SUMMARY

1. Saudi Arabia's economy continues to be heavily dependent on oil. The review period witnessed a wide range of cross-cutting and sector-specific policy initiatives aimed at modernizing and diversifying the economy. Continuing such initiatives to improve the competitiveness of the non-oil sector remains important.

2. Oil markets have been particularly volatile since the last Review in 2016. Real GDP average growth during 2015-19 was 1.6%, with non-oil sectors outpacing the growth of the oil sector. The current account balance fluctuated from a deficit of 8.7% of GDP in 2015 to a surplus of 9.2% of GDP in 2018, attributed primarily to movements in the value of oil exports over the period. In 2020, the COVID-19 pandemic caused the largest contraction in world oil demand in history with significant impact on government revenues, in addition to the global economic shock induced by the pandemic. According to the IMF, Saudi Arabia's real GDP growth declined from 0.3% in 2019 to -5.4% in 2020. Several measures were adopted to provide financial support to the private sector. For 2020, the fiscal deficit is estimated at 12% of GDP due to the fiscal shocks to the Government's oil and non-oil revenues and its additional expenditures as a result of the COVID-19 pandemic.

3. Saudi Arabia's dependence on oil entails certain structural weaknesses, as reflected in, for example, the high unemployment rate among Saudi nationals. Recognition of such structural challenges led to the launch, in 2016, of "Vision 2030", a comprehensive strategy designed to modernize and diversify the Saudi economy. Vision 2030 encompasses a wide range of policies to create more private-sector jobs for Saudi nationals, increase the participation of women in the workforce, support small- and medium-sized enterprises, increase investment in non-oil sectors and promote non-oil exports, increase domestic production and procurement through local-content measures, privatize state-owned assets and government services, deregulate the energy market and reform energy and water prices, improve the business environment to attract foreign and local investment, and develop new infrastructure. Vision 2030 also envisages enhancing the efficiency of government, including through accelerating decision-making processes and further developing e-government services, embracing standards of transparency and accountability, monitoring performance, and improving the management of public finances. Some commentators raised questions regarding the level of ambition reflected in some of the Vision 2030 objectives. The scale and pace of implementation of Vision 2030 could be affected by the impact of the COVID-19 pandemic on government revenue and expenditures. The authorities indicated in the context of this Review that Vision 2030 is currently being reviewed.

4. While a comprehensive assessment of progress made towards achievement of the Vision 2030 objectives is beyond the scope of this Review, results in certain areas are noteworthy. For example, prior to the COVID-19 pandemic, the fiscal deficit declined from 15.8% in 2015 to 4.5% in 2019 due to significant progress in diversifying and stabilizing the Government's revenues. Measures adopted by the Government in matters such as starting a business, registering property, and protecting minority investors appear to have significantly improved the business climate. At the same time, there remain governance and rule of law issues that may warrant reform. Illustrative in this respect is the IMF's recent call for continuing reforms to enhance fiscal transparency to reduce the risks of corruption. During the review period, the Government also introduced reforms concerning the status of women in society.

5. Changes to the structure of the Government have occurred since the last Review, many of which related to Vision 2030, including, for example, the creation of a General Authority for Foreign Trade as a separate public entity to take over all the responsibilities related to foreign trade previously carried out by the Ministry of Commerce; the restructuring of the Ministry of Energy, Industry and Mineral Resources into the Ministry of Energy and the Ministry of Industry and Mineral Resources; the transformation of the Saudi Arabian General Investment Authority into the Ministry of Investment; the creation of the Saudi General Authority for Intellectual Property; the establishment of the Local Content and Government Procurement Authority; and the change in the name of the Saudi Monetary Authority to Saudi Central Bank. The review period also witnessed the adoption of new legislation regarding many aspects of Saudi Arabia's economic and trade policies.

6. Regarding the overall orientation of Saudi Arabia's trade policy, prominent aspects of the Kingdom's recent trade and economic policies, including the simplification of customs procedures, the existence of a generally low level of import duties, the removal of foreign investment restrictions, and the introduction of new policy instruments to promote exports, suggest that openness to

international trade and foreign investment is seen by the authorities as playing an essential role in the Kingdom's economic transformation. On the other hand, certain elements, notably the emphasis on "localization" and the existence of detailed sector-specific industrial policies, might raise questions about their potential distortive effects on trade and resource allocation. Much will depend upon the precise policy instruments used by the Government to achieve its objectives regarding the promotion of domestic industrial development.

7. Saudi Arabia is a strong supporter of the multilateral trading system and the WTO. Its negotiating interests span a wide range of issues, and it participates in several Joint Ministerial Statement Initiatives. It ratified the protocol concerning the WTO Trade Facilitation Agreement in 2016. It regularly submits notifications to the WTO, although its notifications on domestic support in agriculture for the most recent years remain outstanding. Saudi Arabia has never been a complainant under the WTO dispute settlement mechanism; it was a respondent in 2 cases and participated as a third party in 49 cases. In 2020, during Saudi Arabia's presidency of the G20, two extraordinary G20 Trade and Investment Ministerial Meetings were held to address the challenges posed by the COVID-19 pandemic. Saudi Arabia also launched and actively promoted the Riyadh Initiative on the Future of the WTO, which aims to identify common ground and shared principles for the next 25 years of the WTO, and to provide the political support needed to make progress in the discussions on reforms among all WTO Members. At their summit held on 21-22 November 2020, G20 leaders explicitly recognized the contribution that the Riyadh Initiative made. Saudi Arabia believes that regional trade agreements can complement and reinforce the multilateral trading system, and help the Kingdom's integration into the global economy. It is a member of the Gulf Cooperation Council (GCC), and the Pan-Arab Free Trade Area. The GCC as a group has free trade agreements with Singapore and with the European Free Trade Association. Along with other GCC members, Saudi Arabia is currently assessing its approach to FTAs in light of the Vision 2030 goals.

8. Increasing private investment, both foreign and local, is a key element of Saudi Arabia's strategy to stimulate and diversify its economy, generate employment, and achieve sustainable development. Sectors identified as priority areas for foreign and domestic investment are: (i) transport and logistics; (ii) information and communications technology (ICT); (iii) health and biotechnology; (iv) education; (v) tourism; (vi) entertainment; (vii) industry (mining and manufacturing); and (viii) renewable energy. Foreign investment is allowed in practically all sectors of the economy, except for some activities specified on a negative list. Since the previous Review, several activities have been removed from this list. Foreign investment licensing requirements vary according to sector and type of investment. Some of these requirements were eased or removed during the review period. The Government implemented new fees for expatriate employers (which are paid per employee per month). It also increased levies on expatriates with dependents and imposed higher fees for business visas and entry/exit permits for foreign workers.

9. While there were no changes to the basic customs legislation (the GCC Common Customs Law and Implementation Rules and Explanatory Note), Saudi Arabia introduced important changes in customs procedures, as a result of which it now has a country-wide single window for customs procedures. The Saudi Customs Authority enhanced an electronic data interchange system, an electronic trade single window that allows electronic submission and processing of import declarations. Also, Saudi Arabia now has a new risk management system and targeting centre to classify shipments based on their risk level.

10. Import tariffs, which are subject to common GCC rules, did not change significantly until the recent COVID-19 pandemic. Nearly all tariff lines in Saudi Arabia are subject to *ad valorem* rates, while 1.3% of total lines have non-*ad valorem* rates. The simple average of Saudi Arabia's 2020 applied MFN tariff rate was 5.5%, up from 5.2% in 2015 due to changes in the tariff structure and increases in customs duty rates for some products (e.g. fertilizers, and meat and dairy products). On 77.4% of tariff lines, the applied MFN tariff rate was 5%; on 10.6% of tariff lines, the rate was duty free, and on 9.7% of the tariff lines the rate was between 5% and 15%. A very small group of agricultural products is subject to significantly higher applied MFN tariff rates, with tobacco products subject to a rate of 100%. In June 2020, customs duties were raised on various categories of consumer, industrial, and agricultural products as part of the Government's response to the COVID-19 pandemic.

11. Saudi Arabia introduced the value added tax (VAT) as from 1 January 2018 at a standard rate of 5%. VAT was introduced as a result of a common approach between GCC member States. On

1 July 2020, the standard rate was increased to 15% as part of the measures adopted to deal with the economic crisis caused by the COVID-19 pandemic. On 31 January 2017, Saudi Arabia ratified the GCC Common Excise Tax Agreement and issued the Excise Tax Law and its Implementing Regulations. Two different excise tax rates apply: 50% on soft/sweetened drinks or 100% on tobacco-related products, energy drinks, and electronic devices for smoking/vaping.

12. Import prohibitions continue to be maintained based on security, public safety, moral, and religious considerations, as well as on international obligations such as international conventions requirements and UN sanction resolutions. Import licensing requirements are applied to some imports from all trading partners except other GCC member States. There were no changes in Saudi Arabia's trade remedies legislation. Saudi Arabia maintains export bans on eight categories of products. In response to the COVID-19 pandemic, Saudi Arabia introduced a temporary export ban on exports of COVID-19 detection and prevention products, medical equipment, and pharmaceutical products. Saudi Arabia continues to have 10 categories of goods subject to export licensing requirements.

13. Several new policy instruments were adopted to achieve Vision 2030's objectives of increasing non-oil exports and promoting economic diversification. First, the Export-Import Bank was created in 2019 and became operational in 2020. Export financing and guarantees continue to be available through the Saudi Export Programme. Second, the creation of special economic zones is a key element of Vision 2030 and the National Industrial Development Program (NIDLP). A National Strategy for Special Economic Zones and implementing regulations were adopted, and the first special economic zone was established in October 2018. NEOM, a futuristic city project with significant logistics and high-end tourism components, which is currently being developed in Saudi Arabia's northwest, is considered the world's largest international special economic zone in terms of size and scale of investment (about USD 500 billion). Third, the Saudi Industrial Development Fund (SIDF) is the main financial enabler of the NIDLP. While the SIDF used to finance only manufacturing businesses, since 2019, it has also financed projects in other sectors covered by the NIDLP (mining and energy). Fourth, Saudi Arabia aims to increase the contribution of small and medium-sized enterprises (SMEs) in GDP from 20% to 35% and encourage local financial institutions to allocate up to 20% of overall funding to SMEs by 2030. To this end, the SME Authority (Monshaat) was established in 2016.

14. In 2019, the Saudi Accreditation Centre was created as the national accreditation body. The Saudi Standards, Metrology and Quality Organization has so far issued more than 30,000 standards, the majority of which were adopted from international standards. According to the authorities, at end-2019, 89% of Saudi standards in force were adopted from GCC standards. Currently, Saudi Arabia has 32 technical regulations in force, of which two GCC Technical Regulations were adopted during 2016-20. Since the last Review, some concerns have been expressed about Saudi Arabia's technical regulations on animal products, motor vehicles, vehicle tyres, toys, energy drinks, sugar limits on food products, electrical and electronic equipment, and plastic products. With respect to sanitary and phytosanitary measures, concerns were raised relating to Saudi Arabia's ban on the importation of shrimp, fish, crustaceans, and other aquatic animal products.

15. Saudi Arabia's new Competition Law came into force on 23 September 2019. It aims to protect and encourage fair competition and to combat and prevent monopolistic practices that affect lawful competition or consumer interest, leading to an improved market environment and economic development. The new Competition Law applies to all firms in Saudi Arabia, regardless of their nationality or seat. The General Authority for Competition is the regulatory authority in charge of implementation of the Competition Law and its Implementing Regulations. The Law prohibits certain anti-competitive practices and abuses of dominant positions and provides for merger control based on a definition of economic concentration. Under the new Competition Law, prices of goods and services are to be determined according to market rules and principles of free competition. However, certain goods and services, including wheat flour, cement, crude oil, energy transportation services, and electricity are subject to regulations that set maximum prices.

16. In addition to direct holdings by the Government in some undertakings, government agencies, such as the General Organization of Social Insurance, the Public Pension Agency, and notably the Public Investment Fund (PIF), have holdings in several businesses. Since March 2015, the PIF has reported to the newly created Council of Economic and Development Affairs. Under Vision 2030, Saudi Arabia aims to transform the PIF into a global industrial conglomerate and the world's largest

sovereign wealth fund. The privatization of state-owned assets is being further encouraged to increase the participation of the private sector in the economy from less than 40% to 65% of GDP.

17. As part of its accession commitments, Saudi Arabia agreed to start negotiations to join the Government Procurement Agreement (GPA) at a future date. Presently, it is an observer to the GPA. Saudi Arabia's new Government Tenders and Procurement Law (GTPL) came into force in December 2019, its key stated objective being to strengthen government procurement activities while protecting public funds and enhancing economic development. The new GTPL also aims to support SMEs and increase local content in government procurement contracts. Consideration is being given to whether preferences related to local content should also apply to commercial companies in which the State owns more than 51% of the share capital. Under the new GTPL, domestically produced products qualify for a price preference of 10%.

18. Regarding the protection of intellectual property rights, the most important change during the review period was the creation of a more unified institutional framework, with the establishment, in 2017, of the Saudi Authority for Intellectual Property to assume the duties and responsibilities of the Saudi Patent Office, the Copyright Department, and the Trademark Department. Reforms of the intellectual property administrative regime undertaken during the review period were aimed at supporting the Vision 2030 objective of encouraging innovation and entrepreneurship.

19. Saudi Arabia remains a major net importer of agricultural products. Imports of some products are prohibited (any product containing alcohol, and pigmeat products). Domestic agricultural policy priorities are linked to Vision 2030, which aims to prioritize the use of water in agriculture to those areas with natural and renewable water sources, adjust the crop mix towards crops with lower water use, and rebalance the mix of imports and domestic production for food security. In addition to measures to reduce water consumption, important policy developments in this period were the privatization of the wheat and flour sector, the introduction of a new animal feed policy, and the provision of additional funding under the Agricultural Development Fund in the context of the COVID-19 pandemic. Notified Green Box support increased from SAR 860 million in 2012 to SAR 1.1 billion in 2015, before falling again to SAR 780 million in 2017, driven primarily by changes in expenditures for infrastructure services and to a lesser degree for pest and disease control. Saudi Arabia's Current Total AMS varied between SAR 1,185 million and SAR 2,782 million, well below its bound Total AMS commitment level of SAR 3,218 million. Support notified under the Amber Box (including *de minimis* support) fluctuated but has fallen overall since 2012. In 2017, feed subsidies for poultry sectors accounted for all the Current Total AMS (SAR 1,876 million). Important changes to domestic support programmes introduced since 2018 (the replacement of feed subsidies by direct support and the reintroduction of price support for wheat) have not yet been notified. According to its notifications to the WTO Committee on Agriculture, Saudi Arabia did not provide export subsidies for agricultural products.

20. The Vision 2030 strategy provides that one of the means to achieve the strategic objective of growing and diversifying the economy is to unlock the potential of non-oil sectors, including by growing and capturing maximum value from the mining and energy sectors. In 2017, the Council of Ministers approved the Comprehensive Mining and Mining Industries Strategy, which aims to address several challenges confronting the sector. The Government's objectives for 2030 are to make the mining sector the third major pillar of Saudi industry, alongside oil and petrochemicals, by more than tripling its contribution to GDP, reduce imports by about SAR 37 billion, create more than 200,000 direct and indirect jobs, and nearly double the sector's contribution to government revenue. A new Mining Investment Law was adopted in 2019.

21. Saudi Arabia was the world's second-largest crude oil producer in 2019 and the world's largest crude oil exporter. The Vision 2030 objectives in respect of the energy sector are to increase the localization of the oil and gas sector, increase the Kingdom's gas production and distribution capacity, develop oil- and gas-adjacent industries, increase the contribution of renewables to the national energy mix, and enhance the competitiveness of the energy market. Vision 2030 aims to transform Saudi Aramco from an oil producer into a global industrial conglomerate. In 2019, Saudi Aramco issued USD 12.0 billion of senior unsecured notes listed on the London Stock Exchange and became a public company, with shares listed on Saudi Arabia's main stock market, the Tadawul. In December 2017, Saudi Aramco and the Government entered into a revised Concession Agreement, and a new Hydrocarbons Law was enacted. The development of alternative sources of energy to diversify the sources of electricity generation is being pursued through the National Renewable Energy Program launched in 2017. The Government defined certain quantitative targets

regarding the contribution of renewable energy to the power mix and is considering the development of a nuclear energy capacity.

22. Reform of domestic energy prices, as provided for in the Fiscal Balance Program adopted in 2016, was an important element of Saudi Arabia's economic transformation policies during the review period. An Executive Committee for the Governance of Energy and Water Prices Reform was established to oversee the development of the energy and water price reform plan, considering its economic, social, and sectoral impacts, and to develop the necessary support mechanism during the transition period. In 2016, a first wave of price reforms involved increases in prices of water, fuel, and electricity; a second wave of price reforms was implemented at the start of 2018, focusing on gasoline and electricity. Domestic fuel prices remain far below the global average.

23. A vibrant, competitive, sustainable, and export-oriented manufacturing sector is seen by the Government as critical to the realization of Vision 2030 as the primary driver of non-oil exports, foreign investment, innovation, and higher-quality jobs. In this respect, the NIDLP, one of the Vision 2030 Vision Realization Programs launched in January 2019, envisions a "second wave of industrial development" or "second growth wave". The key guidelines under the new approach are that growth must focus on a diversified portfolio of sectors that are based on a sustainable competitive advantage; the private sector must lead the growth process, as the Government plays the role of the enabler; and growth must generate clear socio-economic benefits in terms of its contribution to GDP and employment. The new industrial policy is reflected in a comprehensive and detailed National Industrial Strategy (NIS) focusing on nine sectors: (i) equipment and machinery; (ii) renewable energy supplies; (iii) pharmaceutical manufacturing; (iv) medical supplies; (v) the automotive sector; (vi) oil- and gas-adjacent industries; (vii) food processing; (viii) the aviation industry; and (ix) military industries. The NIS is currently being updated.

24. The Financial Sector Development Program (FSDP), which is part of Vision 2030, aims to develop a strong, innovative, and stable financial sector, able to support private-sector growth through lending, new services, and an advanced capital market, while promoting and enabling financial planning in society more broadly. In the banking sector, the Central Bank further developed the regulatory framework in the areas of governance and transparency (issuance of a new Law on Anti-Money Laundering, and updating of disclosure requirements regarding retail financing and savings products), and prudential regulations (issuance of Business Continuity and Cyber Security Frameworks and of a Code of Conduct and Work Ethics in Financial Institutions, and adoption of a Whistle-blowing Policy for Financial Institutions, 2019). Saudi Arabia's ranking in indicators of shareholder governance and investor protection improved greatly during the review period. Revised licensing guidelines were issued in 2019 for banks under the Banking Control Law 1966, the main legislative text governing the banking sector. Under the guidelines, foreign bank branches are, in principle, subject to the same prudential requirements as locally incorporated banks. New rules were also issued for the licensing and supervision of branches of foreign insurance and/or reinsurance companies under which foreign insurance and reinsurance firms are allowed to open a branch if they meet some, primarily prudential, conditions.

25. The FSDP's second pillar aims to develop an advanced capital market for equity and debt, including a market for derivatives. Key activities under this Program include: (i) enhancing access by Qualified Foreign Investors through the simplification of processes and increases in foreign equity caps; (ii) privatizing state-owned enterprises through initial public offerings; (iii) deepening debt markets; and (iv) improving the quality of audits of public companies. As a result of reforms undertaken during the review period to protect investors, open trading to non-resident foreigners, and deepen capital markets, the Tadawul was included in three internationally renowned emerging market indices. While the stock market has grown significantly, it remains highly concentrated. Despite recent efforts to increase access by non-resident foreign investors to capital markets, investment in Saudi capital markets continues to face restrictions. Steps were taken to deepen debt markets through regulatory reforms to facilitate trading in bonds and other debt instruments, including for foreign legal and natural persons.

26. While the Telecommunications Act 2001, which establishes the basic regulatory framework for the telecommunications sector, remained unchanged, many regulatory changes were made during the review period in order to increase competition and attract investment. Reforms were initiated with respect to access to radio spectrum, the telecommunications services licensing framework, interconnection rules, and access to physical facilities. Royalty fees for telecommunications services were adjusted in 2018 in a deal that saw telecommunications operators commit to additional

investment in infrastructure. Several other regulatory changes were based on the priorities outlined in Vision 2030 and the ICT Sector Strategy 2023. The Strategy outlines key initiatives to transform the ICT sector, support technology localization, and expand the IT and emerging tech market. The ICT sector is considered as one of the major enablers of Vision 2030 and as serving as the foundation for digitizing the Kingdom. In this regard, regulatory frameworks were established in 2019 for cloud computing (including localization requirements for certain sensitive data) and for the Internet of Things, the Quality of Service Framework was revised in 2018 to ensure minimum acceptable levels of service, procedural rules were adopted in 2018 for mergers and acquisitions in the ICT sector, and regulations were adopted in 2018 to reduce spam.