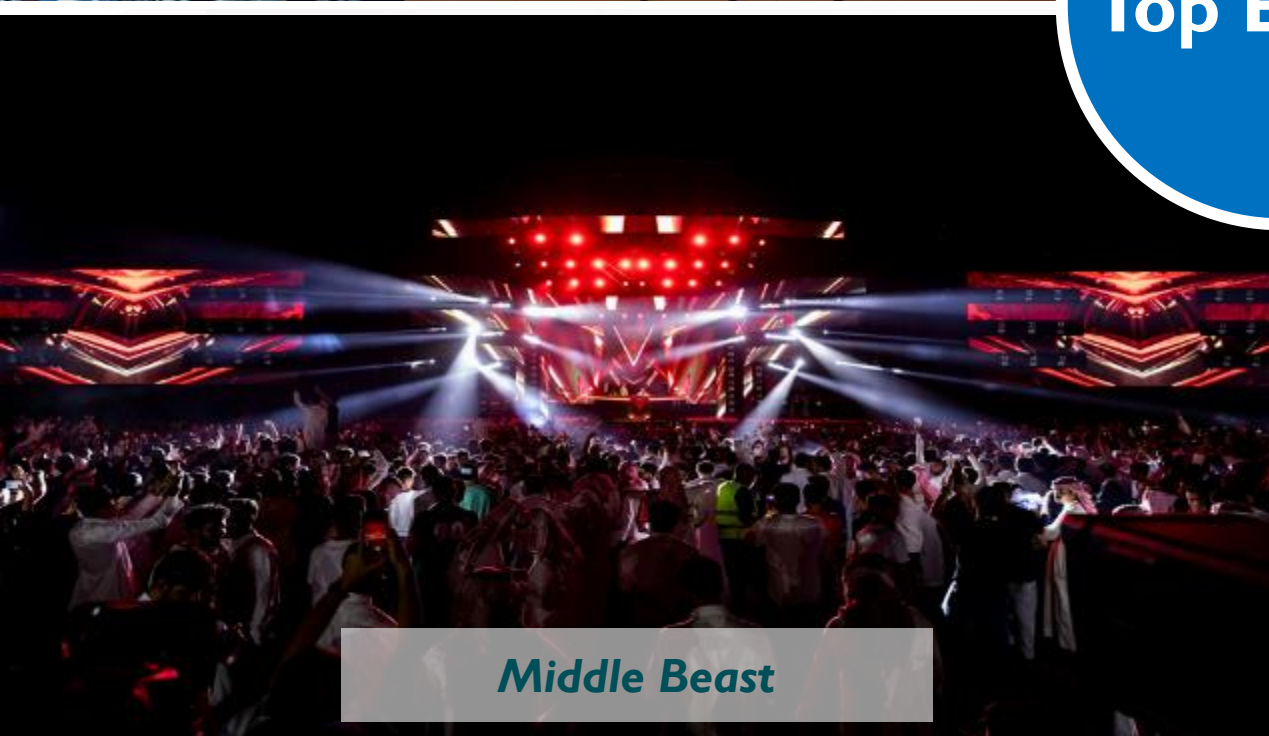


Riyadh Season



Jeddah Season

Top Events



Middle East



Diriyah Season

Content

- 2 Market Entry Information
 - 2.1 Analysis of Market Segments
 - 2.2 Market Entry Models
 - 2.3 Regulations and Incentives for Market Entry

Service Segments

An overview of the accommodation, food & beverage as well as travel agency aspects of the service segment is provided below

1.1 Accommodation Services

- **Hospitality market** estimated at 18 Bn USD 2019
- **Long-term outlook** of hospitality market remains positive - Deloitte
- Average **hotel occupancy** reached 70% in 2019
- Many well-established international brands entered **several strategic partnership programs** with leading hospitality firms
- Saudi projects to grow **the number of tourists** from baseline of 58 million in 2018 to 100 million by **2030**
- Saudi is focusing on **increasing investment opportunities** through introduction of several mega projects such as Red Sea Development and Neom

1.2 Food & Beverage

- Foodservice **market estimated** at 70 Bn USD in 2018 - predicted to grow at a rate of 6% up until 2023
- **Foodservice in tourism sector** is estimated¹ to be in the range of 5-10% thus between 3.5 Bn and 7 Bn USD
- Market is **highly fragmented** with presence of international franchises and chains as well as independent F&B providers
- First **culinary arts academies** are planned to open in Saudi cities
- **Planned investments in entertainment sector** will shape quality and diversity of F&B concepts in Saudi
- Recent **increase of import tax by 10%** expected to boost local foodservices further

1.3 Travel Agency

- Saudi **travel booking market** is worth 25 Bn USD - set to grow following KSA's recent openness and intent to promote tourism
- Rise of **online booking platforms** with online purchases making 30% of total revenues while OTAs increased their share of online to 14% in 2018
- **OTA market penetration** is expected to raise to 39% by end of 2021
- According to research, over **40% travelers in Saudi organize their trips online**, while 45% prefer online to travel agents
- Market **fairly concentrated** with online dominated by Almosafer and Booking.com, while offline led by Attar and Seera groups
- **Highly endorsed by government** as part of overall tourism strategy

Service Segments

An overview of the cultural, entertainment as well as transportation aspects of the service segment is provided below

1.4

Cultural

- Global cultural tourism spend estimated at **330 Bn USD in 2018** – 2nd highest spend tourism category after “Sun and Sea”
- Saudi cultural tourism in 2019 expected to contribute **10%¹ of total tourism receipts** valued at 150 bn SAR (40 bn USD)
- **High growth prospects** considering KSA’s recent country openness and government emphasis on cultural tourism
- Global survey indicated **25-30% of cultural explorers willing to visit Saudi**
- **High endorsement from MT** which issued several programs to invest in cultural tourism – programs include developing heritage sites, museums, cultural centers, cultural events...

1.5

Entertainment

- Saudis spend¹ on leisure trips was **~5.6 Bn USD in 2018**, of which 80% being domestic
- Estimated **~5K international tourists in 2019 for entertainment** (Still very niche)
- **High growth segment** expected to grow 6% annually in the period 2018-2030
- Most entertainment geared towards **themed attractions and live events**
- Saudi government remains strongly committed to **unlock entertainment sector** within Vision 2030 – introduction of GEA², GSA³ and Entertainment Company
- **Planned annual investments** of 18 Bn SAR (4.8 bn USD) in the period 2018-2030 including launch of Qiddiya over an area of 334 Km² – set to become an iconic entertainment destination

1.6

Transportation

- Overall transportation sector valued at **18.5 Bn USD** by 2020
- Planned annual **growth of 12%** up to 2030
- Market for tourism transportation is **highly fragmented** while public transportation is operated by government company SAPTCO
- High **commitment from government** to develop transportation sector – budget allocation in 2018 increased 86% on infrastructure and transportation, reaching 14 Bn USD
- **5 new airports** in the pipeline, as well as key extensions to Jeddah and Riyadh and 17 other airports that are already underway
- Haramain **High Speed Rail Project** linking Makkah and Madinah is also underway – investment value 15 Bn USD

Service Segments Attractiveness

Summary attractiveness assessment per each service segment for potential Japanese investors

Service Segment	Market Size	Market Growth	Competition	Government Endorsement	Overall Attractiveness
1.1 Accommodation Services	Highly Favorable	Highly Favorable	Barely Favorable	Highly Favorable	Highly Favorable
1.2 Food / Beverage / Souvenir Services	Highly Favorable	Barely Favorable	Barely Favorable	Barely Favorable	Barely Favorable
1.3 Travel Agency Services	Highly Favorable	Highly Favorable	Barely Favorable	Highly Favorable	Highly Favorable
1.4 Cultural Services	Highly Favorable	Highly Favorable	Barely Favorable	Highly Favorable	Highly Favorable
1.5 Entertainment Services	Highly Favorable	Highly Favorable	Highly Favorable	Highly Favorable	Highly Favorable
1.6 Transport Services	Highly Favorable	Highly Favorable	Barely Favorable	Highly Favorable	Barely Favorable

Technology Segments

An overview of the AR/VR, smart tourism apps as well as web design aspects of the technology segment is provided below

2.1

AR/VR

- Global AR/VR market forecasted at 19 Bn USD by 2020 and **CAGR expected to reach 77%** between 2019 and 2023
- AR/VR **Saudi market**¹ **estimated at 350 mil USD** in 2020 and expected to contribute ~7 Bn USD by 2030
- **31% would book a holiday in-store** after experiencing virtual reality
- Further, 40% of overall users **expected to deploy VR** in travel and tourism while 33% in museum or virtual tours
- Market hardware segment **dominated by international players** while software segment still being niche and embryonic
- **New generation of VR apps** have been launched recently in Saudi (e.g. virtual pilgrim experiences, Saudia virtual lounge)

2.2

Smart Tourism App

- Overall **mobile apps market in Saudi valued at 5.6 Bn SAR** (1.5 bn USD) in 2018 with a 12% CAGR
- Tourism smart app segment is **estimated¹ at 210 mil USD by 2020**
- Tourism app space is **dominated by large international players** such as Booking.com, TripAdvisor, Airbnb and Expedia
- **Mobile broadband penetration** in Saudi attained 90% while smartphone and internet penetration reached 97% and 93% respect. in 2018
- Half of **smartphone users** are < 34 years old
- **High endorsement of digitalization** from Saudi government with launch of Yesser to support every government agency in digitizing services

2.3

Web Design

- Global web design services market is estimated at 153 billion USD in 2018 at **CAGR of 12%** since 2014
- Saudi **overall market estimated¹ at 1.7 billion USD** of which estimated share² of tourism sector is evaluated at 66 mil USD
- **Key market drivers** in Saudi include increasing technology adoption and high internet and broadband penetration
- Local **market is highly fragmented** with existing competition from abroad especially from Jordan and India
- As cited previously, there is **high endorsement of digitalization** from Saudi government propelling web design and development

Technology Segments

An overview of the digital ticketing, digital payments as well as AI/IoT translation devices aspects of the technology segment is provided below

2.4

Digital Ticketing

- Global market exceeded 755 billion USD in 2019 **growing at rate of 7% annually** – while global users reached 1.6 billion
- Mobile share of global market is **projected at 24%** while highest share is attributed to DCB³
- In terms of applications, **transport sector is dominating digital ticketing** industry
- Saudi overall **market estimated¹ at 6.8 billion USD**, of which estimated share² of tourism and entertainment is 640 mil USD
- Trends suggest **increasing use of wearables** such as smartwatch in digital ticketing
- In terms of Saudi tourism, **new local start-ups** are emerging in digital ticketing for events, attractions and cinemas (e.g. Hala Yalla)

2.5

Digital Payment

- Global digital payment¹ is projected to reach 4.9 trillion USD by 2020 end and is **growing at 24% CAGR**
- **Global number of users** to reach 3.4 billion by end of 2020
- **Saudi market is estimated at 17.1 billion USD** with 21 million users of which 45% are mobile payers
- In Saudi tourism, **airline tickets purchases** have the highest share of digital payments
- **Fintech Saudi** was launched in 2018, and number of fintech players currently operating reached 14
- Under Vision 2030, Saudi aims for **70% of all payments to be electronic in 2030**, up from 18% in 2016

2.6

AI/IoT Translation Devices

- Global translation device market estimated at 104 mil USD in 2018 and forecasted to **grow at 13% CAGR** till 2023, fueled mostly by travel sector
- In Saudi, the market is embryonic and **expected to grow** with the advent of more tourists foreseen in the future
- Online remains **main sales channel** for AI/IoT translation devices
- Key trends suggest pairing translation with AI (80% of key players investing in AI) to offer **real-time language translation** devices
- **High endorsement of Saudi government** for emerging technologies with set-up of 1 billion USD fund to support AI sector and launch of SADIA (Saudi AI Authority)

Technology Segments

Finally, an overview of the digital signage aspect of the technology segment is provided below

2.7

Digital Signage

- Global digital signage market is estimated at 19 Bn USD in 2019 and is **expected to reach 8% CAGR** in the period 2019-2025
- **Saudi digital signage market** is predicted¹ to be within the range of **100-250 mil USD**
- Estimated **hospitality segment of digital signage** market is less than 10%² thus not exceeding 25 mil USD
- **Largest sub-market** is hardware and displays, then software and services
- **Available hospitality applications** within Saudi include virtual concierge, dining display, in-room entertainment and event guide
- **Mega projects and smart cities** in Saudi will trigger high demand for high-end digital signage

Technology Segments Attractiveness

Summary attractiveness assessment per each technology segment for potential Japanese investors

Service Segment	Market Size	Market Growth	Competition	Government Endorsement	Overall Attractiveness
2.1 AR/VR Technology	Highly Favorable	Highly Favorable	Highly Favorable	Highly Favorable	Highly Favorable
2.2 Smart Tourism App	Highly Favorable	Highly Favorable	Unfavorable	Highly Favorable	Highly Favorable
2.3 Web Design	Unfavorable	Highly Favorable	Unfavorable	Highly Favorable	Unfavorable
2.4 Digital Ticketing	Highly Favorable	Highly Favorable	Highly Favorable	Highly Favorable	Highly Favorable
2.5 Digital Payment	Highly Favorable	Highly Favorable	Highly Favorable	Highly Favorable	Highly Favorable
2.6 AI/IoT Translation Devices	Unfavorable	Highly Favorable	Highly Favorable	Highly Favorable	Highly Favorable
2.7 Digital Signage	Unfavorable	Highly Favorable	Highly Favorable	Highly Favorable	Highly Favorable

Content

- 2** Market Entry Information
 - 2.1** Analysis of Market Segments
 - 2.2** Market Entry Models
 - 2.3** Regulations and Incentives for Market Entry




Market Entry – Options Description

Non-GCC foreign investors wishing to promote business within Saudi have multiple entry options¹ and are permitted to pursue any commercial activity except those restricted by Ministry of Investment

 Market Entry Mode	 Description
1 Limited Liability Company	<ul style="list-style-type: none"> Most common business entities and form of investment for foreign businesses in Saudi. Typically, LLC is used to establish joint ventures. There is no limitation on the percentage of foreign ownership for this type of entity. Registering an LLC is complicated and time-consuming as foreign capital investment license needs to be obtained from Ministry of Investment
2 Branch Office	<ul style="list-style-type: none"> Foreign companies can register a wholly foreign-owned Saudi branch office after acquiring the necessary license. The business can promote and solicit business throughout Saudi and do work in the public and private sector. However, Saudi law requires an existing GCC company (which should assume full liability) to be able to incorporate a branch office in the country
3 Joint-Stock Company	<ul style="list-style-type: none"> In general, the provisions applicable to the administration of joint-stock companies are more detailed than those applicable to LLCs. These structures require authorization from both Ministry of Investment and the Ministry of Commerce. Generally, Minimum capital required is SAR 500,000 (USD 133,334), except for certain categories stipulated by Ministry of Investment
4 Representative Office	<ul style="list-style-type: none"> Saudi law permits the establishment of representative offices in the form of technical and scientific offices and temporary company registrations. These types of structures are often established to provide technical support to manufacturers through a distributor. However, they cannot complete commercial activities or earn revenue
5 Commercial Agency	<ul style="list-style-type: none"> This option does not require creating a legal entity and is usually the most affordable and fastest way to enter the Saudi market. Commercial agency agreements let foreign investors conduct business in Saudi through a local agent without the need to obtain a foreign investment license

Market Entry – Options Analysis

Entering Saudi market requires extensive understanding of the benefits and detriments of different entry options before deciding on the most suitable one

 Market Entry Mode	 Pros	 Cons
1 Limited Liability Company	<ul style="list-style-type: none"> • Possibility to engage in wide range of activities and undertake projects in both public and private sectors • LLC can sponsor its employees for residency purposes 	<ul style="list-style-type: none"> • Activities are limited to the objects approved by MI¹ • Foreign partner lacks complete control over management • Dissolution process can be fairly involved and costly
2 Branch Office	<ul style="list-style-type: none"> • Formation process is generally simpler than for a company • Possibility to engage in wide range of activities and undertake projects in both public and private sectors 	<ul style="list-style-type: none"> • Branch's activities limited to licensed objects approved by MI • Capital level set by MI • Foreign investor subject to suit in its home country
3 Joint-Stock Company	<ul style="list-style-type: none"> • More flexibility in transfer shares following the two-year lock-up period as compared to LLC • Easier access to capital through issuance of shares and bonds 	<ul style="list-style-type: none"> • Same disadvantages of LLC • Initial capitalization is required and may be quite large • More regulatory oversight on JSCs than on LLCs
4 Representative Office	<ul style="list-style-type: none"> • Formation process is simpler than for a company • No capital requirements • Possibility to bring employees into Saudi on visas obtained 	<ul style="list-style-type: none"> • No possibility to perform services or fee earning work outside of local promotion and support for its agent • Foreign investor subject to suit in its home country
5 Commercial Agency	<ul style="list-style-type: none"> • No formation process is required • No capital requirements • Fastest and easiest way to enter the market 	<ul style="list-style-type: none"> • Lack of control over business, service quality or brand image • Risk of violating anti-fronting laws

Market Entry – Options Assessment

Although LLCs and JSCs are the most common vehicles used by foreign investors in Saudi, local branches or commercial agencies are the easiest and fastest forms to enter the market

 Market Entry Mode	Capital Constraints	Ease of Set-up Process	Business Activity Scope	Other Legal Conditions ¹	Overall Attractiveness
1 Limited Liability Company					
2 Branch Office					
3 Joint-Stock Company					
4 Representative Office					
5 Commercial Agency					

Content

- 2 Market Entry Information
 - 2.1 Analysis of Market Segments
 - 2.2 Market Entry Models
 - 2.3 Regulations and Incentives for Market Entry

Market Entry – Overall Registration Process

Foreign investors willing to establish a business in Saudi need to secure all required legal certificates and statutory documents before they can operate in the country

Phase	Step	Comments
● Pre-incorporation	Prepare pre-requisite documents	Required documents including business licenses, investment plans, Saudization plan, financial statements, power of attorney...
● Incorporation	Issue foreign investment license	Application through Ministry of Investment service portal and takes approx. one to few months to receive an approval
● Incorporation	Document memorandum of association	Process nuances depending on legal structure – e.g. branch parent firms require to submit decisions to establish a branch in Saudi
● Incorporation	Issue commercial registration	The process takes approx. 6 weeks upon which the Ministry of Commerce will issue a CR and tax number
● Post-incorporation	Secure statutory pre-requisites / licenses incl tax, municipality, and other	This step includes securing business premises and opening capital bank account as well as obtaining relevant statutory documents
● Post-incorporation	Obtain iqama visa for business owner / general director	Foreign nationals require a Saudi employment visa first before they are appointed as the signatory of the local bank account

Market Entry – Tax and Fiscal Considerations

Saudi has a distinct tax system overseen by GAZT (General Authority of Zakat and Tax) which requires a clear understanding of different fiscal implications on foreign investors

Corporate Income Tax	Withholding Tax	Value Added Tax	Other Taxes
<ul style="list-style-type: none"> • Corporate income tax rate is 20% of net income and is applied to: <ol style="list-style-type: none"> 1. non-Saudi/GCC shares of the tax base (gross income – tax deductible expenses) in a resident capital company (LLC or Joint stock company) 2. Non-resident (conducts business in Saudi through a Permanent Establishment) • Taxable income is determined by adding back disallowable expenses to net income and deducting allowable expenses 	<ul style="list-style-type: none"> • Non-resident shareholder selling shares in a private Saudi resident company is subject to 20% tax rate on capital gains • Domestic rates for Withholding tax (payments made from a resident party to a non-resident party for services) with Japan ranges from 5%-10% of gross amount of dividends, 10% on interest and 5-10% on royalties • Capital gains from the sale of securities listed on the Saudi Stock Exchange are exempt 	<ul style="list-style-type: none"> • VAT was introduced in the Kingdom in 2018 and recently (July 2020) increased to 15% • VAT is applicable to importation and supply of goods and services with certain exceptions 	<ul style="list-style-type: none"> • Taxable income from a branch of a non-Saudi based corporation is 20% • Income derived by a resident of a contracting state from immovable property may be taxed in that other contracting state
		Custom Duties	Double Tax Treaties
		<ul style="list-style-type: none"> • As of June 2020, the customs duties rate ranges at 0.5%-15% • Certain locally produced commodities are subject to 20% customs duties to protect local production 	<ul style="list-style-type: none"> • Tax treaties exist with more than 50 countries, & usually follow the Organization for Economic Co-Operation and Development (OECD) model • Included in Japan-Saudi convention

Market Entry – Incentives for Foreign Investors

Saudi Vision 2030's new investment policy and economic reform programs have instituted many incentives to improve the investment environment and attract foreign investors



Incentives

- Removal of ownership limits for foreign investors – possibility to own 100%
- No restrictions on transfer of capital or profits out of Saudi including repatriation of the foreign investor's shares of profits, sale of equity shares or liquidation surplus
- Absence of personal income tax and relatively low company income tax (~20%) in addition to avoidance of double taxation
- Tax concessions in several regions and economic cities across Saudi for foreign capital
- Revamped regulatory framework including non-discrimination, investment protection, investment sustainability, enhanced transparency, protection of public policy concerns, ease of entry for employees, and the transfer of knowledge and technology
- Possibility to access funding from local finance institutions
- Strong local currency riyal stably pegged to the dollar (1 USD = 0.27 SAR)
- Massive upgrade of infrastructure currently underway with mega projects and other initiatives promising positive outlook
- Export schemes for products locally manufactured for instance export credit, guarantees and insurance from SEP¹
- Extensive privatization programs currently taking place
- HR programs and incentives for rehabilitation, training and employment of Saudi workforce

Market Entry – Risks and Points of Caution

Foreign investors need to be cautious and conduct thorough investigation to familiarize with local regulatory framework, market conditions and cultural attributes before entering













Risks and Points of Caution

- Need for thorough market research and professional advice on specific targeted segment before entering the market
- Still existing concerns on investment legal framework including in resolving commercial disputes as well as bankruptcy laws and enforcement of the judgments of foreign courts and arbitration centers against Saudi companies
- Imposed quotas on Saudi employees “Saudization” by the government
- Traditionally conservative culture including total ban of alcohol and gambling
- Need to acquire highest level of corporate behavior and familiarize with local regulations and penalties pertaining to infringements or violations of laws
- Still high dependency of Saudi economy on oil price and government spending
- Political risks with regards to the war in Yemen and instability in the region

Summary

Driven by its rich cultural heritage, iconic sites and continuous Government support, Saudi is striving towards unlocking tourism sector's potential, offering tremendous opportunities for foreign investors

	Foreign investment opportunities supported by Vision 2030	Growing number of tourists pre-pandemic (2019) indicates tourism sector growth will continue with resolution of pandemic	
	Mega projects set to promote tourism sector (3 of which are estimated to be launched in 2021)	High government endorsement of several aspects of services and technological segments set to promote growth of sector	
	Ahelha program to provide talented and trained local resources for the sector	Openness of entertainment sector / services to be followed by boost in demand of events	
	Measures to revitalize domestic tourism during times of pandemic indicates seriousness in promoting and boosting tourism sector	Several methods of entering the market (LLC, branch office, joint stock...etc.) with	
	Relatively easy business set-up process - average time of 18 days to set-up	Wide variety of scenery and touristic attractions are appealing touristic products to a large segment of tourists	

Thank You