

POLITICAL, ECONOMIC AND SOCIAL INITIATIVES THE KINGDOM OF SAUDI ARABIA

— May 2008 —

The Government of Saudi Arabia has implemented a number of political and economic reforms to encourage political participation, promote economic growth, increase foreign investment and expand employment opportunities. The Kingdom is updating and modernizing its academic curricula, and monitoring its religious schools. It held municipal elections as part of a comprehensive streamlining of local government. In addition, the Kingdom is promoting its free market economy by privatizing major state enterprises, establishing regulatory authorities to carry out reforms, improving foreign investment laws, revising a broad range of commercial laws and implementing intellectual property rights to foster innovation. It also became a member of the World Trade Organization (WTO) in December 2005.

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SAUDI ARABIA AND REFORM IN THE ARAB WORLD

In January 2003, the Kingdom of Saudi Arabia presented a bold initiative entitled 'Charter to Reform the Arab Position' to encourage economic and political reforms in the Arab world.

The Charter urges Arab states to recognize the need for internal reform and greater participation by citizens in the political process as important steps toward the development of Arab human resources and the democratization of the Arab world.

The initiative calls on Arab states to implement a Greater Arab Free Trade Zone by the end of 2005. The goal of this agreement is for Arab states to implement unified tariffs and duties within 10 years, which will serve as the basis for the establishment of a Common Arab Market (CAM). It also encourages members of the League of Arab States to modernize local economies, privatize government-owned industries and open economic development opportunities to outside investment and participation.

At the end of the 16th Arab Summit in Tunis, May 22-23, 2004, Saudi Arabia along with the other 21 members of the Arab League issued the 'Tunis Declaration' and pledged to carry out political and social reforms, promote democracy, expand popular participation in politics and public affairs, and reinforce women's rights. This resolve was reiterated at the 17th Arab Summit held in Algiers, Algeria, March 22-23, 2005, and at the 19th Arab Summit held in Riyadh, Saudi Arabia, March 28-29, 2007.

POLITICAL AND EDUCATIONAL INITIATIVES AND LEGISLATION

Elections

Saudi Arabia's first municipal elections were held in 2005. Elections for members of the municipal councils were held in three phases; the Riyadh region voted on February 10; the Eastern and Southern regions voted on March 3; and the Western and Northern regions voted in the final phase on April 21. A total of 592 representatives were elected.

University Partnerships

On March 4, 2008, the King Abdullah University of Science and Technology (KAUST) announced Academic Excellence Alliance partnerships with Stanford University and the University of California, Berkeley in the United States. KAUST will enlist the help of these two universities to assist with academic curriculum development, nominate founding faculty and establish the collaborative research direction for the new university.

The partnerships are with Stanford's Applied Mathematics and Computational Science Department and Berkeley's Mechanical Engineering Department. The foundation stone for the University was laid in October 2007 and it is expected to open in September 2009.

An agreement for scientific and academic cooperation was signed on March 23, 2008 between the Jeddah Community College (JCC) and Louisiana Community and Technical College System (LCTCS). JCC is a part of King Abdulaziz University.

On May 11, 2008, the Prince Nayef Arab Academy for Security Sciences signed a Memorandum of Understanding (MoU) with Johns Hopkins University in Baltimore, Maryland. The agreement includes joint scientific research, program organization and the exchange of scientific publications.

Education Developments

Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz laid the foundation of the King Saud University for Health Sciences in Riyadh on April 13, 2008.

The University will comprise a college of medicine, a college of nursing and allied medical sciences, a college of public health and health informatics, in addition to departments relating to academic affairs, training and development. It will be able to accommodate 17,000 students.

The King Saud University for Health Sciences in Riyadh, for which construction began in April 2008, will have a college of medicine, a college of nursing and allied medical sciences, a college of public health and health informatics.

Major Political Developments

In 1992, Custodian of the Two Holy Mosques King Fahd bin Abdulaziz introduced three major political developments to modernize the government within the framework of the Kingdom's traditions:

- The formation of the Consultative Council (Majlis Al-Shura) – The Consultative Council now consists of 150 members who serve four-year terms. The membership is divided into twelve committees: human rights, security, economics, finance, foreign affairs, public services, transportation and communications, social and health services, culture and information, administration, Islamic affairs, and education.
- The establishment of Regional Councils in each of Saudi Arabia's 13 provinces. The Regional Councils review management of the provinces by their respective local governments.
- The introduction of the Basic Law of Governance – The Basic Law is similar to a constitution.

On November 29, 2003, King Fahd approved changes that would enhance the legislative role of the Consultative Council. The amendments to Articles 17 and 23 of the Consultative Council System grant the Council the power to propose new bills or amendments to regulations in force and debate such proposals without prior approval from the King.

The Royal Court announced on October 20, 2006 the establishment of a committee called the Allegiance Commission to formalize the royal succession.

Under the new system, the King will nominate a Crown Prince, and the Allegiance Commission will vote on the candidate. In December 2007, King Abdullah issued a royal decree naming 35 members of the royal family to the Allegiance Commission.

King Abdulaziz Center for National Dialogue

On August 3, 2003, former Crown Prince, now King, Abdullah announced the establishment of the King Abdulaziz Center for National Dialogue to promote the public exchange of ideas as an essential part of Saudi life, and to bring together leading personalities from across Saudi Arabia and the political and social spectrums to discuss important issues facing the Kingdom. As of April 2008, seven National Dialogues have taken place, covering education, extremism, the role of women, youth issues, cultural tolerance, educational development and labor and employment in the Kingdom.

National Human Rights Association (NHRA)

In March 2004, King Fahd bin Abdulaziz approved the establishment of the first independent human rights organization in Saudi Arabia. The National Human Rights Association (NHRA) implements the international human rights charters signed by the Kingdom. The NHRA, which includes a special panel to monitor violations of women's rights, was formed following the October 2003 human rights conference entitled 'Human Rights in Peace and War'. The human rights conference concluded with the issuance of the 'Riyadh Declaration' which states that respect for human life and dignity is the foundation of human rights; that a human being deserves respect, regardless of race, color or sex; that violation of human rights is a crime deserving severe punishment; that to hold a human being in custody without legal basis is forbidden by Islamic laws; that disregard for privacy and property rights is a violation of human rights; and that tolerance of faith is required by Islam, which also prohibits coercing people to follow a certain religion.

Saudi Arabia was elected to the United Nations Human Rights Council in a first round of voting in May 2006.

UN Human Rights Council

On May 10, 2006, Saudi Arabia was elected to the United Nations Human Rights Council in a first round of voting.

UNESCO (United Nations Educational, Scientific and Cultural Organization)

Saudi Arabia was elected to the 58-member UNESCO Executive Board on October 24, 2007. There are 193 UNESCO member states. The Kingdom will be represented by Dr. Saeed Al-Mileis, Deputy Minister of Boys Education, who will serve a four-year term.

World Meteorological Organization (WMO)

Saudi Arabia was elected to a permanent seat on the WMO Executive Council on May 18, 2007. The WMO was established in 1950 and is a specialized agency of the United Nations

reporting on the state of the Earth's atmosphere, its interaction with the oceans, the climate and the resulting distribution of water resources.

International Maritime Organization Council

Saudi Arabia was reelected to the International Maritime Organization (IMO) Council on November 23, 2007. The IMO is the United Nations agency concerned with the safety of shipping and cleaner oceans. Saudi Arabia has been a member since 1969 and is also a member of its board of directors.

Press Law

On July 17, 2001, the Kingdom endorsed a 30-article law to restructure the press industry and allow journalists to establish a trade association. On February 24, 2003, the Saudi Journalists Association was officially established to protect the rights of journalists in the Kingdom and coordinate relations between journalists and the media establishment, and on June 7, 2004, elected a nine-member board that includes two women.

In March 2005, the Shura Council approved the formation of a similar association for writers to protect the rights of authors and offer assistance in publishing and promoting their writings. The Ministry of Culture and Information set up a steering committee to appoint members who would then elect the board of directors.

Education

In Saudi Arabia today, there are 19 public universities, more than 100 colleges and more than 26,000 schools. Some five million students are enrolled in the education system, which boasts a student to teacher ratio of 11 to 1 - one of the lowest in the world. Of the over 5 million students enrolled in Saudi schools, half are female, and of the over 600,000 students at Saudi universities and colleges, women comprise 58 percent of the student body. The government allocates about 25 percent of the annual state budget to education. Recent initiatives include:

- Saudi Arabia is in the middle of a multi-year program to update textbooks and curricula, introduce new teaching methods and provide better training for our teachers.
- Student councils are being set up in public schools to begin educating young Saudis about civic responsibilities and participatory governance.
- The Ministry of Higher Education is currently putting the finishing touches on a 25-year strategy to develop the higher education system in tune with the country's development and job market requirements.

Religion

The Ministry of Islamic Affairs is implementing a multi-year program to educate imams and monitor mosques and religious education to purge extremism and intolerance. The senior religious scholars have consistently condemned extremism and intolerance; and imams have been removed from their position for preaching them. On April 27, 2004, at a reception in

New York co-sponsored by the U.S.-Saudi Business Council and the Council on Foreign Relations (CFR), Saudi Arabia's Minister of Foreign Affairs Prince Saud Al-Faisal explained: "It is the religious establishment in Saudi Arabia that in fact is proving to be the body most qualified to de-legitimize Al-Qaeda's claims, the very religious community that is being attacked and discredited."

Judicial Regulations

King Abdullah bin Abdulaziz approved the reorganization of the Saudi judicial system on October 2, 2007. Changes to the existing system will include the establishment of a Supreme Court and labor and commercial tribunals. The Supreme Court will assume authority over judicial affairs; it will take over the functions of the Supreme Judiciary Council, previously the Kingdom's highest tribunal. The Supreme Judiciary Council will retain its administrative powers of the judiciary including judge selection and personnel affairs.

Saudi Arabia has passed several important regulations including:

The Law of Procedure Before Shari'ah Courts

In September 2001, Saudi Arabia passed the Law of Procedure Before Shari'ah Courts to regulate the rights of defendants and legal procedures. In addition to granting defendants the right to legal representation, the law outlines the processes by which pleas, evidence and experts are accepted by the court.

The Code of Law Practice

In January 2002, the Code of Law Practice went into effect in Saudi Arabia. The law outlines the specific requirements necessary to become an attorney, including education, registration and admission to the courts as well as licensing. The law also defines the duties and rights of lawyers, including the right of attorney-client privilege.

The Criminal Procedure Law

In May 2002, the Criminal Procedure Law, a 225-article bill, was passed to regulate the rights of defendants and suspects before the courts and police. The law protects a defendant's rights with regard to interrogation, investigation, and incarceration and also by granting the defendant access to the Bureau of Investigation and Prosecution. Members of the Bureau of Investigation and Prosecution are to ensure, through visits, that the rights of the defendants and persons in custody are being protected. The law also outlines a series of regulations that justice and law enforcement authorities must follow during all stages of the judicial process, from arrest and interrogation, to trial and the execution of verdicts, ensuring that the judicial process remains fair and balanced.

In April 2004, the Ministry of Justice organized a symposium on the Kingdom's judicial system. The communiqué declared that Shariah [Islamic Law] is viable at all times and places; that legal procedures should be filed in a manner that supports the individual's

rights and penal procedures should reflect human dignity in accordance with Shariah; and that equal rights should be extended to individuals with regard to legal aid in all phases of penal lawsuits of a public nature.

ECONOMIC INITIATIVES AND LEGISLATION

Information Technology

In November 2007, the Saudi Arabian General Investment Authority (SAGIA) announced the Kingdom will invest more than \$64 billion to develop a solid information technology infrastructure.

King Abdullah Financial City

Launched in May 2007 by King Abdullah bin Abdulaziz, the District will serve as headquarters for the Capital Market Authority, the Saudi stock exchange, the commodities market and a large community of financial professionals. When completed, it will be the largest financial center in the Middle East.

Accession to the World Trade Organization (WTO)

On December 11, 2005, Saudi Arabia officially became the 149th member of the World Trade Organization.

Formal accession was granted to the Kingdom after it was accredited by the General Assembly of the World Trade Organization on November 11, 2005 and following a standard 30-day waiting period.

In November 2007, the Saudi Arabian General Investment Authority (SAGIA) announced the Kingdom will invest more than \$64 billion to develop a solid information technology infrastructure.

As a part of becoming a WTO member, the Kingdom has signed 36 certified, bilateral market access agreements with other WTO members, including, most recently, the U.S. on September 9, 2005. Saudi Arabia and the European Union signed a bilateral agreement on August 31, 2003, guaranteeing free access to goods and services.

The Capital Markets Law

On June 16, 2003, the Council of Ministers passed the Saudi Arabian Capital Markets Law. The law has stimulated and strengthened the Saudi economy and increased the participation of Saudi citizens in the capital markets. The law:

- Established the Saudi Arabian Securities and Exchange Commission (SASEC) to protect investor interests, ensure fair business, promote and develop the capital market, license brokers and securities to the public.
- Established the Saudi Arabian Stock Exchange (SASE). As of December 31, 2004, its capitalization was over U.S. \$300 billion, making it the largest stock exchange in the region.

Foreign Investment Law

The Foreign Investment Law, enacted by SAGIA was set up to allow foreign investors to own property, transfer capital and profits, claim full ownership of their projects and enjoy a reduction in tax rates. The law protects foreign investors from confiscation of property without a court order or expropriation of property, except for public interest, against an equitable compensation.

Enacting the GCC Customs Union

The Customs Union was established on January 1, 2003, by the Gulf Cooperation Council (GCC) to standardize customs duties in the six member countries. In accordance with the Customs Union, the Government of Saudi Arabia approved the reduction to 5 percent of customs for goods formerly charged between 7 and 12 percent. In addition, the GCC agreed to the principle of a single port of entry. Most related laws and regulations will be standardized by the end of 2005.

U.S.-Saudi Council for Trade and Investment

On July 31, 2003, Saudi Arabia and the United States signed an agreement to strengthen commercial and investment relations. As a result, the U.S.-Saudi Council for Trade and Investment was established to meet at least once a year to enable representatives of both countries to review the signing of additional agreements on trade, protection of intellectual property rights, investment, vocational training and environmental issues.

RELEVANT GOVERNMENT AGENCIES

The following is a list of agencies established to help implement economic reform in Saudi Arabia.

The Supreme Economic Council (SEC)

In August 1999, Saudi Arabia announced the formation of the Supreme Economic Council (SEC). The SEC evaluates economic, industrial, agricultural and labor policies to assess their effectiveness. Privatization efforts have gained momentum since the creation of the SEC, which oversees economic restructuring aimed at opening up Saudi markets and attracting investments.

On March 25, 2007, the SEC issued a revised and shortened list of the economic sectors in which foreign investments are not allowed thereby allowing foreigners to invest in new areas. Sectors opened included insurance services, wholesale and retail trade, air and train transport, and communications services.

The Supreme Council for Petroleum and Minerals (SCPM)

Saudi Arabia established the Supreme Council for Petroleum and Minerals (SCPM) in January 2000, as a body responsible for policymaking on the exploitation of petroleum, gas and other hydrocarbon materials. The SCPM passed the Gas Initiative to develop natural gas fields, transmission pipelines and petrochemical projects in cooperation with international as well as national companies.

The Supreme Commission of Tourism (SCT)

The Supreme Commission of Tourism (SCT) was established in April 2000 to help the tourism sector grow and encourage investment from the private sector. Each year, about two million Muslims from all over the world visit Saudi Arabia to perform the Hajj, and many more come to perform the minor pilgrimage of Umrah. The Kingdom is a popular destination for non-religious activities as well. The Kingdom is rich in history and culture and has a variety of tourist attractions to offer, including archeological sites, varied landscapes and shorelines rich in marine life. On March 15, 2004, the Cabinet approved a general strategy for developing the nation's tourism to be carried out by the SCT. The Kingdom's tourist industry is expected to create 489,000 jobs, a number that could reach as high as 2.3 million.

In February 2008, the SCT began a project to develop the historic area of Diriyah into a major cultural and tourist center. The walled city lies 20 miles outside Riyadh and is the ancestral home of the Al-Saud family and was the first capital of the Saudi state.

The Saudi Arabian General Investment Authority (SAGIA)

In April 2000, the Saudi Arabian General Investment Authority (SAGIA) was set up to further promote foreign investment and serve the business community as a one-stop shop for licenses, permits, and other business paperwork. The 2000 Foreign Investment Law included property ownership rights for foreign investors as well as reduced tax rates for businesses. SAGIA works with the Supreme Economic Council (SEC) and the Supreme Commission of Tourism (SCT) and serves as a mediator between investors and the government.

The Food and Drugs Authority (FDA)

In March 2003, a Food and Drugs Authority (FDA) was established to provide consumer protection and ensure the safe utilization of all foodstuffs, pharmaceuticals, medical devices and electronic products.

The Council of Saudi Chambers of Commerce and Industry

The Council of Saudi Chambers of Commerce and Industry represents the regional Chambers of Commerce and Industry at both national and international levels. The Council monitors and researches economic issues, helps encourage economic growth, organizes seminars and conferences both within the Kingdom and abroad, and creates foreign

investment opportunities through trade missions to other nations. In addition, the Council's work has resulted in the issuance of new regulations that allow foreign businessmen, investors, and representatives of foreign firms to acquire entry visas to the Kingdom without having to consult with the Ministry of Foreign Affairs.

ECONOMIC INDICATORS

The best indicator of Saudi Arabia's economic growth is the increase in the Gross Domestic Product (GDP), from \$20 billion in 1970 to an expected \$378 billion in 2007. Saudi Arabia's economy is the largest in the Middle East. The Kingdom ranked 35th out of 131 countries in the Global Competitiveness Report for 2007-2008. The Report was released on October 31, 2007 by the World Economic Forum (WEF).

In December 2007, Moody's Investors Service assigned long-term local and foreign currency issuer ratings of A1 to Saudi Electricity Company (SEC), with a positive outlook. In April 2007, Moody's also gave the Saudi Basic Industries Corporation (SABIC) a long-term local and foreign currency rating of A1, with a stable outlook.

In July 2007, Standard & Poor's raised the Kingdom's foreign and local currency long-term sovereign credit ratings from A+ to AA-. The ratings previously achieved an A to A+ upgrade in 2006 on the basis of excellent financial performance.

Also in 2006, international ratings agency Fitch Ratings upgraded Saudi Arabia's foreign currency and local currency Issuer Default ratings from A to A+. Fitch also upgraded Saudi Arabia's Country Ceiling rating from A to AA-.

Saudi Arabia ranks the 19th largest exporter and the 20th largest importer of goods in the world. In 2007 trade between Saudi Arabia and the United States was estimated at almost \$40 billion.

Saudi Arabia is the world's largest oil exporter and has the largest proven oil reserves, and the largest spare production capacity. The Kingdom has utilized oil revenues to expand and diversify the Saudi economy to reduce its dependence on oil, which has resulted in impressive gains in the non-oil sector. In 2007, the non-oil industrial sector is estimated to have grown by 8.6 percent; the construction sector by 6.9 percent; the electricity, gas, and water sector by 4.4 percent; transportation and communications sector by 10.6 percent; and wholesale, retail, restaurants, and hotels sector by 6 percent in real prices.

In 1970, Saudi Arabia had about 199 industrial plants with overall investments estimated at \$622 million. By 2005, the total number of factories in the Kingdom exceeded 3,748 with a total investment of more than \$71 billion.

PRIVATIZATION

In November 2002, the Kingdom of Saudi Arabia announced plans to privatize many of its vital economic sectors. The Supreme Economic Council (SEC) has taken overall charge of the program, specifying the sectors to be privatized and setting out a strategic plan and timetable for the privatization program. Sectors open to privatization include: telecommunications, civil aviation, desalination, highway management, railways, sports clubs, health services, government hotels, municipal services, education services, operation and management of social service centers, Saudi employment services, agricultural services, construction and management of abattoirs, public parks and recreation centers, and cleaning and waste collection.

Concrete examples of privatization efforts include:

Telecommunications

In December 2002, the Saudi Telecom Company (STC) was privatized, and 30 percent of its shares were sold to the public in an Initial Public Offering (IPO) that raised more than \$4 billion. In early February 2005, the number of subscribers to STC's cell phone services was over nine million.

On July 5, 2005, the Communications and Information Technology Commission (CITC) granted a third generation mobile license to the STC for a fee of U.S. \$201 million. At the same time, the CITC announced a plan, the Saudi Home Computing Initiative, designed to bring state-of-the-art technology into homes to raise computer literacy. The goal is to place one million PC packages in Saudi homes within five years.

In 2007, three new companies including Bahrain Telecom Co. (Batelco), Hong Kong's PCCW and U.S. Verizon Communications were awarded licenses to provide land phone services in the Kingdom. The licensing of these three companies will increase the number of land phone service providers in the Kingdom to four and will end the monopoly of state-owned Saudi Telecom Company.

An agreement between Saudi Telecom Company and several international companies was signed in February 2008 to establish the International Marine Way, a marine cable that will link the Kingdom with France and Italy via Lebanon and Egypt and with India via the UAE and Pakistan.

On March 20, 2008, the Etihad Atheeb Telecommunications Co. (Atheeb) awarded a \$165 million broadband infrastructure contract to Motorola for delivery of a fully integrated end-to-end nationwide WiMAX 802.16e solution featuring smart antenna technology. The contract also includes end-to-end delivery of network planning, installation, optimization and support services. The new infrastructure will enable Atheeb to offer broadband services to customers across the Kingdom.

Atheeb was formed as a new provider of fixed telecom services by a consortium consisting of the Batelco, Atheeb Group, Al Nahla and Traco companies. It was licensed in 2007.

Mobile Telecommunications Company Saudi Arabia (Zain in Saudi Arabia) signed a \$335 million turnkey contract with Motorola to deploy and manage a 2G/3G mobile communications network in Saudi Arabia. The network will allow Zain to offer Saudi customers high-speed mobile Internet access and a range of mobile multimedia applications and services.

Zain was formed to operate a mobile telecommunications business in Saudi Arabia under the terms of the third mobile operating license awarded in July 2007.

Media

The Prince Ahmed bin Salman Applied Media Institute opened in Riyadh on April 27, 2008. The specialized institute is the first of its kind in the Arab world and will provide technical, design and practical training to prospective journalists and media persons.

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Postal Services

In 2002, the Saudi government transferred the responsibilities of the state-run postal services from the Ministry of Posts, Telegraphs and Telephones (PTT) to the private sector. In January 2003, Dr. Khaled Al-Otaibi, Director General of Posts at the Ministry of Posts, Telegraphs and Telephones (subsequently renamed Telecommunications and Information Technology), reported that privatization of the postal services has been operating successfully, with about 100 agencies established by the private sector.

Saudi Railway Organization (SRO)

The Supreme Economic Council (SEC) approved the implementation plans for the following projects under the direction of the Saudi Railways Organization:

1. The Saudi Landbridge: The Saudi Landbridge Project will connect Jeddah on the Red Sea with Dammam and Jubail on the Arabian Gulf via Riyadh. It involves 950 km of new line between Riyadh and Jeddah and a 115 km new line between Dammam and Jubail. The existing Dammam-Riyadh line will also be upgraded as part of the project.

Once completed, the Landbridge railway will have the capability to move large quantities of cargo over long distances at competitive rates, providing a considerable savings in shipping time for goods from Europe and North America. It will also offer high-speed passenger transport.

The Kingdom will grant concessions to the private sector on the basis of a BOT (build-operate-transfer) contract. This will be one of the largest BOT schemes ever undertaken in the region.

2. Makkah-Madinah Rail Link: This railway will link Makkah and Madinah to the western port city of Jeddah. The project will provide a fast and reliable mode of transport for Umrah visitors and Hajj pilgrims traveling to Makkah and Madinah via Jeddah.

The Kingdom will grant concessions to the private sector on the basis of a BOT contract as well. On February 20, 2008, King Abdullah bin Abdulaziz ordered that the construction of the Makkah-Madinah rail link project be financed by Saudi specialized funds. The move is expected to speed up implementation of the project.

Railway Authority

The establishment of a Railway Authority was approved by the Cabinet on January 21, 2008. The new authority will organize railway transport and safety, issue licenses to railway service providers, monitor unfair competition, and investigate railway accidents and losses. It will operate as an independent body in terms of finance and administration, and its governor will be appointed by royal decree. The Cabinet stipulated that the Saudi Railway Organization (SRO) would continue to function until the Authority's rules and regulations are in place.

Airports

The Kingdom will privatize the management and operation of local and international airports. However, airport security will remain in the hands of the government. Saudi Arabia has 24 domestic airports and three international, in Riyadh, Jeddah and Dammam. In October 2007, it was announced that a fourth international airport is scheduled to be built in Madinah within four years. In addition, four new airports will be established throughout the Kingdom with plans to invest \$5.4 billion in new aviation-related projects.

Airlines

The Saudi aviation sector was opened to private enterprise in June 2003. This gave other companies the opportunity to provide domestic airline services and ended market domination by Saudi Arabian Airlines (SAA), previously the sole carrier for domestic flights.

Saudi Arabian Airlines (SAA) is one of the largest airlines in the Middle East, with a fleet of 139 aircraft flying to 50 cities on four continents. Plans to privatize SAA have been completed and the airline is moving ahead to privatize a number of its sectors.

Sama, a startup Saudi airline, was awarded a national air carrier license to operate flights in the Kingdom, in late December 2006.

Ports Authority

The Ports Authority has assigned several projects to the private sector to expedite the handling of goods and maritime services at the Kingdom's eight seaports. For example, at the Jeddah Islamic Port and the King Abdulaziz Port in Dammam, the King Fahd Vessel Repair Yard (located at both ports) and the two areas for processing re-exports are now leased by the private sector.

In July 2006, Director General of the King Abdulaziz Port Na'eem Al-Na'eem said that the private sector has invested \$800 million in the Kingdom's ports network, the largest in the Middle East.

Plans are currently underway to build a ninth port at Ras Al-Zour in the Eastern Province in order to facilitate mining in the region.

Health Care Sector

The Ministry of Health employed a private company in 2003 to promote its pre- and post-natal healthcare education program, with the program introduced in more than 85 percent of the Kingdom's hospitals. On October 28, 2003, the Minister of Commerce and Industry, Dr. Hashem bin Abdullah Yamani, approved the formation of a joint stock company for medical care that will establish, own and manage health facilities, including hospitals.

National Company for Cooperative Insurance (NCCI)

On May 18, 2004, the SEC approved selling off government shares in the Arab world's largest insurance company, the National Company for Cooperative Insurance (NCCI). The sale of government shares in NCCI will help open up the Kingdom's insurance market, which is estimated at more than \$2.5 billion. On November 7, 2004, Minister of Finance Dr. Ibrahim Al-Assaf announced that seven million shares of the NCCI would be floated for public subscription on December 21, 2004.

Saudi Arabian Mining Company 'Ma'aden'

On May 19, 2004, the SEC approved the privatization of the Saudi Arabian Mining Company 'Ma'aden', which is wholly owned by the Ministry of Petroleum and Mineral Resources. Initially, 'Ma'aden' set up a unit to study and evaluate the precious and base metals sector on January 1, 2005.

On March 1, 2005, 'Ma'aden' received a final report on the feasibility study for a fertilizer complex that will have the largest fully-integrated di-ammonium phosphate (dap) plant in the world. Start-up is underway with construction by Samsung Engineering Company. Exportation is anticipated in 2008.

The construction of a multibillion fertilizer plant and an aluminum smelter at Ras Al-Zour by Ma'aden is also underway, as are plans to build a port at Ras Al-Zour to facilitate the mining industry.

Economic Cities and Industrial Areas

The King Abdullah Economic City was launched in Rabigh by King Abdullah on December 20, 2005. The \$26.6 billion residential and commercial project near Jeddah will include an international airport, a port and educational facilities. It is expected to generate up to 500,000 jobs in various industries. On February 1, 2008, it was announced that Cisco Systems was selected to design the infrastructure network for the city. It will provide consultancy and advisory services, identifying networking requirements for infrastructure-related services within the megaproject.

An economic city in Jizan, launched by King Abdullah on November 4, 2006, is expected to attract more than \$26.7 billion in investment and create almost half a million jobs. This city will feature an industrial zone, an energy/desalination plant and a residential area.

The Prince Abdulaziz bin Musaed Economic City in Hail, located in the north of Saudi Arabia, will focus on transportation and logistical services while creating 120,000 job opportunities.

The Madinah Knowledge Economic City announced an agreement with Cisco Systems on January 20, 2008 for the development of a “smart city”. Cisco will provide the network architecture for the city, interconnecting all buildings over a highly secure Internet Protocol (IP) network, allowing for centralized management. The city’s network will facilitate data, voice, video and mobile communications across commercial and residential buildings. Cisco will also establish the Cisco Networking Academy to help train skilled professionals to design and maintain the city’s networks.

In April 2007, it was announced that economic cities would be built in Tabuk and in the Eastern Province, bringing the total economic cities in the Kingdom to six.

The Jubail Water and Electricity Company was approved for establishment on April 21, 2007. The Company will have a capital of \$1.3 billion and will operate the water and electric projects for the Jubail Industrial area.

Saudi Arabia was the largest beneficiary of foreign direct investment (FDI) in the Arab world in 2006 according to a recent UN report.

FOREIGN INVESTMENT

In April 2000, the Saudi Arabian General Investment Authority (SAGIA) was set up to further promote foreign investment and serve the business community as a one-stop shop for licenses, permits, and other business paperwork. Since its establishment, SAGIA has licensed more than 2,000 projects worth around \$15 billion.

In March 2007, the Supreme Economic Council (SEC) issued a revised list of economic sectors in which foreign investment is not allowed. Several sectors including wholesale and retail trade, air and train transport and communication services were removed from the list

thereby allowing foreigners to invest in these new areas. The SEC revised the list in line with Custodian of the Two Holy Mosques King Abdullah's reforms aimed at strengthening the economy and to comply with Saudi Arabia's commitments as a member of the World Trade Organization.

Saudi Arabia was the largest beneficiary of foreign direct investment (FDI) in the Arab world in 2006 according to a recent UN report. The Kingdom attracted \$18 billion, a 51 percent increase over 2005. The increase in FDI was due to an improved business climate and other economic reforms implemented to strengthen the economy.

Insurance

Thirteen insurance companies were licensed in Saudi Arabia on October 11, 2006, ending the monopoly held by the National Company for Cooperative Insurance (NCCI), which was renamed Tawuniya in 2007. Most of these new businesses are joint ventures with foreign insurance companies.

As of March 2008, a total of 20 insurance companies had been granted licenses by the Saudi Arabian Monetary Agency (SAMA), with 24 more companies waiting to be licensed.

An Insurance Law was passed on July 14, 2003, that established legal structures governing insurance and reinsurance transactions in the Kingdom.

Saudi Railway Organization (SRO)

The Supreme Economic Council (SEC) approved plans for two future projects, under the direction of the Saudi Railways Organization. The first, the Saudi Landbridge, will connect the port cities of Jeddah, Dammam and Jubail, passing through the capital city Riyadh. The second, the Makkah - Madinah Rail Link, will connect the two holy cities with the port city of Jeddah.

Energy Sector

On December 4, 2007 Samsung Engineering Co., South Korea's top plant maker, signed a \$431 million contract to build a refinery plant in Ras Tanura aimed at producing more eco-friendly fuel. The diesel hydro-desulfurization plant will be able to process 100,000 barrels of diesel per day. Samsung Engineering is also in the process of building the world's largest ammonia plant for the Saudi Arabian Mining Company. With a capacity of 3,300 tons/day the plant is scheduled for completion by December 2010. Emerging as a major player in Gulf region construction, Samsung has also announced that it will build a high-profile "Safety Training Center" with a permanent office in Saudi Arabia. The company is currently involved in eight projects in the Kingdom.

By 2004, agreements worth more than \$7 billion had been reached with international oil companies for investments in the energy sector, including a project with Royal Dutch/Shell and TotalFinaElf, to develop upstream gas operations in the southern part of the Empty Quarter [Rub' al-Khali]. These are the first of what is expected to be a total of

more than \$25 billion of investments over the next few years. Saudi Aramco is already involved in global business, from gasoline distribution in the United States to crude refining in Pakistan.

Mining

In April 2003, the Minister of Petroleum and Mineral Resources announced that a new mining strategy was being finalized to bolster private investment in the mining sector. The Mineral Investment Act was passed on September 13, 2004; it will create jobs and allow local and foreign investors to explore the country's mineral resources. The Kingdom is rich in minerals such as phosphate, iron ore, bauxite, zinc, and copper.

In June 2005, the Kingdom confirmed plans to float shares to Saudi investors in its petrochemical and mining companies, worth up to \$6 billion.

On April 30, 2007, the Saudi Arabian Mining Company (Ma'aden) signed a \$7 billion joint venture agreement with Canadian aluminum and packaging company Alcan Primary Metal Group. The fully integrated project will include bauxite mining, aluminum refining, a power plant and aluminum smelting.

In May 2007, Saudi Aramco and U.S. chemical giant Dow Chemical Company signed a Memorandum of Understanding (MoU) to establish, own and operate a chemicals and plastics production complex in the Kingdom. The complex, to be called the Ras Tanura Integrated Project, will be operationally integrated with the Ras Tanura refinery complex and the Ju'aymah gas processing plant, both of which are owned and operated by Saudi Aramco.

An agreement between the King Abdulaziz City for Science and Technology (KACST) was signed with the New York-based computer giant IBM on February 26, 2008 to establish an international center for advanced research on water desalination, energy and petrochemicals in Riyadh.

Water and Electricity Sector

Saudi Arabia is the world's largest producer of desalinated water. In August 2003, the Ministry of Water and Electricity invited Saudi and international companies to bid on water desalination and electricity projects worth more than U.S. \$8 billion. The offers were extended in March 2004. Continuous efforts are under way to privatize the Kingdom's desalination plants, established at an increased total cost of \$14.4 billion. Once feasibility studies are completed, all the desalination plants will be presented to the private sector for financing and managing.

OIL

With one quarter of the world's known oil reserves and 13 percent of world production Saudi Arabia is the world's leading producer and exporter of oil. Its policies on the production and export of oil and petroleum products have a tremendous impact on the global energy market, as well as the global economy. Mindful of their responsibility, Saudi Arabia has remained committed to ensuring stability of oil supplies and prices.

At the end of 2007 Saudi Arabia's proven oil reserves consist of 264 billion barrels. In addition the undiscovered resources are estimated at 200 billion barrels. At the current rate of production, reserves will last for approximately 80 years allowing the Kingdom to provide the global market with adequate quantities of crude oil the world can depend on for its prosperity and economic growth.

In 2006, Saudi Arabia earned about \$161 billion in net oil revenue. The Kingdom has always acknowledged that unstable energy markets and unrealistically low or high oil prices harm both producers and consumers. Following the terrorist attacks on September 11, 2001, the Kingdom dispatched 9 million additional barrels of oil to the United States to ensure price stability and availability. In the fall of 2002, in order to maintain market stability, Saudi Arabia boosted oil production to compensate for the fall in Venezuelan production, and in the spring of 2003, it boosted output to compensate for the loss of Iraqi production. To continue meeting ever-increasing global demands, Saudi Arabia increased its capacity in 2004 to 11 million bpd, and plans a further increase to 12.5 million by 2009.

Vast reserves will allow Saudi Arabia to continue to be a major oil producer for up to 100 years from now, even with an increase in production capacity to 15 million bpd. In this respect, national oil company Saudi Aramco continues to develop new oil fields such as the two discovered south of the Al-Ghawar Field in the Eastern Province on April 15, 2007.

In a reassurance to consumers, Minister of Petroleum and Mineral Resources Ali Al-Naimi confirmed on November 28, 2007, that while the Kingdom is concerned over increasing oil prices, the global market is well supplied and inventories are sufficient to meet rising demands.

The Saudi Arabian Oil Company (Saudi Aramco) announced two joint venture agreements for the construction of refineries in Saudi Arabia with the Houston-based ConocoPhillips and France's Total in May 2008.

Aramco and ConocoPhillips announced the approval of continued funding for the development of the Yanbu Export Refinery Project on May 16, 2008. The two companies will construct a 400,000 bpd, full-conversion refinery in the Yanbu Industrial City. Expected to open in 2013, the Yanbu refinery will produce high-quality, ultra-low sulfur refined products. ConocoPhillips and Saudi Aramco are also planning to form a joint-venture company, with equal interests to own and operate the proposed new refinery. Subject to required regulatory approvals, the companies plan to offer an interest in the refinery to the Saudi public.

According to the agreement signed on May 14, 2008 with Total, the two companies plan to invest in a 400,000 bpd world-class, full-conversion refinery in Jubail. The refinery will

process Arabian heavy crude and high-quality refined products. It is expected to begin operations at the end of 2012. A joint venture company for the Jubail refinery will be formed during the third quarter of 2008. Saudi Aramco will initially own 62.5% of the company and Total will own the remaining 37.5%. Subject to required regulatory approvals, the parties are planning to offer 25% of the company to the Saudi public.

ECONOMIC DIVERSIFICATION

Over the past three decades, the non-oil sector of the Saudi economy has grown from 35 percent to more than 60 percent of total GDP.

Mineral Resources – Saudi Arabia has the largest supply of mineral resources in the region, including precious, base and industrial minerals. The government is encouraging enterprises for extracting and processing these minerals - an area where U.S. companies play a major role.

In Jubail, a second major industrial city is underway to exploit the Kingdom's mineral resources, including phosphates, bauxite, and aluminum. About 30 new plants are being built and over 40 more are planned. About 55,000 jobs will be created in the process.

Construction Materials – Saudi Arabia is the largest producer of construction materials in the Middle East, and construction is the Kingdom's largest non-oil industry. According to the National Commercial Bank (NCB), the largest bank in Saudi Arabia, the construction and building materials sector currently contributes an annual \$12 billion to the Saudi economy. Saudi Arabia's construction products, including cement, tiles, marble, glass, granite, cable, air-conditioning equipment and fabricated iron and steel, are all exported throughout the region.

Pharmaceuticals – Saudi Arabia has a \$1.17 billion pharmaceutical market estimated to grow at 15 percent annually. With more than 2,400 pharmacies and more than 4,600 registered drugs, both generic and patented, Saudi Arabia is the largest consumer of pharmaceuticals in the Gulf region. The United States exported more than \$82 million worth of pharmaceuticals to the Kingdom in 2001, a 47 percent increase from the previous year.

Banks – On October 6, 2003, during a visit by German Chancellor Gerhard Schroeder, the Kingdom gave Deutsche Bank approval to open a branch and operate as the first independent, wholly foreign-owned bank in Saudi Arabia. Additional possibilities for wholly foreign-owned banks in Saudi Arabia include BNP Paribas, Bank of France and J.P. Morgan Chase Bank.

EMPLOYMENT

The following information is based on data on the labor force from the Central Department of Statistics (CDS) of Saudi Arabia's Ministry of Economy and Planning.

Employment Figures

The total population in Saudi Arabia increased from 12 million in 1980 to 23.68 million in 2006. Of these, 17.27 million are Saudi nationals. The Saudi labor force is defined as all Saudis, 15 years of age and older, who are either employed or seeking a job.

A May 2006 study, conducted by the General Statistics Department, reported that the unemployment rate among Saudis is at 9.1% for males and 26.3% for females.

Saudi jobless claims have registered 180,443 job applicants within the framework of the Ministry of Labor's campaign 'Employ Saudis', the Minister of Labor Dr. Ghazi Al-Qusaibi announced on January 12, 2005.

The Creation of Job Opportunities

The Saudi government seeks to create jobs through the various reforms addressed in this booklet such as economic diversification, privatization, opening up the market and other initiatives.

The National Program for Training and Employment helps Saudi citizens find jobs in both the public and private sectors. It is responsible for the creation of job opportunities, job training and Saudization. In early 2005, the Saudi government is preparing to spend over half a billion dollars to train young Saudis for future work experience. The money is expected to come from the human resource development fund recently set up by the government.

As part of the Saudization measures, limitations are applied to the number of foreign workers employed in order to slowly decrease dependency on them. In 2002, the non-Saudi labor force amounted to 3.09 million.

The Centennial Fund

On July 8, 2004, King Fahd bin Abdulaziz approved the formation of a charitable foundation called the 'Centennial Fund' that provides assistance to all young Saudi citizens who seek to achieve economic independence by setting up small business enterprises. On July 20, 2004, the Centennial Fund signed an agreement with the Saudi Arabian General Investment Authority (SAGIA) to work together in helping Saudi entrepreneurs to translate their commercial ideas into projects.

The Centennial Fund, which has already extended grants to 16 projects in its pilot program, is not only providing financial support to young men and women, but also grooming them to be dynamic entrepreneurs able to contribute to the Saudi economy over the coming decades. A total of about \$1.34 million is available in the Fund. In the pilot program, twelve men and four women between the ages of 18 and 35 were awarded start-up funding for their own businesses, with another 23 winners announced later.

Employment of Women

In 2006, Saudi women amounted to 10.7 percent of the Saudi labor force. (Arab News, 2/6/2006) By 2007, they accounted for 14 percent of the total Saudi labor force in the Kingdom. (Arab News, 3/10/2007) Saudi Arabia's efforts to empower women are helping; they now own more than 20,000 companies and establishments and hold 21 percent of total private investments. (Arab News, 3/10/2007)

Accounting, banking and computer training centers have been established to prepare women for jobs. Training programs organized by the General Organization for Technical Education and Vocational Training (GOTEVOT), implemented by the Ministry of Labor, have also benefited women. The educational, technological, medical, and automotive sectors are just several of the industries opening to women.

The Ministry of Education and the Ministry of Higher Education are also reserving top jobs for women.

In October 2003, Dr. Maha Abdullah Orkubi was appointed Dean of the Jeddah branch of the Arab Open University (AOU), the first time for a Saudi woman to be appointed to such a senior academic position.

In June 2005, Saudi national Dr. Mona Al-Munajjed was one of twelve winners who at the United Nations in New York received an award for the 2005 'UN-21' competition. She was honored for her work with non-government organizations (NGOs) in the Kingdom, specifically for her project 'Activating the Role of Women's Welfare Associations in Saudi Arabia'.

In November 2005, Lama Al-Sulaiman and Nashwa Taher were elected to the board of directors of the Jeddah Chamber of Commerce and Industry (JCCI). In December 2005, the Ministry of Commerce and Industry appointed two women to the board, Madawi Al-Hassoun and Olfat Qabbani, bringing the total number of women on the board to four.

Also in December 2005, Nadia Bakhurji won a seat on the 10-member board of the Saudi Engineers Council. The Council has only 20 women among its 5,000 members.

And in late December 2005, Gulf One Investment Bank named Dr. Nahed Taher as its CEO, making her the first Saudi woman to head a bank in the Gulf region.

In October 2006, Nabeela Al-Tunisi, Director of Supporting Administration and Projects Monitoring Methods for Saudi Aramco, was named one of the world's top 25 female project managers by *Projects Management Network*.

In March 2007, Dr. Samia al-Amoudi became a recipient of the U.S. Department of State's first International Women of Courage Award. She was presented the Award by U.S. Secretary of State Condoleezza Rice and was recognized for her contributions to breast cancer awareness across the Kingdom and throughout the region.

Naila M. Faran became the first Saudi woman to earn the Nuclear Medicine Certification Board's (NMTCB) certification in Nuclear Medicine Technology in September 2007. Faran is a senior radiologic technologist with the Saudi Aramco Medical Services Organization (SAMSO).



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