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Key takeaways

- Late last year, Saudi Arabia established the **Center for Special Economic Zones in Riyadh City** to regulate and oversee the development of special economic zones (SEZs) in the Saudi capital. All other SEZs and economic cities across the Kingdom will continue to be regulated by the separate **Economic Cities and Special Zones Authority (ECZA)**, which was revamped in 2019.

- This is the latest step in Saudi Arabia's accelerating SEZ agenda, which sees the development of world-class SEZs as the Kingdom's next frontier for attracting investment and localizing business. The development of new SEZs in Riyadh is also especially significant for advancing the ambitious Riyadh Vision strategy, which aims to make the Saudi capital one of the 10 largest cities in the world in terms of economic output by 2030.

- The new center will be linked to the **Royal Commission for Riyadh City (RCRC)**, which is chaired by Crown Prince Mohammed bin Salman (MbS). It has been given some authority to provide regulatory exemptions and incentives to companies operating in future Riyadh SEZs. However, many of its key policies, including proposals to establish new Riyadh zones, must gain approval from the highest levels of the Saudi government.

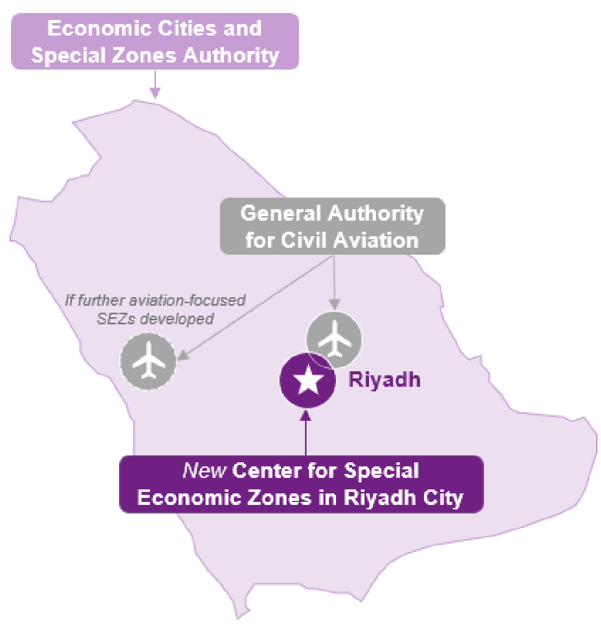
- Companies should closely monitor news coming from the center or the RCRC and be prepared to proactively engage with officials about investment opportunities in Riyadh SEZs. Companies should also come equipped with recommendations for incentives or exemptions that may be provided at certain zones, particularly with an eye toward how the Kingdom can best align international best practice at other SEZs with its national localization priorities.

New Saudi SEZ landscape

On December 22, 2022, Saudi Arabia issued a royal decree establishing the **Center for Special Economic Zones in Riyadh City** to regulate and oversee the development of SEZs in the Saudi capital. The center is organizationally linked to the **Royal Commission for Riyadh City (RCRC),** which is chaired by Crown Prince Mohammed bin Salman (MbS), though it will maintain legal, financial, and administrative independence from it. The center has considerable autonomy to develop regulations independent from the base economy, with approval from the **Council of Ministers (CoM).** However, the center is required to coordinate many of its key policies, including proposals to establish new SEZs in Riyadh, with the **Council of Economic and Development Affairs (CEDA)** – a supreme body chaired by the Crown Prince and composed of almost every Saudi minister. This underscores that, while the center will be the main authority executing SEZ initiatives, decisions on the overall trajectory and vision of Saudi SEZ policy will be made at the highest levels of government.

The center joins a burgeoning landscape of Saudi SEZ authorities. The **Economic Cities and Special Zones Authority (ECZA)**, which was created in 2011 as the Economic Cities Authority, was empowered in 2019 to regulate and oversee SEZs and economic cities across the Kingdom. ECZA will work alongside the center to regulate zones and cities outside of Riyadh, including major projects like the King Salman Global Maritime Industries Complex, the Jazan Economic City, and the King Abdullah Economic City (discussed later). The new center is not required to adopt the same regulations at ECZA, though it does need to align its initiatives with a not-yet-revealed national strategy for SEZs, according to the center's decree. However, the timing of this strategy and what it may include are unclear.

Another player, and a key exception to the center's jurisdiction over Riyadh SEZs, is the **General Authority for Civil Aviation (GACA)**, which regulates the Special Integrated Logistics Zone (SILZ). Established in 2018, the SILZ is a logistics zone located outside of King Khalid International Airport in Riyadh. It offers regulatory exemptions and tax breaks to companies, such as a 50-year tax holiday on corporate income and withholding taxes, as well as customs duty exemptions and full foreign ownership and capital repatriation rights. While the new center will regulate all other SEZs in Riyadh, the SILZ will (for now) continue to be governed by GACA, which has additionally been tasked with regulating any other aviation-focused SEZs that may be developed across the Kingdom. This new landscape is depicted to the right.



The new **National Incentives Committee (NIC)** is also notable, even though it is not an SEZ authority. Created in June 2022, the NIC is responsible for regulating, approving, and supervising the process for awarding incentives for investment projects inside and outside the Kingdom. While the NIC has so far revealed little about its initiatives, it has the power to define and set the limits of incentives provided to multinationals across the Kingdom, potentially including those located within Saudi SEZs. We understand that the NIC is considering a wide range of financial and non-financial incentives, including cash incentives, fiscal and tax incentives, preferential treatment (e.g., export guarantees, offtake agreements, etc.), and regulatory incentives (e.g., labor, sector-based policy incentives, etc.), that could be offered as part of tailored incentive packages agreed with investors.

The new center's decree requires that the NIC provide an official opinion on all draft proposals for new Riyadh SEZs. Since these proposals must include information on the types of incentives to be provided for investors, the NIC could play a potentially significant role in developing and approving incentive packages for companies operating at future Riyadh zones. While the full the extent of the NIC's role in Saudi SEZs remains unclear, companies should pay very close attention to announcements from the NIC, as they will provide a strong indication of the Kingdom's preferences for incentives, whether provided at the SEZ or the base economy level. For further ASG analysis of the NIC, please see here.

Incentive opportunities for SEZ investors

The Kingdom has been proactive in creating an environment for companies to leverage a potentially extensive menu of incentives if they invest in SEZs. The landmark draft National Investment Law, for which public consultation closed in May 2022, states that its provisions will not override or amend any laws or regulations applying to "specific sectors in the economy, capital markets, or special economic zones." This indicates that SEZ authorities and sector regulators are entitled to develop a range of independent regulations and incentives that could potentially provide far more favorable treatment to investors in SEZs than is currently provided in the base economy. (Notably, the draft law has not yet passed, though Saudi Minister of Investment Khalid Al-Falih recently announced that it could pass in Q2 or Q3 of this year.)

While the new center's decree is clear on its powers to offer incentives, it gives no indication of what those incentives may be. Authorities such as the **Ministry of Investment (MISA)** have long been asking companies to give examples of incentives that would attract their business to the Kingdom, and the new center is likely to adopt a similar posture. Companies should consider proactively engaging officials at the new center or the RCRC with proposals for incentives that may be provided at Riyadh zones. These proposals should be backed with examples of similar incentive schemes provided by other international or regional benchmarks. They should also include clear projections of the return-on-investment for Saudi Arabia, which may be in terms of increases in local employment, domestic business development, growth in foreign direct investment (FDI), or increases in non-oil GDP contribution. Lastly, proposals should demonstrate serious considerations by investors of how they plan to accommodate national localization priorities.

Considerations about Saudization exemptions

The Kingdom is resolute in its goals of localizing business and creating jobs at the same pace that it attracts foreign investment.

While Saudi officials are open to exploring many creative incentives, there is less room to negotiate on relaxed Saudization quotas. The Kingdom is resolute in its goals of localizing business and creating jobs at the same pace that it attracts foreign investment. This is the impetus behind the ongoing Regional Headquarters (RHQ) initiative, which mandates that starting in January 2024 companies with regional headquarters located outside of Saudi Arabia will no longer be eligible for Saudi government procurement. It is also clear in the Kingdom's many recent new regulations – across the information and communication technology, logistics, pharmaceutical, and tourism sectors – that require investors to meet high local procurement and employment quotas. It is likely that Saudi officials see other incentives – such as tax breaks, government subsidies, or customs duty suspensions – as a fair give-and-take for investors to localize at least some aspects of their operations in Saudi Arabia.

Companies should encourage honest conversations with government counterparts on how best to work together to address individual business constraints while advancing Saudi Arabia's localization agenda. The Kingdom's parallel goal of developing Riyadh into a top global city by 2030 is in line with the Saudization agenda. Officials at the RCRC and the new center may therefore be receptive to proactive proposals from companies interested in investing in Riyadh around alternative ways to meet localization rules. Arguments that hinge ultimate investment decisions in Riyadh SEZs on certain Saudization exemptions will be most convincing. Proposals that promise the allocation of exceptional international talent to support a company's activities in Riyadh may also go a long way. However, these proposals will need to provide a very clear strategic rationale for limiting a company's Saudization requirements or phasing those requirements over a longer timeframe.

As a general rule, however, companies should be wary of raising Saudization exemptions, especially for lighter-touch requirements, if they lack a strong justification for it or if they have not explored other incentives that could outweigh the costs of localizing. Given the importance of the Saudization agenda to officials, requesting exemptions (without a clear rationale or proposed alternatives) could backfire and risks irritating officials and blemishing a company's reputation in the Kingdom, especially if it has made stated commitments to Vision 2030 in the past. For further ASG analyses of the RHQ Program and recent Saudization rules, please see here and here.

Other key provisions:

- **Approval processes.** All center proposals to establish a new SEZ in Riyadh must first gain RCRC Board approval. If approved, the proposal is issued to CEDA, which must receive an NIC opinion on the proposal before issuing a decision. If approved by CEDA, the proposal is sent to the CoM, at which time a copy is sent to ECZA (only for its awareness). If the CoM approves the proposal, the center may proceed with establishing the new SEZ.

- **Center leadership.** The center will have a Chairman and a Board of Directors, all of whom will be nominated by the Crown Prince, in his capacity as RCRC Chairman. The Board of

Directors is the "supreme authority" of the center; it is the initial approver of all proposed SEZ regulations and new SEZ proposals, as well as the primary approver of all investment conditions, building codes, service-level partnerships, and labor policies at Riyadh SEZs. It also approves all the center's general strategies and initiatives. The board will also appoint a CEO to run the center's strategic operations.

- **SEZ court system.** The decree also stipulates the creation of at least two new court circuits – one for first instance, and one for appeals – within the existing Saudi commercial court system. These circuits will manage all "commercial disputes related to economic zones." The law does not limit those zones to Riyadh, representing an early yet important step in developing a potentially independent Saudi court system for SEZs.

SEZ priorities in Riyadh

Riyadh's King Abdullah Financial District

There are currently no SEZs or economic cities in Riyadh, excluding GACA's SILZ. This is unlikely to remain the case for long, as Saudi officials have long touted the **King Abdullah Financial District (KAFD)** as a perfect candidate for becoming an SEZ. This idea is outlined in the Vision 2030 plan, published in 2016, which commits the Kingdom to "transforming the District into a special zone that has competitive regulations and procedures, with visa exemptions, and that is directly connected to King Khalid airport." The goal is to make KAFD the main business center of not only the Kingdom, but the region, rivalling regional competitors such as the Dubai International Financial Center (DIFC). KAFD is already being billed as a future center for regional corporate headquarters in line with the RHQ Program. Notably, the Kingdom has also promised to make KAFD the headquarters of the **Public Investment Fund (PIF),** the Saudi sovereign wealth fund, which is currently located in AlRaidah Digital City in Riyadh.

The center, with impetus from the RCRC, will set its sights high for Riyadh SEZs. The Riyadh Vision strategy, announced by MbS at the Kingdom's fourth annual Future Investment Initiative conference in 2021, aims to double the population of Riyadh from 7.5 million to 15-20 million; raise Riyadh from the 40th-largest to one of the 10 largest cities in the world in terms of economic output; and make Riyadh a regional hub for investment and tourism – all by 2030 (see our previous analysis on the Riyadh Vision). The RCRC is moving quickly to advance this agenda through projects like the Riyadh Sports Boulevard (an eight-district outdoor sports zone that offers facilities and routes for cycling, kayaking, horse-riding, and more) and the King Salman Park (a public park that will be three times the size of Central Park in New York City). SEZs could be the biggest contribution yet to this drive given their potential to attract significant numbers of new permanent residents and spur innovative investment in priority sectors such as finance, technology, arts, and media.

Broader context

Saudi officials have made clear that they see the development of world-class SEZs as the country's next frontier for attracting investment and localizing business. These ambitions appear throughout Saudi national strategy – including the 2021 National Investment Strategy, which commits the Kingdom to developing four to five Saudi SEZs with "game-changing regulatory and competitiveness offerings" by 2030. When announcing preparations for these zones, Saudi Minister of Investment Khalid Al-Falih estimated that these SEZs could increase FDI to the Kingdom by more than 19 percent. He also emphasized that the SEZ agenda goes hand-in-hand with the RHQ initiative. While RHQ is putting pressure on firms to take major action in the short term, the Kingdom may see SEZs as a longer-term, more sustainable initiative to attract investors, especially those that do not rely heavily on government contracts.

Regional competition is also driving Saudi SEZ development. Especially after the 2016 oil price drop, SEZs have been proliferating across the Gulf – with some obvious standouts. Of the 70 estimated SEZs in the Gulf, 47 are in the UAE, and 24 of those are in Dubai. It is no secret that these UAE free zones, especially those in Dubai, are a major source of investor attraction and a top contributor to the UAE's non-oil economy. Dubai's Jebel Ali Free Zone, for example, which was originally established in 1985 with just 19 registered companies, has since attracted over 8,700 local and foreign investors. The DIFC, which now houses over 4,000 companies, has established itself as the region's leading financial center and a destination of choice for many multinational companies.

King Abdullah Economic City

Saudi officials are under pressure to match these numbers, and soon. Of the 70 estimated SEZs in the Gulf, only one (SILZ) is fully operational in the Kingdom. Several other economic cities or zones are under development, though their anticipated success rates are varied. The **King Abdullah Economic City (KAEC),** for example, is expected to be a massive commercial and logistics hub located north of Jeddah. However, since its launch in 2005, KAEC has largely failed to achieve its lofty objectives; this failure was attributed in part to the fact that KAEC had large marketing budgets but no authority to enact its own incentives to attract investors. KAEC recently received a boost from PIF, which bought a 25 percent stake in the project's development venture in late 2020, though it's unclear if this renewed support will help KAEC get up to speed.

King Salman Global Maritime Industries Complex (envisioned)

Another major project is the **King Salman Global Maritime Industries Complex,** which has received significant government investment and attention. Launched in 2015, the complex, which is still under development, aims to attract over $4.6 billion in FDI through the construction of two key plants over the next years. It appears to be on a more promising track for becoming a major SEZ in the region. Other key examples are the Saudi giga-projects, some of which have the authority to regulate independently from the base economy. **NEOM** CEO Nadhimi AlNasr, for example, announced at a July 2021 conference that "NEOM is meant to be a model … for a semi-independent free zone, with its own laws, regulations, and authorities as a semi-government … The reason for this is because it is our vision to make NEOM the most competitive free zone in the world."

Considerations for businesses

- **Know what you want.** Saudi officials want to hear what aspects of other world-class SEZs have attracted companies, and then evaluate how best to reflect those elements in Saudi zones. Companies should take this opportunity to propose incentives that are based on international benchmarks, their own positive or negative experiences with other SEZs, and – chiefly – projections for the return-on-investment for Saudi Arabia; these projections may be in terms of local employment, FDI growth, domestic business development, increases in contributions to the Saudi non-oil GDP, or other factors.

- **Know what you are willing to give.** The Saudi government is pursuing somewhat of a carrot-and-stick approach when it comes to regulatory exemptions and incentives at SEZs. While Saudi officials are open to exploring many creative options, they are less willing to budge on Saudization requirements. Since localization is one of the Kingdom's most important priorities, companies should only open discussions with Saudi counterparts about Saudization exemptions if they have a clear strategic rationale for limiting or phasing their compliance with certain Saudization rules. Companies are also encouraged to demonstrate that they have considered alternative ways to meet localization requirements.

- **Watch the Center for Special Economic Zones in Riyadh City.** Given the speed and scale with which the Kingdom aims to grow its capital, the new center is unlikely to stay idle for long. One of its first actions could be transforming KAFD into an SEZ. An ambitious strategy for developing new Riyadh zones, focused on priority sectors (such as finance, technology, and arts and culture), could also be announced soon. Finally, the Crown Prince may nominate the center's new chairman and board members in the coming weeks. Companies should monitor news coming from the center or the RCRC and prepare to engage officials accordingly.

- **Continue engaging with other key authorities.** Various other key authorities – such as MISA or the NIC – remain highly influential in steering the development of Saudi SEZ policy, as well as advancing companies' interests in Saudi Arabia more generally. Companies should not reduce their engagement with these or other relevant authorities in anticipation of the center's new role. Rather, they should develop unified messaging that can be articulated across the Saudi government. This messaging should, as always, underscore the company's commitment to Vision 2030 – ideally backed by specific plans to localize, expand, or introduce new lines of business to the Kingdom.

About ASG

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ASG's Middle East & North Africa practice has extensive experience helping clients navigate markets across Saudi Arabia. For questions or to arrange a follow-up conversation please contact Louise Rosenberg.