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ASG Analysis: Saudi Arabia Announces Rules to Encourage Companies to Relocate to Riyadh

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This is a follow-up to our previous Analysis on the recently announced Riyadh Vision, which aims to double the population of Riyadh by 2030 and make it one of the top 10 cities in the world for economic output.

- **On February 15, the Saudi government announced its intent to stop contracting with any foreign company or establishment that has a regional headquarters outside the Kingdom as of 2024.** The rule change will apply to all Saudi government agencies, institutions, funds, and possibly government-owned enterprises. The Kingdom has emphasized that this rule change will only affect government procurement, not broader market access or ease of doing business. Saudi Arabia is a member of the World Trade Organization (WTO) but notably has not signed the plurilateral government procurement agreement under the WTO framework.

- **The announcement is a corollary to the recently announced Riyadh Vision, which aims to make Riyadh a hub for foreign company headquarters.** As discussed in our recent Analysis, the Royal Commission for Riyadh City (RCRC) – the government entity overseeing the development of the Saudi capital – is reportedly offering generous tax and Saudization exemptions to companies that agree to establish their regional headquarters in Riyadh. This latest announcement signals that the Saudi government also intends to leverage its procurement power to pressure companies to move their regional headquarters to the Kingdom.

- **There are several unusual aspects of the announcement that suggest the development of the policy is still its early stages and leave the door open to potential future adjustments.** First, the statement did not come from a specific ministry, but rather cited a "responsible source." The government has largely abandoned this kind of vague language, and ministers now often make announcements directly via social media. Second, the statement says that the government "intends" to stop contracting with companies that have regional headquarters outside the region, not that it will. This kind of language has also become rare, as the government now tends to move quickly and decisively in enacting policy changes.

- **The announcement has been accompanied by an organized government promotional push on social media.** The ministers of investment, finance, and labor – as well as the head of the Council of Saudi Chambers – have all come out strongly in favor of the policy change. Echoing the original statement, they claim that the policy will create thousands of jobs for Saudis, improve spending efficiency, promote knowledge transfer, contribute to the development of local expertise and content, harness the business of foreign companies, and attract greater foreign investment to the Kingdom.

- **This policy offers further evidence that the Saudi government is looking to challenge Dubai as the go-to destination for regional company headquarters.** In his statement praising the change, Finance Minister Mohammed Al-Jadaan said that Riyadh and Dubai have their own competitive advantages and will complement each other. One competitive advantage that Saudi Arabia has – and seems inclined to use – is the size of its government procurement.

- **The change has potentially significant long-term implications for foreign companies operating in the Kingdom that have regional headquarters elsewhere.** Companies that could be affected should monitor closely for further details about the change, which are expected to emerge over the course of the year. Companies should also take the opportunity to proactively build relationships with key government stakeholders – including the RCRC and Ministry of Investment (MISA) – to learn more about the policy change and position themselves to shape its development and implementation.

About ASG

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