INVESTMENT

9.1 INTRODUCTION

In addition to its significant role in transforming comparative advantages into competitive advantages and laying down the foundations of the move towards a knowledge-based economy, investment is a cornerstone of sustainable development and economic diversification. Hence, the Eighth Development Plan emphasised improvement of the investment climate to attract more investment. Likewise, the Ninth Development Plan aims to increase public investment spending and provide more incentives to attract domestic and foreign private investment, through enhancing the investment climate and overcoming obstacles and challenges faced by investors. Notable among the envisaged efforts are: intensifying the partnership between the public and the private sectors, providing medium- and long-term concessional financing, establishing effective mechanisms for monitoring and evaluating investment performance, developing investment incentives systems, and increasing the number of skilled nationals in various investment sectors.

This chapter reviews the investment activities under the Eighth Development Plan, highlighting the efforts made by the Saudi Arabian General Investment Authority (SAGIA) to provide an investment climate favourable to both national and foreign investors. Key issues and challenges facing investment are addressed and the objectives, policies and targets set for investment under the Ninth Development Plan are highlighted.

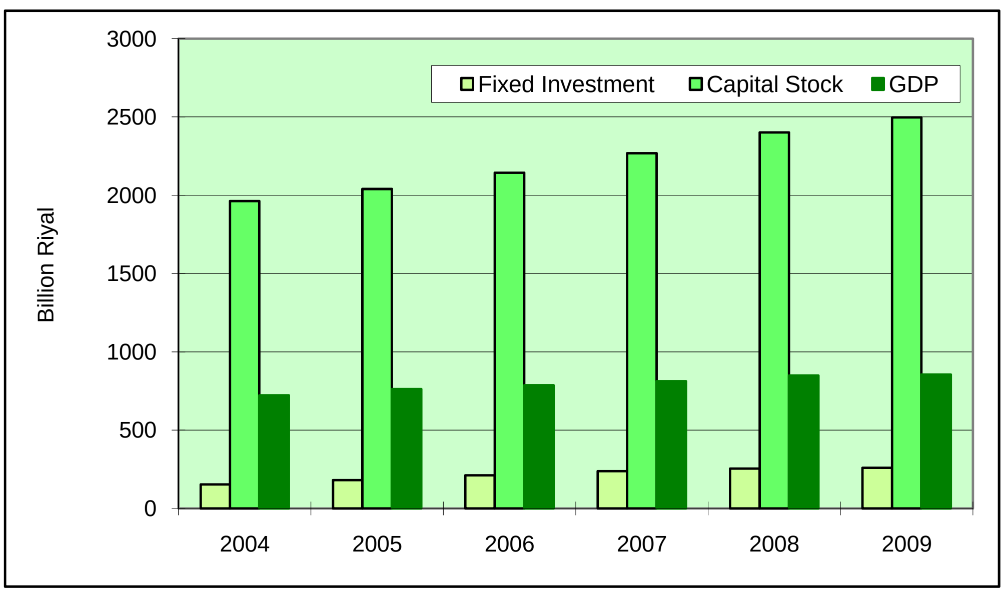
9.2 CURRENT CONDITIONS

9.2.1 Overall Performance

Intensive efforts to enhance and develop the investment climate were made during the Eighth Development Plan, which led to an increase in fixed investment at constant 1999 prices from about SR 680.8 billion under the Seventh Development Plan to about SR 1144 billion under the Eighth, reflecting an average annual growth rate of about 11.2% during the Eighth Plan.

Growth in fixed investment had a positive impact on the capital stock, which sustains productivity and enhances competitive capacity. It increased from about SR 1,963 billion in 2004 to about SR 2,498 billion in 2009, an average annual growth rate of 4.9%. This has supported real GDP to grow at an average annual rate of 3.5% during the period of the Plan (Figure 9.1) and helped to create more jobs, which grew during the same period at an average annual rate of 3.5%. Moreover, increased fixed investment led to development of infrastructure for public services, which in turn contributed to raising the standard of living and improving the quality of life of citizens.

Figure 9.1
Fixed Investment, Capital Stock and GDP
Under Eighth Development Plan(*)



(*) Values at constant 1999 prices.
Source: Ministry of Economy and Planning.

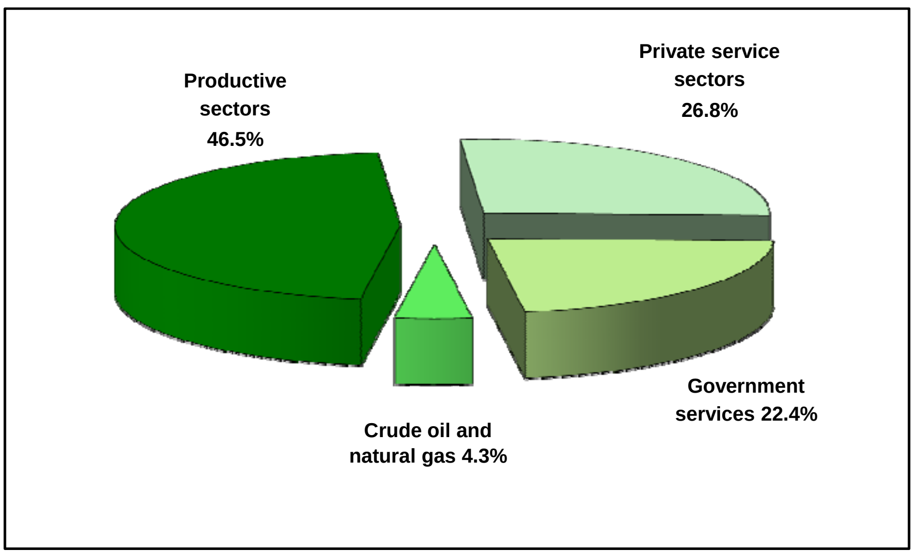
9.2.2 Sectoral Structure of Investment

The value of investments in non-oil sectors increased from about SR 662.3 billion in the Seventh Development Plan (2000–2004) to about

SR 1,094 billion in the Eighth Development Plan (2005–2009), an average annual growth rate of about 10.6%. Non-oil investments constituted about 95.7% of total fixed investments made under the Eighth Plan, while the oil and gas sector constituted 4.3%, which reflects continued economic diversification efforts (Figure 9.2).

The increase in investment is attributed to the growth of investments in the production sectors, at an average annual growth rate of 11.8% to reach about SR 534.2 billion, which is 46.5% of total investment. In turn, the increase in investments in the production sectors is attributed to the remarkable growth of investment in oil refining, petrochemicals, and other manufacturing industries, which recorded an average annual growth rate of about 32.6%, 6.4% and 6.3%, respectively. Indeed, investment in these sectors soared from about SR 60.1 billion, SR 67. 8 billion, and SR 41.1 billion, respectively, under the Seventh Plan to about SR 193.1 billion, SR 116 billion, and SR 53 billion respectively, under the Eighth Plan, together constituting about 31.3% of total investment.

Figure 9.2
Sectoral Structure of Major Investment Expenditure
Under Eighth Development Plan



Source: Ministry of Economy and Planning.

Investments in the service sectors, including the private housing sector, increased during the Eighth Plan at an average annual growth rate of about 7.7% to reach a total of SR 306.5 billion, compared with SR 244.3 billion under the Seventh Plan.

The net result of growth in investments in production and service sectors under the Eighth Plan was an increase in investment by the private sector to about SR 840.7 billion, an average annual growth rate of 51.2%, compared with SR 556.1 billion under the Seventh Plan.

The distribution of investment under the Eighth Plan by commodity categories (Table 9.1) shows that at 57.7%, machinery, equipment and transport equipment recorded the highest share of total investments, followed by non-residential buildings at 28.1%, with the remaining 14.2% being the share of residential buildings.

Table 9.1
Investment by Category of Capital Goods
Eighth Development Plan,
at Constant 1999 Prices

Category of Capital Goods	Value (SR billion)	Relative Distribution (%)(*)
Residential Buildings	163	14.2
Non-residential Buildings	321.1	28.1
Machinery, Equipment and Transport Equipment	659.9	57.7
Total	**1144.0**	**100**

(*) Percentages are rounded to the nearest decimal.
Source: Ministry of Economy and Planning.

9.2.3 Balance of Savings and Investment

Savings and investment continued to have a surplus balance under the Eighth Development Plan, increasing from SR 224.1 billion in 2004 to about SR 521 billion in 2008, then declining to about SR 292.5 billion in the last year of the Plan. Thus, they achieved an average annual growth rate of about 5.5%, with their share of GDP rising from 23.9% in 2004 to about 29.6% in 2008, then dropping to 18.6% in 2009 (Table 9.2).

Notably, national savings increased at an average annual rate of about 10.7%, constituting about 40.2% of GDP at current prices in 2009. Investment grew at an average annual rate of about 16.7%, representing 21.6% of GDP at current prices in 2009, compared with 16.6% of GDP in 2004, which reflects the relatively high growth rate of investment compared with the growth rate of savings.

Table 9.2
Balance of Savings and Investment
Eighth Development Plan(*)

(SR billion)

Year	Investment		Savings		Balance of Savings / Investment	
	Value	Percentage of GDP	Value	Percentage of GDP	Value	Percentage of GDP
2004	156.3	16.6	380.4	40.5	224.1	23.9
2005	195.6	16.5	554.5	46.9	358.9	30.4
2006	233.1	17.5	614.9	46.0	381.8	28.6
2007	292.3	20.3	640.5	44.5	348.2	24.2
2008	339.8	19.3	860.8	49.0	521.0	29.6
2009(**)	339.4	21.6	631.8	40.2	292.4	18.6

(*) Values at current prices; percentages and values are rounded to nearest decimal.

(**) Data for 2009 is preliminary.

Source: Ministry of Economy and Planning.

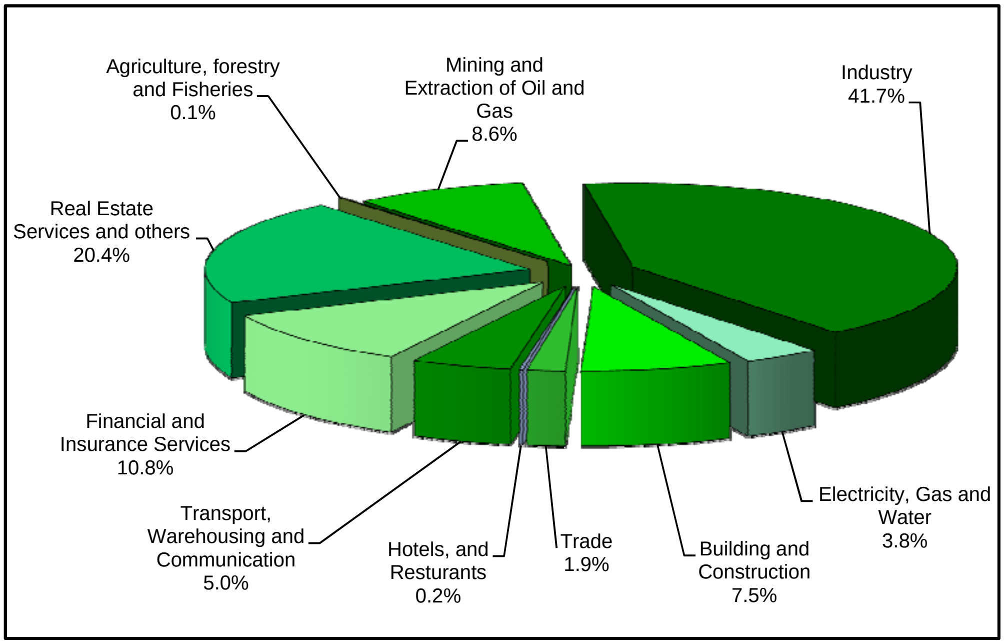
9.2.4 Foreign Direct Investment (FDI)

As a result of improvement in the investment climate and the elimination of numerous obstacles to investments, there was a marked increase in the share of FDI attracted by the Kingdom during the Eighth Development Plan. According to the periodic survey of foreign investment, conducted by the Saudi Arabian General Investment Authority in cooperation with UNCTAD for the year 2008, FDI increased from about SR 7.28 billion in 2004 to about SR 143.33 billion in 2008, an estimated average annual rate of increase of 110.6%.

The sectoral distribution of FDI was consistent with the distribution of investment during the Eighth Plan. The industry sector acquired the biggest share of the cumulative balance of FDI; estimated at SR 428.5

billion, constituting about 41.7% of the total cumulative balance of these investments by the end of 2008. Figure 9.3 shows the relative sectoral shares of FDI at the end of 2008.

Figure 9.3
Distribution of FDI Balance by Economic Sector
(2008)



Source: Saudi Arabian General Investment Authority.

9.3 IMPROVEMENT OF INVESTMENT CLIMATE

Various agencies joined efforts under the Eighth Plan to improve the investment climate. Most notable among such efforts were those made by the Saudi Arabian General Investment Authority, which developed in 2005 a comprehensive strategy that included the following major initiatives:

- Providing comprehensive services and facilities, as well as information, to all investors (Saudi and non-Saudi).
- Marketing and promoting the investment opportunities based on the comparative advantages of the Kingdom.
- Contributing to the regionally balanced development of the Kingdom.

- Attracting new investors by offering investment opportunities to targeted international investors, as well as by forming a new generation of national investors.
- Focussing on attracting investments to promising economic sectors.
- Improving the investment climate by facilitating procedures and overcoming obstacles.
- Making efforts to raise the ranking of the Kingdom to one of the best 10 in the world in terms of competitiveness of the investment climate by the end of 2010.

To achieve these goals and implement these initiatives, SAGIA signed several agreements with government agencies related to investment, in order to develop practical mechanisms and solutions for overcoming the challenges business persons and investors face in setting-up investment projects in the Kingdom. The agreements focus on improving the Kingdom's investment climate with an aim to attract domestic and foreign investments.

Based on comparative advantages and several other economic benefits, SAGIA identified energy, transportation, and ICT as the three main investment sectors (Box 9.1). Moreover, the Authority commenced applying new regulations for granting licenses, designed to attract high profile, high value-added projects, along with increasing training, qualification and employment opportunities for citizens.

To encourage investment in the various regions with a view to achieving balanced development, the Authority launched in 2006 three economic cities, one in Hail, one in Madinah and one in Jazan, in addition to King Abdullah Economic City in Rabigh, which was launched in 2005. Furthermore, in order to complete the system of economic cities, the establishment of two more economic cities one each in Tabuk and the Eastern Region is under study.

As a result of the efforts of various agencies concerned with investment, in particular the Saudi Arabian General Investment Authority, according to the Doing Business Report, issued by the

International Finance Corporation (IFC) of the World Bank, the Kingdom has assumed a prominent status. It moved from rank 67 among 145 nations in 2004 to 23 among 178 nations in 2007, to 16 among 181 in 2008, then to 13 among 183 in 2009. The outstanding performance of the Kingdom reported in the Doing Business Report was further confirmed by its ranking 27th internationally by the Global Competitiveness Index, published by the World Economic Forum in 2008.

Box 9.1: Sectoral Focus of SAGIA for Investment

Energy: This sector is focussed upon since it reflects the comparative advantage enjoyed by the Kingdom. It encompasses industries based on oil and gas, such as petrochemicals; electricity; water; and industries with a high consumption of energy, such as mining.

Transport: This sector is focussed upon, in order to exploit the advantage afforded by the position of the Kingdom as a bridge and a crossroads between East and West, through working with various agencies to develop regulations and procedures at points of entry and exit of goods, and to direct capital to investments in railways, air and sea ports, and roads.

ICT: This sector is focussed upon due to its paramount importance for development of other economic sectors and for creating promising investment opportunities and high-income employment opportunities.

9.4 ISSUES AND CHALLENGES

9.4.1 Public-Private Partnerships

Due to the global financial crisis, the global economy is facing exceptional circumstances that may impede international trade and investment. This requires a stronger tripartite partnership between the public sector, the private sector and FDI. Moreover, to incentivize the national private sector to expand its investments at home and strengthen its capacity for dealing efficiently and flexibly with the repercussions of the global financial crisis, through the following measures:

- Implementing Council of Ministers Resolution No. 72 of 2007, which provides for: “expansion of partnership contracts between the public sector and the private sectors for implementing infrastructure projects and improving health and education services and social development, in addition to developing an appropriate regulatory framework for such contracts.”
- The Government continuing to offer projects and investment opportunities compatible with the directions of the development plans of the Kingdom, while providing appropriate incentives for them to be implemented by the private sector.
- Harmonizing the objectives of private investment with the economic and social directions of the development plan, through productive partnerships between the public sector and the national and foreign private sectors.
- Focusing the strategy for attracting foreign investment on quality, rather than quantity, i.e., realizing the developmental role of FDI through vigorously advancing technological development, improving competitiveness of national products, and linking incentives to the technical content of investment inflows and their role in developing the technical skills of national labour.

9.4.2 Medium - and Long -Term Finance

Short-term bank credit still accounts for the largest share of total credit, from about 58% in 2004 to about 64% in 2008; compared with medium-term bank credit, from about 12.9% to about 14%, and long-term bank credit, from 29.1% to 22%. Thus, providing the financing needs of private investment, which contributes most to diversification of the economic base, remains a challenge.

Indeed, establishing more investment banks has become an urgent need. Such financial institutions provide medium- and long-term loans to investment projects, and, additionally, play a developmental role by evaluating investment opportunities and monitoring implementation of investment projects.

9.4.3 Economic Cities

The strategy of the Saudi Arabian General Investment Authority aims for economic cities to provide an attractive investment climate and additional high-quality job opportunities, help achieve regionally balanced development, and transform the comparative advantages enjoyed by the regions into competitive advantages. These development aspirations constitute a significant challenge to the investment development strategy of the Ninth Development Plan, and they reinforce the need for developing effective mechanisms for performance evaluation of private investments in economic cities.

9.4.4 Investment Incentives

The Ninth Development Plan is keen on adapting to changes in local and international transitional conditions, and, in particular, to scientific and technological developments in all productive and service activities as the mainstay of the drive towards a knowledge-based economy. This trend is reflected in the selection by the Saudi Arabian General Investment Authority of priority sectors for development; most importantly the ICT sector, as previously mentioned.

However, the existing system of investment incentives does not reflect these changes and trends, for most incentives have been directed towards encouraging the flow of investments in general, and directing them to the less developed regions, in particular. Hence, more incentives need to target technological intensification, with the aim of attracting modern knowledge and technology, and adapting and indigenising them in all fields.

9.4.5 Entrepreneurs

Entrepreneurs are the elite among business persons. They command knowledge, expertise and wealth, and they are, therefore, in a position to make, on the basis of technical studies and rational expectations, wise, daring, ambitious investment decisions and expand investment opportunities to achieve extraordinary profits. Successful international experiences, in Japan, Malaysia and among other countries, show how effective the role of entrepreneurs could be in enhancing private-sector-led development. Although there are many successful national businessmen, meeting the development aspirations of the country requires the presence of more entrepreneurs.

9.5 DEVELOPMENT STRATEGY

9.5.1 Future Vision

An environment conducive to attracting national and foreign private investment by providing a comprehensive package of incentives designed to integrate the growing developmental role of such investment with that of government investment, with the aim of: accelerating rates of growth, both at the macroeconomic and sectoral levels; maintaining and increasing capital; and achieving structural changes in the national economy, by focusing on investment opportunities that contribute most to diversification of the economic base, improving productivity and competitiveness, harmonising increases in business profitability with social returns, and increasing the knowledge and technical content in national products and services.

9.5.2 Objectives

- Increasing effectiveness of the developmental role of national and foreign private investment in accelerating the rate of growth at the macroeconomic and sectoral levels.

- Expanding areas of partnership between government investment and private investment, with a focus on investment opportunities that contribute the most to diversification of the economic base and achievement of balanced development.

- Enhancing the role of investment in the transition to a knowledge-based economy and in improving productivity and competitiveness through increasing knowledge and technical content in national production and service activities.

- Increasing the rate of domestic savings and net fixed capital formation in both the public and the private sectors.
- Creating a favourable environment and appropriate incentives for attracting FDI and repatriating national capital employed abroad.
- Encouraging investment in clean productive technologies that do not pollute the environment.

9.5.3 Policies

- Increasing partnership contracts between the public and the private sector in carrying out infrastructure projects, as well as in improving and developing health and education services and social development, while developing an appropriate regulatory framework for these contracts, in implementation of Council of Ministers' Resolution No. 72 of 2007.
- Establishing more investment banks to increase the relative importance of medium- and long-term bank credit, in implementation of Council of Ministers Resolution No. 72 of 2007 regarding enhancement of the developmental role of the banking sector by developing policies and mechanisms to provide the financing needs of the production sectors that are capable of diversifying the economic base.
- Monitoring the performance of the investment in economic cities to verify the extent of their adherence to the specified targets and remove the obstacles that could constrain the efficiency of their performance.
- Enhancing the role of national and foreign private investment in providing the requirements for moving towards a knowledge-based economy, focusing on:
  - Exploiting investment opportunities in high value-added, knowledge-and-technology intensive productive and service sectors, in an effort to improve productivity and competitiveness.

- Monitoring the contribution of FDI to preparing the national economy to move towards a knowledge economy, through contributing to technological development; supporting transfer, and production of technology; and contributing to development of technically qualified national manpower.
- Integrating initiatives of both the public and the private sectors for expanding establishment of intermediary institutions that link education and R&D with investment opportunities in production and service sectors, such as technology incubators and parks and centres of excellence.
- Conducting a regular survey to measure the knowledge level (or content) of production and service activities, in order to evaluate effectiveness of the drive towards a knowledge-based economy and to address deficiencies or imbalances.
- Promoting strategic alliances between private national companies and technically advanced international companies, in order to improve the technical content of national production activities and services and transfer production, management and marketing expertise.

* Promoting sustainable development efforts through commitment of all investment activities to the general rules of environmental protection, with a focus on:
  - Developing binding environmental controls on private investment, along with identifying means for reducing potential negative impacts on the environment and increasing penalties for violators.
  - Building an environmental information base, making it available to potential investors to help them rationalize their investment decisions.
  - Providing additional incentives for national and foreign private investments that tangibly apply advanced environment friendly production techniques.

- Continuing to maintain a regulatory environment favourable to investment, including facilitating business start-up procedures and reducing business costs in all regions.
- Encouraging investment in all regions, through establishment of provincial-investment boards, each cooperating with the Saudi Arabian General Investment Authority to support investment in the region concerned, remove obstacles and improve the investment climate.
- Continuing to support initiatives designed to improve competitiveness of the national economy by focussing on implementation of the 10 × 10 programme, which seeks to raise the ranking of the Kingdom to become by the end of 2010 one of the top 10 countries in terms of attractiveness of its investment climate.

9.5.4 Targets

- Total investment growth at an estimated average annual rate of 10.4%, to reach about SR 1,762.7 billion by the end of the Ninth Plan.
- Investment growth in non-oil sectors at an estimated average annual rate of 10.5% under the plan, to reach a total value of about SR 1,680.8 billion, representing approximately 95.4% of the total.
- Investment growth of the production sectors at an estimated average annual rate of about 8.2% under the plan, to reach a total value of about SR 763.1 billion, representing approximately 43.3% of the total.
- Investment growth of private-service sectors at an estimated average annual rate of about 17%, to reach a total value of about SR 594.2 billion, representing approximately 33.7% of the total.
- Growth of government investment at an estimated average annual rate of about 5.2%, to reach a total value of about SR 323.4 billion, representing approximately 18.3% of the total.

Table 9.3
Planned Investment
Ninth Development Plan(*)

Sector and Capital-Goods Category	Value (SR Billion)	Relative Distribution	Average Annual Rate Under the Plan (%)
A. Non-Oil Sectors	**1680.8**	**95.4**	**10.5**
Production Sectors:	763.1	43.3	8.2
1.1 Agriculture, Forestry and Fisheries	22.8	1.3	6.6
1.2 Non-Oil Mining and Quarrying	3.6	0.2	22.4
1.3 Manufacturing Industries	534.0	30.3	7.7
1.3.1 Petroleum Refining	272.4	15.5	3.0
1.3.2 Petrochemicals	163.1	9.3	12.2
1.3.3 Other Manufacturing Industries	98.5	5.6	15.3
1.4 Electricity, Gas and Water	179.9	10.2	8.0
1.5 Building and Construction	22.8	1.3	23.7
Private-Services Sectors:	594.2	33.7	17.0
2.1 Trade, Restaurants and Hotels	72.9	4.1	20.4
2.2 Transport and Communication	85.5	4.9	14.0
2.3 Finance, Insurance, Business and real estate Services	395.1	22.4	16.1
2.3.1 Real estate Service	335.9	19.1	16.1
2.3.2 Finance, Insurance and Business Services	59.2	3.4	16.2
2.4 Community and Personal Services	40.8	2.3	29.2
Total Private Non-Oil Sector	**1357.4**	**77.0**	**11.8**
3. Government Services	323.4	18.3	5.2
B. Crude Oil and Natural Gas	**81.9**	**4.6**	**7.9**
Total Investment	1762.7	100.0	10.4
Construction of Residential Buildings	181.6	10.3	2.7
Construction of Non-Residential Buildings	485.3	27.5	10.1
Machinery and Equipment and Transport Equipment	1095.8	62.2	12.0
Total Capital-Goods Investment	**1762.7**	**100.0**	**10.4**

(*) Percentage and values are rounded to nearest decimal and at constant 1999 prices.

Source: Ministry of Economy and Planning.

9.6 FINANCIAL REQUIREMENTS

The financial requirements allocated to the Saudi Arabian General Investment Authority under the Ninth Development Plan are SR 662.9 million.