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The Kingdom of Saudi Arabia considers attracting increased levels of foreign direct investment one of its major economic goals for the near future. Acknowledging that the competition for FDI is as intense as the country's need for it, Saudi Arabia has undertaken an ambitious reform program affecting all aspects of its investment environment – policy, economic, and legal.

In the past, Saudi Arabia's abundant natural resources, strategic location, modern infrastructure, political and economic stability have made it a principal destination for FDI – most obviously in the petrochemical industry. To date, the country has attracted over 60 BB USD since its inception. While we lead our region in inward FDI flows, we will not be complacent.

We will make every effort to attract even greater and varied FDI flows to strengthen our economy because the heavy reliance on a single export – oil – has made it vulnerable to international market conditions. Consequently, its rate has been sluggish at best at a modest GDP growth rate of less than 1% for the last couple of years. Compounding the situation, 2003's terrorist attacks have shaken our peaceful society. We recognize that that these factors will make achieving our goal of drawing greater FDI to our country even more difficult.

Despite these issues, however, the country's economy appears strong. Saudi Arabia's GDP is the largest economy in the Gulf at 210 BB USD and the second largest in the Middle East (after Turkey). The country's per capita income has remained consistently high for the last 7 years between 8 – 9K USD, with a 2004 forecast of 8,400 USD. The central bank exercises a strict currency control policy keeping inflation checked at 1 – 5 % over the last ten years – one of the lowest rates in the world. The government has instituted strict financial controls to address budget deficits, which as a percent of GDP decreased from 25.3% in 1987 to 3% in 2002. Private banking forecasts for 2004 indicate a 1% deficit to potential surplus depending on oil price fluctuation. The country's trade balance is currently positive and expected to remain so. The current account surplus expected for 2004, projected at 7.5BB USD, or 3% of GDP, will make it the 6th year in a row.

To meet the challenges that do exist, Saudi Arabia created the Saudi Arabian General Investment Authority or SAGIA for short. While SAGIA's main mission is to attract FDI, its mandate is even more important. The government entrusted SAGIA to review the country's investment climate and to suggest changes for more investor-friendly laws and policies. SAGIA is determined to fulfill its mandate through its policy and legal analysis, its promotional efforts, and marketing campaigns.

SAGIA's general philosophy regarding FDI is as follows. We treat it as a major tool for our country to use in spurring comprehensive economic growth that yields social benefits in addition to the economic ones. Most importantly, the resulting economic diversity will counteract the adverse effects of fluctuating oil prices on the country's income stream. Economic diversification has already had some effect on the country's economy as the non-oil sector growth has occurred steadily in the past 5 years with private banking 2004 forecasts predicting a 4% growth rate even as the oil sectors growth rate is expected to decline. On a historical basis, the non-oil sector's contribution to GDP has jumped from 21% in 1974 to 49% in 2002.

SAGIA expects that Saudi Arabia's imminent accession to the WTO will open also more prospects for larger FDI flows as our country further liberalizes trade and investment regimes. The Kingdom has concluded accession agreements with all of its major trading partners, including the European Union, with only the United States agreement currently outstanding. While we welcome every type of investment in all economic sectors, SAGIA is committed to encouraging investment into areas that have the greatest linkages with the global economy. We currently consider Information Technology, Infrastructure and Utilities to be investment areas of prime importance. SAGIA wishes to tailor Saudi Arabia's Investment policies to promote export-producing activities that will expedite the diversification of the country's income stream. At the same time, SAGIA seeks to direct FDI to areas that will develop our population's skills growth, result in a transfer of knowledge, and meet its future development needs. SAGIA aspires to achieve a balanced strategy that ensures complementing roles between economic and social objectives and maximizes the return from the "total" investment.

Aware of the rapid developments taking place in the international investment arena, SAGIA appreciates that the FDI landscape has changed to include new realities. Traditional factors such as large markets and geographical locations, although still relevant, are not enough anymore to attract foreign investment. Potential host countries must now have policy liberalization and technical progress already in place to woo potential investors. Saudi Arabia has the traditional and new factors in play.

On the policy liberalization front, Saudi Arabia is making important advances. The country has launched an ambitious economic and legal reform program. It has embraced institutional as well as legislative changes. If the reform program is adequately and expeditiously implemented, Saudi Arabia

believes it will pave the way for increased FDI flows and help accomplish the country's other economic objectives.

Saudi Arabia is pursuing economic reform on an institutional level. The keystone project is the privatization strategy. SAGIA expects it will lead to opening new opportunities for FDI in the private sector and increase local investor participation. The privatization strategy is Saudi Arabia's latest step in increasing the private sector's share in economic activity and ultimately creating a true free market economy.

In November 2002, the government added momentum by approving approximately 20 areas of commercial activity currently conducted by the state for privatization in various stages. The privatization process in every case will take place with portions of the state-owned enterprises slowly released into the private sector's control, eventually resulting in 100% ownership.

A flourishing example of the strategy is in the telecommunications sector. The government restructured its state run telephone services, and then converted it into the "*Saudi Telecommunications Company*". Listing the STC on the stock market in January 2003, the government sold 30% of its stake, which initially generated over SR 15 Billion for the company. STC is now the largest publicly traded business in Saudi Arabia with a market capitalization that exceeds SR100 Billion.

With the successful launch of the STC, the government opened the country's vast domestic aviation sector in June 2003. Competition will now exist among national companies, ending decades of monopoly by the national carrier, Saudi Arabian Airlines. The government expects sizable investments to flow into this sector. SAGIA believes more bold steps such as the foregoing need to occur to signal to the international investment community that the country is serious about attracting FDI. SAGIA intends to lobby vigorously to make such moves happen.

On the legislative reform front, Saudi Arabia is proving its commitment to policy liberalization. The government has endorsed a new capital market law, which facilitates the licensing of non-bank financial intermediaries and the issuance of an increased number and variety of securities. Based on international best practices, the law restructures the country's capital markets, promoting increased efficiency and more transparency. Currently the market capitalization is over 170BB USD, with only a limited number of companies listed. Once the capital market is fully regulated and open to increased listing and foreign participation, SAGIA expects phenomenal growth to take place. The Saudi stock market will cement its current position as the largest capital market in the region, potentially becoming one of the largest internationally. The government also recently passed a new insurance law, opening the sector to FDI. The insurance sector is projected to be one of the largest in the region as well, once its regulatory structure is operational.

Saudi Arabia is also contemplating how to strengthen its intellectual property regime. The government would like to align the country with international best practices. By doing so, we hope to draw technology related investments. Such investments will enhance overall productivity and efficiency in the economy as well as transfer critical knowledge to our work force.

SAGIA is complementing the reform program through its commitment to a shorter list of activities excluded from foreign investment – the so-called “negative list”. By removing or minimizing restrictions on foreigners’ access to different sectors and activities, FDI will increase because more investment opportunities will be open to foreign investors. In the last two years alone, the government has reduced the list by approximately 30%.

Along with improvements in the investment environment, the government considers the population’s development to be of utmost importance. Because skilled labor lures foreign investments, it is imperative for Saudi Arabia to pay special attention to the education and training sectors. The government is exploring educational reform through a national education committee. The committee is focusing on a new curriculum that will center on dialogue, flexibility of teaching, and emphasis of science and technology. SAGIA is promoting investment opportunities as well in education and in labor training with the hopes of designing an appropriate set of investment policies and incentives to attract potential investors. As a result, the government has opened education to FDI.

Certain government actions have placed dialogue on public policy issues – and public participation - at the forefront of the national conscience. In August 2003, the government opened the King Abdul Aziz Center for National Dialogue, which created a forum for self-reform efforts of the country’s problems through consensus of all major groups of society, including religious minorities. In addition to the regular meetings, two national meetings have already occurred – one to set agenda, and the other to address religious extremism. A third national meeting is to take place on women’s education.

Transparency is a desired result from the legislative and economic reform underway. A recent change facilitating transparency concerns the requirement to make public the government’s procurement process and contract awards. The public minutes of the weekly Council of Minister’s Meetings are available one week after occurring on the Ministry of Information’s website, as well as most ministries listing their constituent laws on their websites. Another effort to increase transparency is the government soliciting opinions of concerned parties and public comment to any legislation under consideration. Furthermore, the Shura Council, Saudi Arabia’s consultative body, can now review the need for new laws or amendments to existing ones on its own initiative, for recommendation to the King on potential courses of action. In the ultimate bid for transparency – direct public participation in government - the government has scheduled elections at the municipal level for late 2004.

The Kingdom's gradual pace of reform aims at being internally driven so that it will strengthen the society instead of weakening it. The government is carefully choosing an institutional framework, which reflects the traditional form of Saudi government - consultation – that will most effectively express the country's will in today's increasingly complex and interdependent world.

Many more examples exist of how Saudi Arabia is reforming its policies and laws to attract greater FDI. The country views FDI as one of the most effective vehicles for economic diversification. We firmly believe that such diversification will strengthen our economy, hone our population's skills, make our industries internationally competitive, and fully integrate us with the global economy. Most importantly, we know that our reform program will be in a constant state of evolution as we move to the forefront of economic progress. We look forward to meeting the challenges and accomplishing our goals.

Thank you.