



Sweden
Sverige

BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN SAUDI ARABIA 2024

A REPORT FROM BUSINESS SWEDEN IN SAUDI ARABIA

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FOREWORD

Saudi Arabia has long been Sweden's largest export market in the Middle East. Swedish business is well represented in the Saudi Arabian market. In addition to manufacturing and consumer trade, Swedish industry companies have participated in extensive infrastructure projects in the country. The two kingdoms share a history of strong bilateral relations and cooperation dating back to the 1950s when the first Swedish companies established their presence in Saudi Arabia. Since then, the economic partnership has steadily progressed, with approximately 60 Swedish enterprises actively operating in the Saudi market today.

In 2023, amidst a shifting global economic landscape, the Middle East emerged as the fastest growing export market for Swedish companies¹ and Saudi Arabia stands out as Sweden's largest export partner in the region. Saudi Arabia's national transformation strategy, Vision 2030, aimed at diversifying its economy away from oil dependency, has opened an extensive and diverse project pipeline spanning products, services, and technology. Government initiatives to foster non-oil sectors and broaden the tax base have led to a significant increase in the non-oil sector which grew by 4.6 per cent in 2023², thereby supporting Saudi Arabia's future economic development with projected GDP growth of 2.7 per cent in 2024 and 5.5 per cent in 2025³. In 2023, non-oil activities⁴ contributed to 50 percent of Saudi Arabia's real GDP, while oil revenues constituted approximately 85 per cent of the country's exports.

Saudi Arabia has implemented reforms to encourage social, legal, and economic liberalisation, attracting foreign investment, and further changes are underway. Today, EU is the largest source of FDI to Saudi Arabia (66 per cent of all FDI inflows to Saudi Arabia originated from the EU in 2022)⁵, while also being Saudi Arabia's second largest trade partner overall. This statistic, coupled with the recent launch of the European Chamber of Commerce in the Kingdom of Saudi Arabia (ECCKSA) in 2024, indicates a strengthened confidence among European investors in the Saudi Arabian markets and its overall business environment.

Additionally, Saudi Arabia's sovereign wealth fund is actively investing in alternative industries, with several mega projects already underway. These investments are shaping the business climate and opening up new prospects for collaboration between Sweden and Saudi Arabia. Contributions from Swedish innovative and sustainable solutions are sought after and can have a positive impact.

This year, the Business Climate Survey included Saudi Arabia for the first time. Among the 24 surveyed markets in the Global Business Climate Survey 2024, Saudi Arabia and the UAE emerge as offering the perceived most favourable business climate for Swedish companies. The data suggests a higher optimism in these markets compared to in the rest of the Middle East and Africa, Asia-Pacific, the Americas, and Western Europe.

This survey was created for and by the local Swedish business community in Saudi Arabia, conducted through Business Sweden during January and February 2024. Together, we seek to understand the country's appeal to Swedish businesses and how to address the challenges ahead, and we would like to extend our most sincere gratitude to the participating companies and respondents who have contributed to this report.

We hope this report will offer valuable insights to all companies interested in the Saudi Arabian market. By listening to the Swedish companies already present, we hope to provide a valuable addition to other statistical data and macroeconomic analyses from the market, and as always, Business Sweden stands ready to support all Swedish companies interested in exploring opportunities in the Middle East.



H.E. Petra Menander
Ambassador of Sweden
to Saudi Arabia



Massoud Biouki
Market Area Director,
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¹ Statistiska centralbyrån (SCB), 2024

² Saudi Arabia's general authority for statistics (GASTAT), 2024

³ International Monetary Fund (IMF), 2024

⁴ Defined by Saudi Arabia's general authority for statistics (GASTAT): all other economic activities except for oil activities and government services activities.

⁵ Ministry of Investment in Saudi Arabia (MISA), 2024

35 respondents in Saudi Arabia

Current business climate

70%

of Swedish companies view the business climate as good or very good

Industry turnover

77%

of Swedish companies expect their industry turnover to increase

Future investments

77%

of Swedish companies plan to increase their investments in the next 12 months

Environmental considerations

49%

of respondents believe the environment is a considerable factor in their customers' purchasing decisions

Brand Sweden

80%

of Swedish companies in Saudi Arabia consider Brand Sweden at least partially beneficial for business

Local conditions with high satisfaction

1. Personal safety
2. Level of digitalisation
3. Distributors

Local conditions with least satisfaction

1. Corporate taxation
2. Transparency/equal treatment
3. Specialists and key personnel

Valued success factors in Saudi Arabia

1. Partnerships & relationships
2. Cost efficiency
3. Sales competence
4. Brand awareness
5. Public affairs
6. Staff development

ABOUT THE SURVEY

The 2024 survey received 35 answers from Swedish companies in Saudi Arabia

Business Sweden in Saudi Arabia carried out this survey to track how Swedish companies operating in Saudi Arabia perceive the market conditions and the economic prospects of their business. The survey also tracks if and how perceptions diverge across company types.

Currently, around 60 Swedish companies are present in Saudi Arabia through establishments in the country, directly or through a partner/agent. Conducted during January and February 2024, this survey seeks to understand the perceptions of economic and market developments and the opportunities and challenges Swedish companies are facing. The web-based survey contained 22 questions.

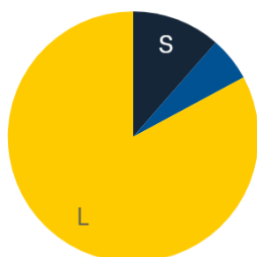
This report is divided into four main sections. First, the report elaborates on the economic situation, including current business performance and Swedish companies' outlook for the upcoming year. The following section focuses on the Saudi Arabian market, including respondents' views on the business climate in general and which factors contribute positively and negatively to their commercial success. The third section covers Swedish companies' operations and perceived success factors in the market, and the last section explores sustainability-related aspects of doing business in the market.

Out of the respondents, 83 per cent are large companies with more than 1000 global employees. Six per cent of the companies are classified as medium-sized, with 250-1000 employees. The remaining 11 per cent are small companies with at most 249 employees.

The diverse range of business areas represented in this report is grouped into three broad categories: industrial companies (55 per cent), professional services (36 per cent) and consumer companies (9 per cent).

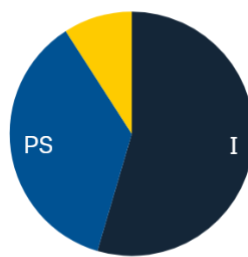
Representatives from experienced companies, classified as companies established in Saudi Arabia between 2003 and 2018, constitute the largest group of respondents in the 2024 survey and make up 41 per cent of the respondents. Mature companies, 31 per cent, are defined as being established in Saudi Arabia during 2003-2018. 'Newcomer' is defined as a company established after 2019 and constitutes 28 per cent of the respondents.

SIZE OF COMPANIES



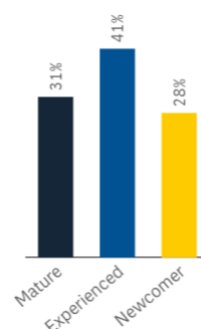
NOTE: Global employees. Large >1000. Medium 250-1000. Small 0-249

MAIN INDUSTRY



NOTE: Industrial 46%. Professional services 40%. Consumer 14%.

AGE OF COMPANIES



NOTE: Mature (-2002). Experienced (2003-2018). Newcomer (2019-)

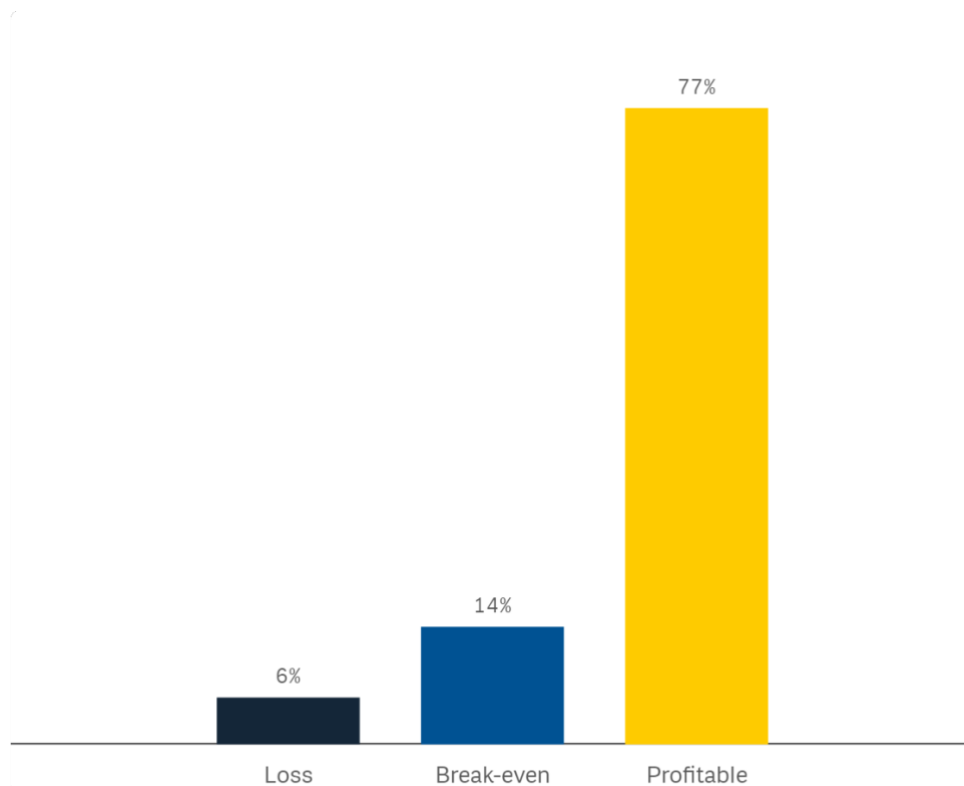
ECONOMIC OUTLOOK

Most of the respondents' report profitability

With the discovery of oil in the late 1930s, Saudi Arabia underwent a significant transformation. Once a relatively poor nation, the country experienced an economic boom that propelled it to become one of the wealthiest nations globally. By harnessing its vast oil reserves, Saudi Arabia has established itself as a key player in the global energy market. Home to Saudi Aramco, the world's largest oil and gas company, the kingdom is the third largest oil producer globally as of 2023. The oil industry has played a pivotal role in shaping Saudi Arabia's economy and has been instrumental in driving its development and prosperity over the years. Today, the country places itself among the top 20 nations in GDP per capita globally.

Saudi Arabia is the largest economy in the Middle East⁶ and Sweden's largest export partner in the region. Saudi Arabia's economy is highly dependent on oil and gas exports, which amounted to 77 per cent of total exports and 40 per cent of GDP in 2023⁷. Exports from Sweden to Saudi Arabia amounted to USD 1.29 billion in 2023, an increase of 3.6 per cent from the previous year⁸. Swedish businesses are doing well in the country. Out of the respondents, 77 per cent of the Swedish companies reported that their financial performance in 2022 was profitable, seven percentage points better than companies reported in the neighbouring United Arab Emirates.

HOW WOULD YOU DESCRIBE YOUR COMPANY'S FINANCIAL PERFORMANCE IN SAUDI ARABIA IN 2023?



NOTE: The number of respondents for this question was 35. "Don't know/Not applicable" responses are included but not shown in figure. SOURCE: Business Climate Survey for Swedish Companies in Saudi Arabia 2024.



Generally, the business climate is very prosperous, as there are a lot of activities to fulfil the 2030 vision.

Survey respondent, small size company

⁶ Business Sweden defines the Middle East as Bahrain, Egypt, Iran, Iraq, Palestine, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, Yemen

⁷ Saudi Arabia's General Authority for Statistics (GASTAT), 2024

⁸ Kommerkollegium (National Board of Swedish Trade), 2024

Notably, 77 per cent of Swedish companies in Saudi Arabia were profitable in 2023, while six per cent of companies presented losses.

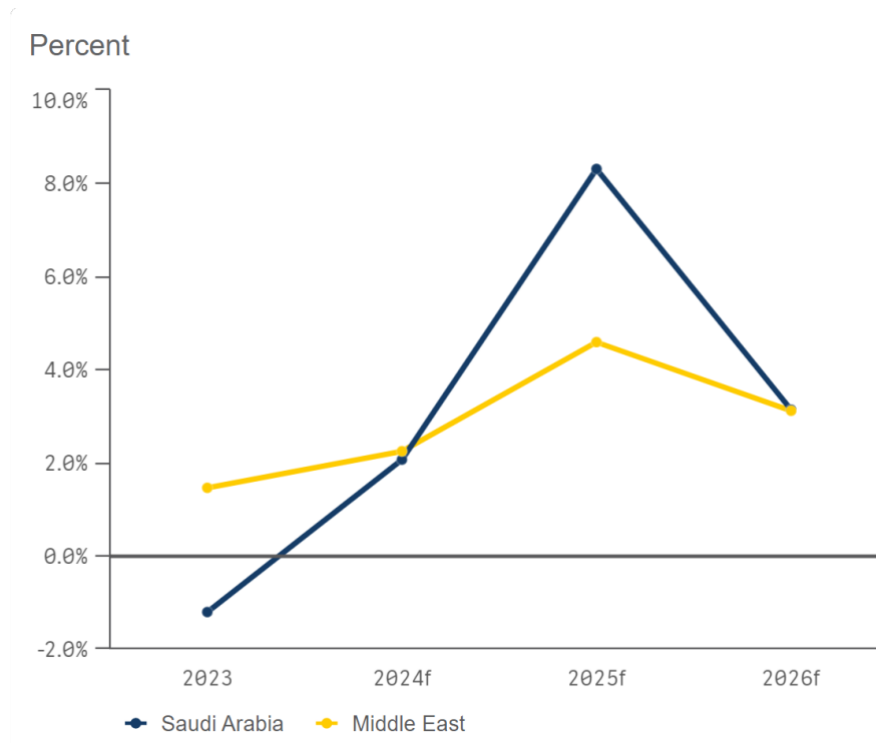
Medium and large companies had a reliably high profitability, with 100 per cent and 80 per cent respectively reporting profit, while smaller companies, were slightly more vulnerable, with nearly 25 per cent recording losses. Despite this, 50 per cent of small firms reported a profitable year.

When considering company maturity, the length of time a company has been established in Saudi Arabia seemed to have less impact on profitability. Approximately 70 per cent of mature firms and 67 per cent of newcomers reported profits. Notably, the disparity between the most mature and newest companies was only three percentage points. Though it is often argued that penetrating the market takes time, this finding suggests that Swedish companies entering Saudi Arabia do so with clear strategies and thus succeed in winning business even as newcomers. The most profitable group, with 92 per cent reporting profits in 2023, consists of what we refer to as 'experienced companies' that entered the market between 2003 and 2018.

Breaking down results by industry, professional services and consumer products faced the most challenges, with nearly 10 per cent and 30 per cent, respectively, reporting losses in the past year. In contrast, industrial firms fared better, with almost 90 per cent reporting profitability and the remaining 10 per cent breaking even.

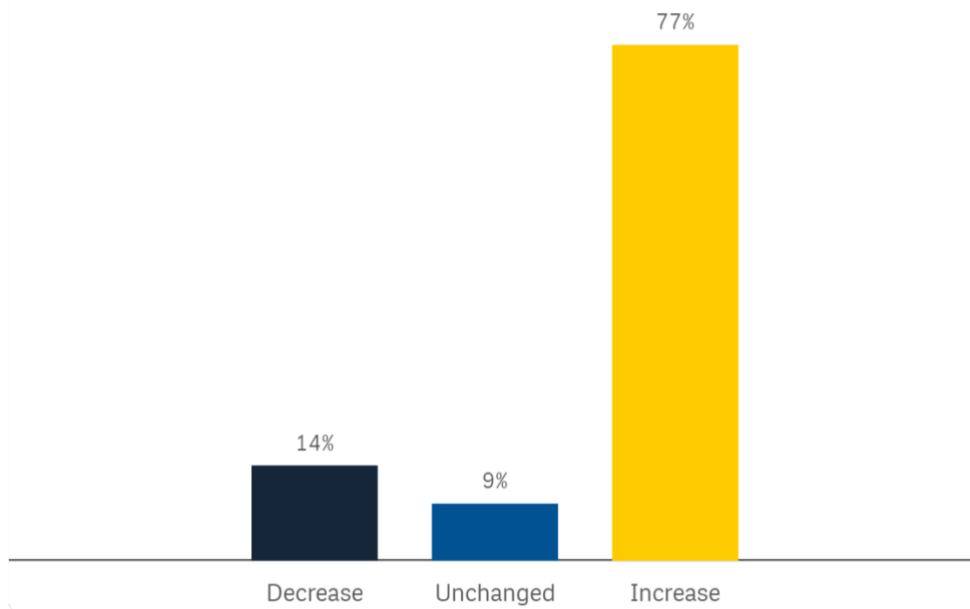
Positive turnover expectations and investment plans tell a story of optimism regarding future performance

PROJECTED GDP GROWTH IN SAUDI ARABIA COMPARED TO THE MIDDLE EAST



NOTE: Constant prices. SOURCE: Oxford Economics 2024

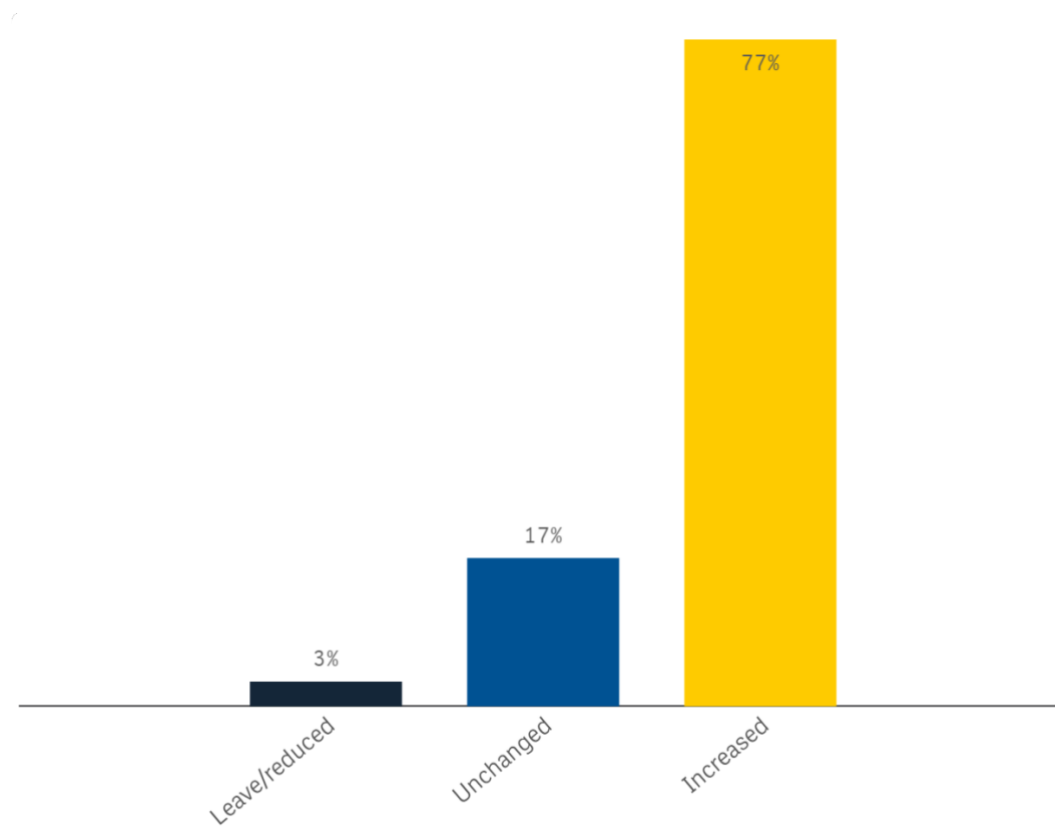
COMPARED TO THE DEVELOPMENT IN THE PAST 12 MONTHS, WHAT ARE YOUR EXPECTATIONS FOR THE COMING 12 MONTHS FOR YOUR INDUSTRY IN SAUDI ARABIA REGARDING TURNOVER?



NOTE: The number of respondents for this question was 35. "Don't know/Not applicable" responses are included but not shown in figure. SOURCE: Business Climate Survey for Swedish Companies in Saudi Arabia 2024.

An optimistic economic outlook is reflected in both the projected GDP growth of Saudi Arabia and the expectations of the Swedish companies present in the market. When surveyed about their anticipated turnover in Saudi Arabia for the upcoming year, 77 per cent of respondents expressed optimism, foreseeing an increase in turnover. This positive sentiment was pervasive across businesses of all sizes, including small, medium, and large corporations. Even within industry segments where optimism varied, positivity prevailed. Despite being the least optimistic, the consumer sector still exhibited a significant degree of positivity, with 67 per cent of respondents in this segment anticipating a turnover increase. This collective optimism reflects broad confidence in the economic prospects of Saudi Arabia among Swedish firms spanning various industries and business sizes and can be concluded as a vote for confidence in the Saudi Arabian market.

WHAT ARE YOUR COMPANY'S INVESTMENT PLANS FOR THE COMING 12 MONTHS IN SAUDI ARABIA, COMPARED TO THE PAST 12 MONTHS?



NOTE: The number of respondents for this question was 35. "Don't know/Not applicable" responses are included but not shown in figure. SOURCE: Business Climate Survey for Swedish Companies in Saudi Arabia 2024

According to the survey findings, most respondents plan to increase their investments in Saudi Arabia. A significant 77 per cent of participants intend to increase their investments over the next 12 months compared to their previous year's plans. Notably, all small and medium-sized companies surveyed have endorsed plans for increased investments. However, the consumer segment presents a more nuanced picture in the industry breakdown. Approximately one-third of Swedish consumer businesses indicated no plans to alter their investment activities, another third signalled intentions for increased investments, and the remaining third outlined plans to either exit the market or reduce their investments. However, divergence of perspectives within the consumer segment may not be surprising, considering the nature of the sector. For instance, industries like manufacturing are typically more investment-driven, which could help explain the varying sentiments observed.

THE MARKET

In 2022, Saudi Arabia ranked as the 17th largest investor worldwide, with outflows of USD 18.8 billion. In response to the imperative to diversify its economy away from oil dependency, Saudi Arabia has implemented a series of legislative measures to facilitate Foreign Direct Investment (FDI) and support the country's economic diversification agenda.

To stimulate industrial FDI, Saudi Arabia has introduced various initiatives, including enhancing demand visibility and guarantees, developing supply chains, investing in workforce development, and expanding investment programs. Additionally, the country has launched a Special Economic Zone (SEZ) program targeting non-traditional industries such as cloud computing services, renewable energy, and logistics. Among the new investment incentives, Saudi Arabia has established a Special Integrated Logistics Zone where investors benefit from VAT advantages for servicing and assembly operations within the zone. Government incentives, coupled with political and economic stability, have positioned Saudi Arabia as a more attractive destination for foreign investors seeking refuge from instability in neighbouring countries. The country ranked 48th on the Global Innovation Index 2023 and 69th on the 2023 Foreign Direct Investment Index.

In 2023, FDI inflows to Saudi Arabia experienced a 12 per cent increase, reaching USD 19 billion compared to USD 17 billion in 2022. Looking ahead, Saudi Arabia aims to achieve an FDI inflow target of USD 104 billion by 2030, equivalent to 5.7 per cent of its GDP, as part of its broader strategy to position the country among the 15 largest economies globally. Key investors in Saudi Arabia include the European Union, the United Arab Emirates, the United States, Singapore, Japan, Kuwait, and Malaysia, with investments primarily concentrated in industries such as chemicals, real estate, fossil fuels, automobiles, tourism, plastics, and machinery.

Vision 2030

Since 2017, Saudi Arabia has been implementing economic reforms and liberalising its social contract. As the largest economy in the Middle East, the country aims to enhance its global presence in energy, innovation, and diplomacy, as a hub in a multipolar world. While oil and gas still play a significant role in the economy, the Saudi government has implemented substantial reforms to reduce oil dependency as part of the Vision 2030.

Saudi Vision 2030 outlines a comprehensive plan to overhaul the country's economy, society, and infrastructure. This visionary roadmap is built upon three core pillars: fostering a vibrant society, cultivating a thriving economy, and constructing an ambitious nation, through which Saudi Arabia charts its course towards sustainable growth and prosperity in the 21st century. The strategy includes sector privatisation, international tourism, entrepreneurship promotion, innovation encouragement, and an emphasis on education to equip Saudi citizens for future professional roles. Key initiatives cover the gradual privatisation of state-owned assets, including the IPO of Saudi Aramco, the sovereign wealth fund (PIF) initiating ambitious projects like NEOM—a futuristic city on the Red Sea coast with a projected cost of USD 500 billion, and nurturing emerging sectors such as manufacturing, renewable energy, while acknowledging the vital role of SMEs in boosting GDP and creating employment opportunities.



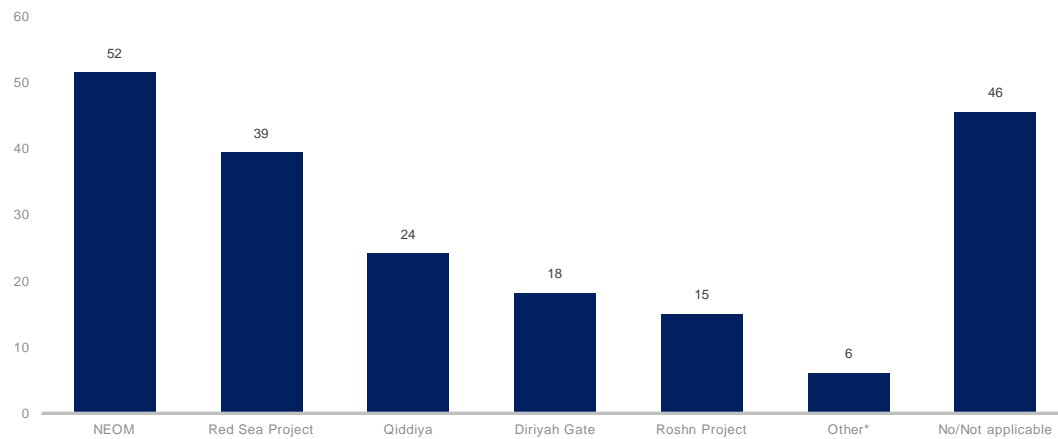
Saudi Arabia is going through rapid modernisation that comes with opportunities and threats that need to be considered.

Survey respondent,
transportation

Nearly half of Swedish businesses operating in Saudi Arabia are currently engaged in at least one Giga project

As part of its Vision 2030 plan, Saudi Arabia has launched several PIF-financed giga-projects. These, together with other large-scale development initiatives, mega projects are intended to diversify the economy away from oil dependency and stimulate growth in various sectors including urban development, entertainment, tourism, cultural preservation, and residential construction. The overarching goal is to generate new economic opportunities, spur development, and elevate Saudi Arabia's position as a prominent global player across multiple industries.

ARE YOU CURRENTLY ENGAGED IN ANY GIGA PROJECT(S) IN SAUDI ARABIA?



NOTE: The number of respondents for this question was 35. "Don't know/Not applicable" responses are included but not shown in figure. SOURCE: Business Climate Survey for Swedish Companies in Saudi Arabia 2024

A significant portion of respondents have reported direct involvement with one or more giga-projects in Saudi Arabia. Out of the six percent who reported other engagements, some mentioned their involvement with the heritage site AlUla, while others noted indirect participation in giga-projects through local partners. Since this is the first year of conducting the Business Climate Survey in Saudi Arabia, we expect that this figure will increase in future surveys as awareness and participation in these transformative projects will continue to expand.

“We see huge opportunity with projects in line with Vision 2030 in different sectors and regions of the kingdom. Huge changes are noticed in the specs to cope with the climate changes requirement (Green equipment...).

Survey respondent,
energy and electricity

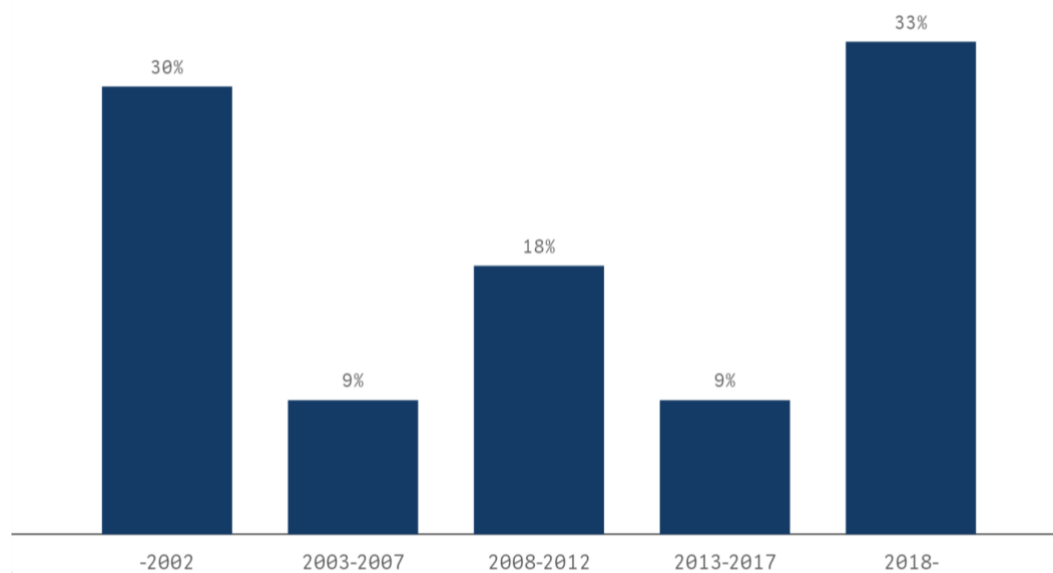


With our 5 year plans we definitely see growth in Saudi Arabia until 2030 and beyond. The main drivers are the giga-projects. The business environment is enabling faster and effective routes to market. The entry of more companies in the Kingdom is also a catalyst for this growth.

Survey respondent,
energy and electricity

Swedish business in Saudi Arabia is composed by a majority of industrial companies, some with local presence for 70 years

IN WHAT YEAR DID YOUR COMPANY ESTABLISH OPERATIONS IN SAUDI ARABIA?



NOTE: The number of respondents for this question was 33. "Don't know/Not applicable" responses are included but not shown in figure. SOURCE: Business Climate Survey for Swedish Companies in Saudi Arabia 2024.

Swedish companies have been established in Saudi Arabia since the 1950s. Companies such as ABB and Ericsson have played a significant role in developing Saudi infrastructure and industry. The largest bilateral project to date is the strategic oil storage project initiated by ABV Rock Group in the mid-1980s and completed in March 2009. IKEA has been present in the country since 1983 and opened its fourth store in 2022. The franchise rights for IKEA in Saudi Arabia are held by the Alsulaiman Group, whose CEO also serves as Sweden's honorary consul based in Jeddah.

Saudi Arabia is Sweden's most important export market in the Middle East. Commodity exports, which largely consist of iron ore, medical and pharmaceutical products, and workshop machinery and equipment, amounted to just over USD 1.3 billion in 2023, compared to 0.75 in 2018, Commodity imports from Saudi Arabia amounted to just over USD 73.64 million during the same periods and consisted largely of plastics.⁹

The sectors in Saudi Arabia with particularly high potential for Swedish companies are energy, healthcare & life sciences, advanced manufacturing, telecom, mining and transportation & automotive. In addition, there is a clear need for cross-sectoral expertise due to the ongoing shift towards diversification and digitalisation of the economy. This creates opportunities within areas like cyber security, sustainable cities, and sectors where Public Private Partnerships are the dominant business model.

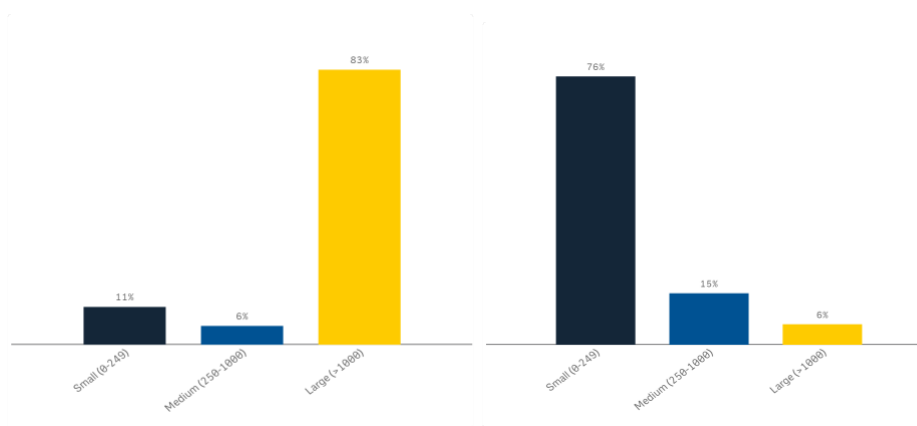
A general bilateral cooperation agreement has been in place between Sweden and Saudi Arabia since 2005, an investment protection agreement since 2008, a memorandum of understanding in the health sector since 2011, as well as an agreement on the avoidance of double taxation signed in 2015. A memorandum of understanding between the Stockholm Chamber of Commerce and the representative body of the Saudi Chambers of Commerce was signed in Riyadh in October 2015 regarding the establishment of a Swedish-Saudi Joint Business Council, the same year from which

⁹ Kommerskollegium (National Board of Trade Sweden), 2024

The Saudi-Swedish Joint Committee has been active. In 2017, a memorandum of understanding on higher education and research was signed.

Today, around 40 Swedish companies are established in the country, and additional companies operate through local partners making the total number of Swedish companies operating in Saudi Arabia around 60. The Swedish brand is strong, and the perception of Swedish expertise, innovation, quality, and societal systems for quality of life is very favourable. Swedish companies also have a good reputation as reliable business partners and are often praised for their long-term commitment.

SWEDISH FIRMS' GLOBAL NUMBER OF EMPLOYEES IN SAUDI ARABIA IN 2024 AND SWEDISH FIRMS' LOCAL NUMBER OF EMPLOYEES IN SAUDI ARABIA IN 2024



NOTE: Left: Global number of employees, Right: Local number of employees. The number of respondents for this question was 35. "Don't know/Not applicable" responses are included but not shown in figure. SOURCE: Business Climate Survey for Swedish Companies in Saudi Arabia 2024.

It's not surprising that the majority of Swedish companies operating in Saudi Arabia are large multinational enterprises, characterised by having over 1000 employees worldwide: in fact, 83 per cent fall into this category. These Swedish firms in Saudi Arabia typically have a small local workforce. More than a third have fewer than nine local staff members, while another third have between 10 and 49 local employees. Notably, six per cent of the companies have substantial operations, employing over 1000 local workers in Saudi Arabia.

Saudization

Saudization, also known as Nitaqat in Arabic, is a policy initiated by the Saudi Arabian government to boost the employment of Saudi nationals within the private sector. The primary goal of Saudization is to reduce reliance on expatriate labour and create more job opportunities for Saudi citizens.

Under this program, private companies in Saudi Arabia are categorised based on their adherence to employing Saudi nationals, measured by the proportion of Saudi employees compared to the total workforce. Employers must meet specific Saudization quotas, which vary depending on industry and company size. Failure to comply with these quotas can lead to penalties such as fines and restrictions on recruiting foreign workers.

International firms may encounter difficulties in sourcing candidates with the required skills and experience among Saudi nationals. With 67 per cent of Saudis under the age of 35¹⁰, there is a

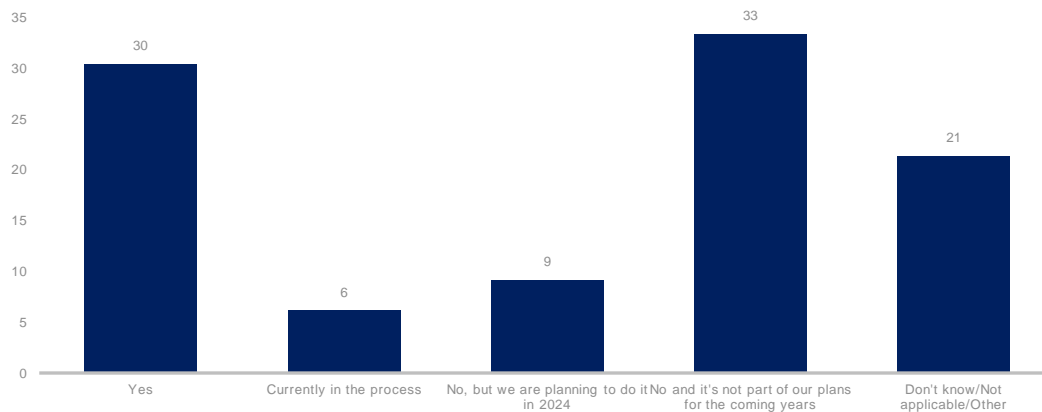
¹⁰ Vision 2030, 2024

large influx of university graduates into the job market. However, even though lacking relevant work experience, salary expectations may be high. Saudi nationals with experience from international firms often become attractive candidates for local companies offering competitive salaries, which can generate a retention challenge. As non-compliance with Nitaqat rules may result in penalties, it's imperative for international firms to recognise the intricacies and make adjustments to adhere to Saudization requirements to effectively operate in the Saudi labour market.

Several Gulf countries have implemented localisation policies, such as Saudization, Emiratization, and Omanization. These policies aim to increase the employment of nationals in key sectors and reduce reliance on expatriate labour to enhance national economic security and autonomy, develop local capabilities, diversify economies, and reduce dependence on oil and gas revenues.

About a third of Swedish companies in Saudi Arabia have already established a Regional Head Quarter (RHQ)

HAVE YOU ESTABLISHED A REGIONAL HEAD QUARTER IN SAUDI ARABIA (I.E. HAVE YOU RECEIVED A RHQ LICENSE FROM MISA)?



NOTE: The number of respondents for this question was 35. SOURCE: Business Climate Survey for Swedish Companies in Saudi Arabia 2024

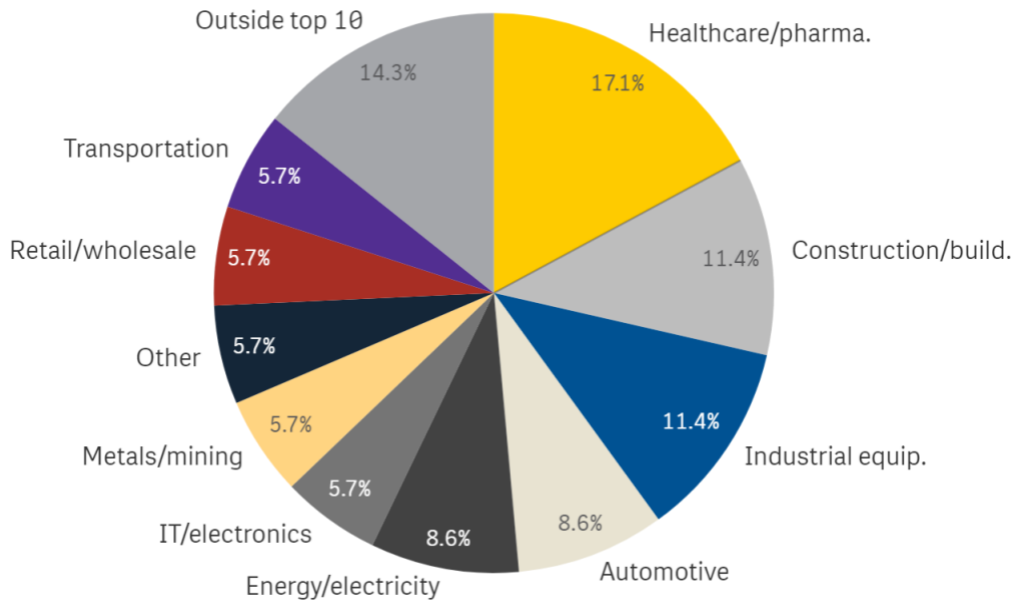
The Regional Headquarters (RHQ) Program in Saudi Arabia is a key element of the Vision 2030 plan, designed to attract multinational corporations to establish or relocate their regional headquarters to Riyadh. Developed by the Ministry of Investment, Saudi Arabia (MISA) and the Royal Commission for Riyadh City (RCRC), the program aims to position Saudi Arabia as a leading business hub, increase FDI and drive economic diversification by enticing global companies to anchor their operations in the country. According to our study, around 40 per cent of Swedish companies with a local presence in Saudi Arabia have set up an RHQ or are currently undergoing the process.

Not joining the RHQ Program can have significant implications for multinational companies, as they may be restricted from public procurement and obtaining government contracts. However, there are also incentives for foreign companies participating in the program, which include tax exemptions, unlimited visas for RHQ employees, a 10-year exemption from "Saudization" requirements, zero per cent corporate income tax, withholding tax for 30 years, and employment opportunities for RHQ employees' dependents.

As the number of multinationals with RHQs in Saudi Arabia increases, there will be greater pressure on Swedish companies to establish their RHQs as the consequences of non-participation

may become more stringent over time. Ultimately, becoming part of the RHQ program presents strategic benefits for Swedish companies.

WHAT IS YOUR COMPANY’S MAIN INDUSTRY IN SAUDI ARABIA?

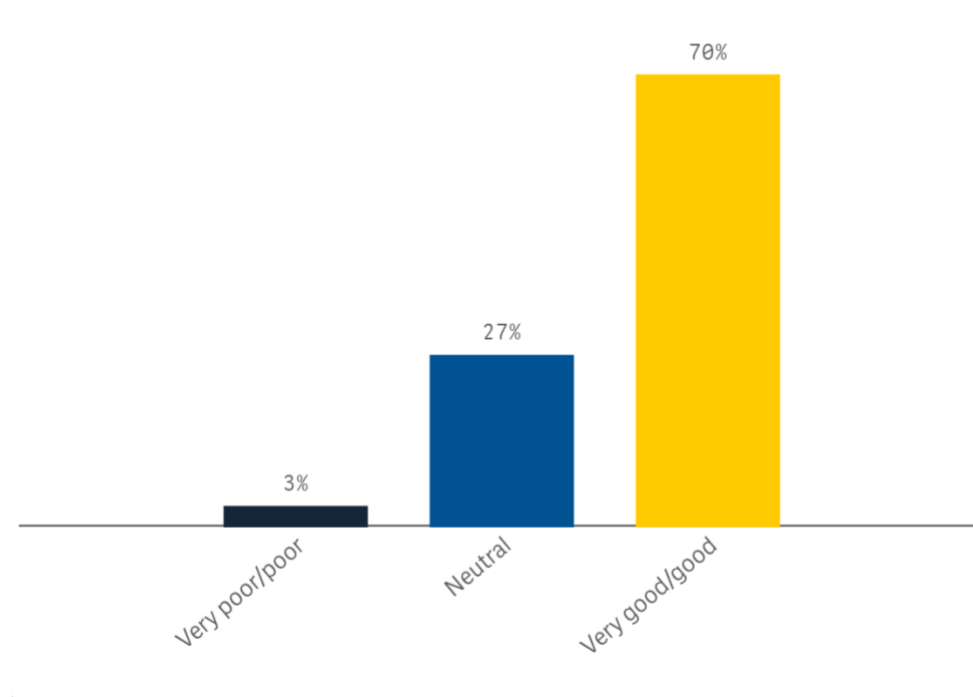


NOTE: The number of respondents for this question was 35. "Don't know/Not applicable" responses are included but not shown in figure. SOURCE: Business Climate Survey for Swedish Companies in Saudi Arabia 2024.

As illustrated, Swedish companies are active in a wide range of operations, with approximately 55 per cent of Swedish companies in Saudi Arabia operating in industrial fields, forming the backbone of Swedish business presence in the country. Key sectors seeing significant involvement include healthcare & pharmaceuticals, construction, industrial equipment, automotive, and energy. This aligns with Saudi Arabia’s robust agenda for construction and infrastructure development, spanning residential, commercial, industrial, healthcare and energy sectors. Moreover, Saudi Arabia’s focus on knowledge transfer and local content encourages the emergence of Swedish service providers, who experience competitive advantage combining product sales with training initiatives.

Saudi Arabia is perceived as one of the markets offering the most favourable business climate for Swedish companies in 2024

HOW DO YOU PERCEIVE THE CURRENT BUSINESS CLIMATE IN SAUDI ARABIA?



NOTE: The number of respondents for this question was 30. "Don't know/Not applicable" responses are included but not shown in figure. SOURCE: Business Climate Survey for Swedish Companies in Saudi Arabia 2024.

Saudi Arabia, together with the UAE, stand out as the two markets with the perceived most favourable business climate for Swedish companies, according to Business Sweden's Global Business Climate report 2024, where 24 markets were surveyed. Most of the respondents in Saudi Arabia, 77 per cent, indicated that they perceive the business climate in Saudi Arabia as good or very good. Most optimistic towards the perception of the Saudi Arabian business environment are Swedish companies established in the market before 2018, i.e. mature and experienced companies. This suggests that the perception of an improved business climate, relative to past experiences, could be a contributing factor to the positive sentiment. The general optimism in the market is also believed to be adding to the perception of Saudi Arabia's business climate. While newcomers are split between perceiving the business climate as neutral or as good/very good, no respondent in this segment deems it as poor.

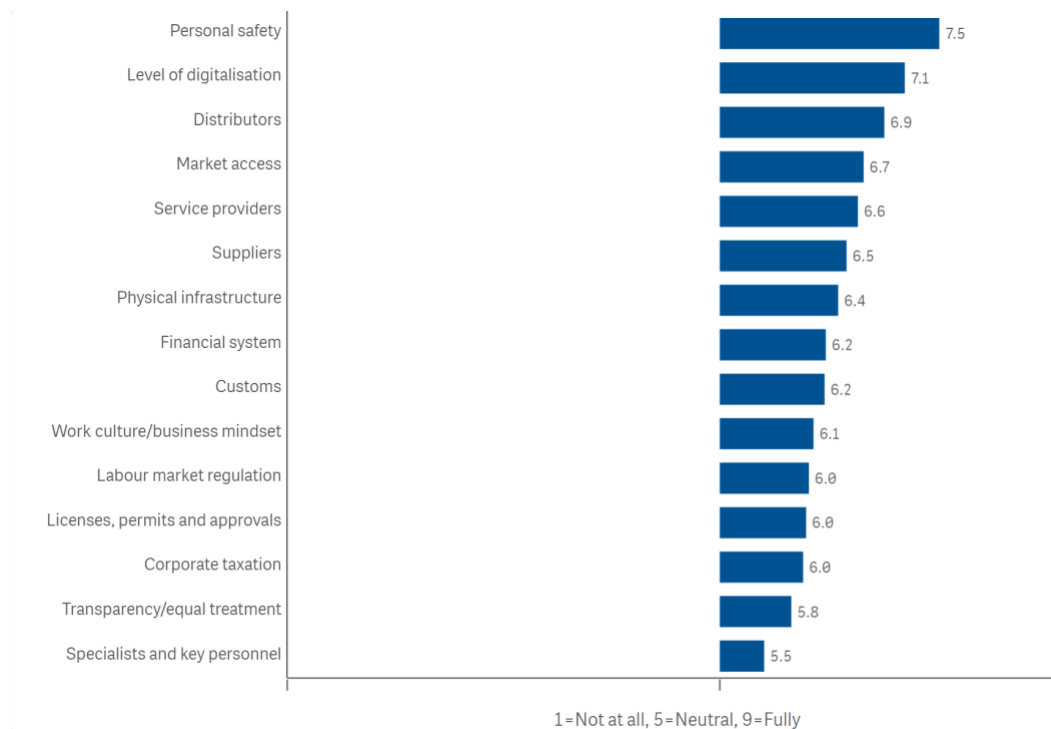


The Saudi Arabian market presents great opportunities for growth for those who are able to keep the pace and deeply engage locally, understanding cultural backgrounds and business ethics.

Survey respondent, transportation

Access to skilled labour stands out as a challenging factor for businesses in Saudi Arabia, while personal safety was the most appreciated

HOW WELL DO THE FOLLOWING CONDITIONS MEET THE NEEDS OF YOUR COMPANY IN SAUDI ARABIA?



NOTE: The number of respondents for this question was 35. SOURCE: Business Climate Survey for Swedish Companies in Saudi Arabia 2024.

Overall, the survey respondents evaluated various conditions for conducting business in Saudi Arabia as positive or neutral – not a single criterion scored negatively (i.e., below 5). Like many countries in the Gulf region, Saudi Arabia is characterised by a high level of personal safety and security, contributing to the overall perceived business environment through the wellbeing of employees and accompanying family members. Additionally, the country's investment in technology and AI across sectors such as finance, manufacturing, and entertainment contributes to a prominent level of perceived digitalisation. In addition, the country's young population, high smartphone penetration, and fast internet speed create a favourable environment for e-commerce growth.

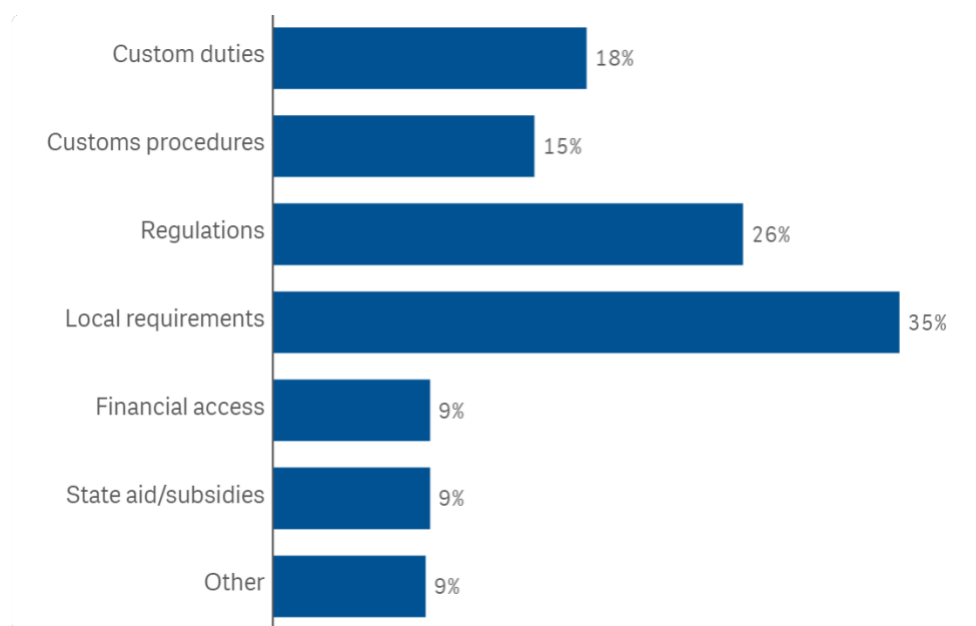
Regarding access to distributors, historically, most international companies have been active in the Saudi Arabian market through distributorships, and the business form continues to be the most common. However, the implications of the established RHQ initiative are yet to be witnessed in this area.

Conversely, Swedish companies and other multinationals have encountered challenges with local requirements and newly introduced regulations, particularly concerning Saudization and local content. Comments from our survey indicate a perception of limited transparency in government procedures, such as those pertaining to financial transactions, project developments, and public tender processes, contributing to an experienced uncertainty for foreign entrants into the Saudi market. Further, some of the responses in the survey suggest that regulatory frameworks are perceived as ambiguous or complex, leading to increased time investment for Swedish companies

seeking to navigate them. Additionally, some SMEs report having faced difficulties in establishing local banking relationships.

Local requirements and regulations are the main trade barriers according to Swedish companies in Saudi Arabia

HAS YOUR COMPANY IN THE PAST YEAR ENCOUNTERED TRADE BARRIERS IN SAUDI ARABIA WITH A NOTICEABLY NEGATIVE IMPACT ON OPERATIONS, IN ANY OF THE FOLLOWING AREAS?



NOTE: The number of respondents for this question was 35. SOURCE: Business Climate Survey for Swedish Companies in Saudi Arabia 2024.

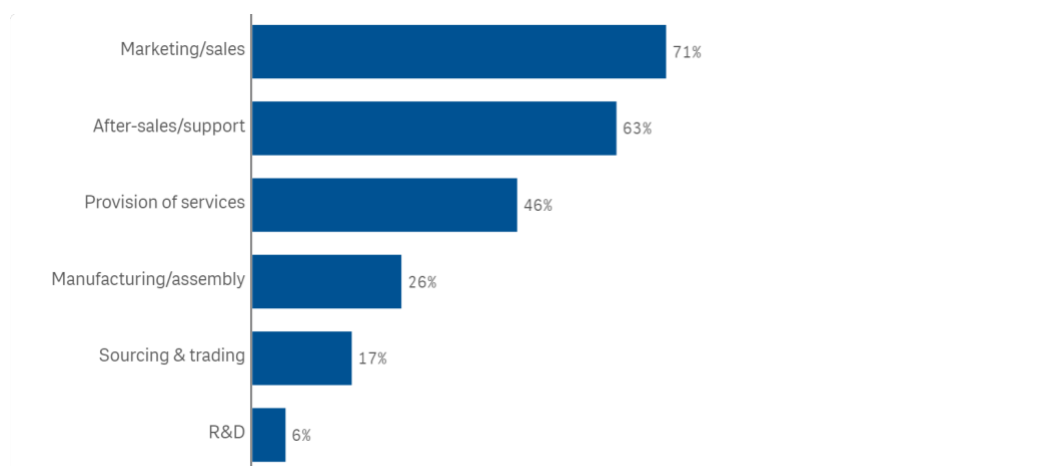
The survey finds that approximately 35 per cent of respondents perceive local requirements as a barrier to business operations in Saudi Arabia. Similarly, around 26 per cent of respondents reported difficulties navigating local regulations. To navigate the evolving regulatory landscape amidst Saudi Arabia's rapid transformation, companies benefit from proactively embracing regulatory changes and monitor updates to ensure compliance and alignment. In addition, respondents reported challenges in collecting payments from clients, indicating longer payment terms in Saudi Arabia, where Swedish companies can benefit from being asset-light and develop joint PoC's with customers to ensure commitment. A number of Swedish firms also highlighted the costs associated with company audits, trade licenses, and visas, along with cumbersome paperwork processes. Additionally, in some instances, introduced tax obligations, notably Value Added Tax (VAT) and Corporate Income Tax (CIT) are experienced as a hurdle, especially in cases when receivables are delayed or remain outstanding. Business Sweden recommends thorough and regular information validation when navigating the Saudi Arabian market.

HOW SWEDISH COMPANIES SUCCEED IN SAUDI ARABIA

Amidst global uncertainties, Saudi Arabia demonstrates economic resilience and forecasts stable growth in the years ahead. Its resilient financial position facilitates a pipeline of ambitious large-scale projects, making the nation an appealing prospect for international enterprises. To effectively engage with government stakeholders, foreign firms of scale must actively contribute to the local economy and sustain a permanent presence in the region.

Swedish companies typically begin their market presence by partnering with a local distributor, focusing mainly on marketing and sales

OPERATIONS OF SWEDISH FIRMS IN THE MARKET



NOTE: The number of respondents for this question was 35. "Don't know/Not applicable" responses are included but not shown in figure. SOURCE: Business Climate Survey for Swedish Companies in Saudi Arabia 2024.

Saudi Arabia is a distributor-driven market, and before establishing in the market, Swedish companies tend to test their potential by establishing partnership with a local distributor. This is especially true for small and medium-sized businesses where an indirect approach entails lower investment and reduces risk, though potentially limiting rewards. Prior to forming partnerships with local distributors, thorough due diligence supported by local expertise is strongly advised. Successful collaboration with a local partner requires ongoing communication, with face-to-face meetings being especially important and something which should not be underestimated. Additionally, direct guidance in sales and marketing support is often recommended. Following initial market testing, Swedish companies tend to advance by establishing marketing and sales offices in Saudi Arabia. Survey findings affirm that such operations are commonly associated with newcomers to the market. Over time, as Swedish companies gain experience, they often diversify into other types of operations. The second most prevalent type of operation is after-sales and/or support functions, followed by provision of services.

Looking ahead, it is projected to become increasingly important for Swedish companies to further invest in local operations, including R&D, manufacturing, and assembly. This strategic move will



Local content is becoming increasingly important to maintain or increase business. Consequently, we are considering local assembly or manufacturing of some of our products withing the coming 12 - 16 months.

Survey respondent, retail and wholesale

enhance competitiveness, particularly when vying for government tenders. By expanding their local footprint, Swedish companies can better align with the evolving demands of the Saudi market and capitalise on opportunities.

The In-Kingdom Total Value Add program (IKTVA) in Saudi Arabia is an example of a strategic initiative aimed at localising industries, driving economic growth, and reducing the country's dependence on oil revenues. This program focuses on maximising the value created within the country by promoting the development of domestic industries, increasing local content, creating job opportunities for Saudi nationals, and building a competitive and sustainable industrial sector. The IKTVA program is a key component of Saudi Aramco's procurement process. In addition to the oil, gas, and petrochemicals industries, Saudi Aramco invests in renewable energy sectors, including blue and green hydrogen production, carbon capture utilisation and storage projects, and sustainability research and development. This makes the IKTVA program relevant for all Swedish suppliers seeking specific avenues for participation in the Saudi Arabian energy sector.

Another example of localisation measures is the "Made in Saudi" program. A national initiative launched in 2021 to promote Saudi Arabia's industrial prowess and position the country as a global manufacturing hub. The program features a unified national brand identity that local companies can use on their products after meeting the eligibility criteria. It covers a wide range of industries, including petrochemicals, renewable energy, automotive, marine, building materials, food, and pharmaceuticals.

Moreover, this goes in line with Saudi Arabia's local content calculation aiming to promote the growth of the domestic economy. The initiative plans to increase the participation of local businesses, particularly SMEs in government procurement and private sector projects. A key objective includes increasing the actual value of the Saudi economy through employment, manufacturing of goods, and provision of services; increasing the volume of expenditure on local goods and services by SMEs; training and developing Saudi talent to enable them to take on higher positions; and developing R&D capabilities and activities within the Kingdom.

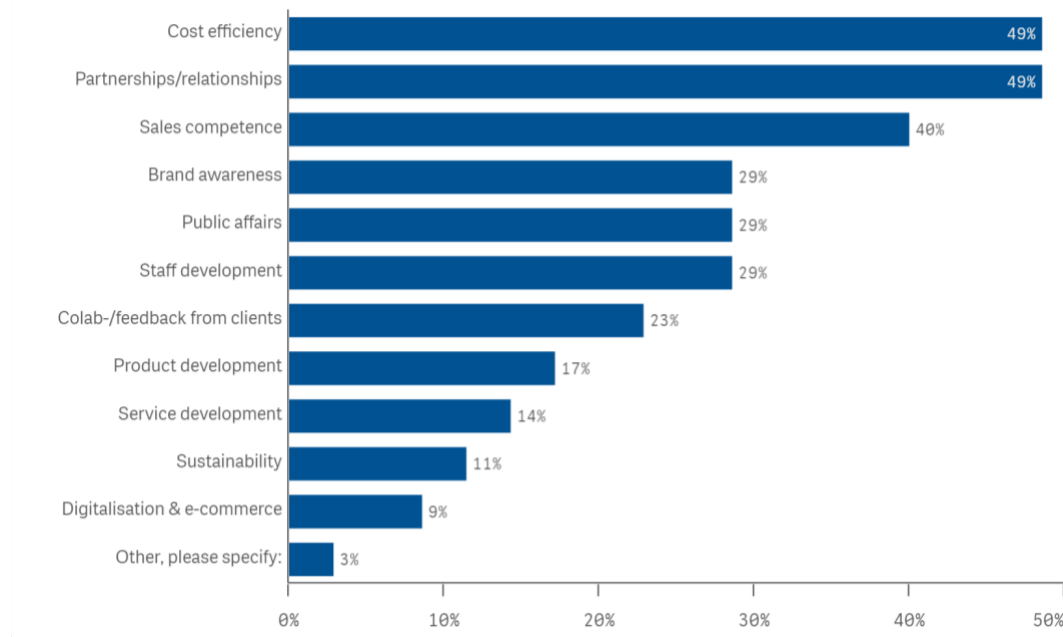
International firms should be aware of local content requirements as they can significantly impact their operations and costs in Saudi Arabia. The regulations require international companies to meet certain thresholds for local content, such as employing a minimum percentage of Saudi nationals and spending a portion of their payroll on Saudi employees; purchasing a certain percentage of goods and services from local suppliers; investing in training and development programs for Saudi employees; and contributing to supplier development initiatives. The local content percentage is calculated as the ratio of spending on Saudi elements (goods, services, assets, technology, workforce, etc.) compared to total spending. International firms must submit a local content plan outlining how they will meet the targeted local content percentage by the end of the contract.¹¹ Failure to comply with local content requirements can result in penalties, such as being limited from future government contracts. Therefore, international firms must carefully consider local content regulations when bidding on projects and planning their operations in Saudi Arabia. In addition, international firms adhering to local content rules can benefit from incentives that include the ability to charge higher prices for their products or services, sometimes up to 10-20 per cent, depending on the local content score.

Localisation measures of some sort should be anticipated to increase in governmental procurement and tender processes, where the bidding company that fulfils local requirements, such as an RHQ certificate, are likely to receive preferential treatment in contract awards. In the future, Business Sweden expects the Saudi Arabian government to introduce more stringent initiatives similar to the IKTVA, Made in Saudi and RHQ program. These initiatives will serve to support local industries by channelling a greater share of public expenditure into the national economy.

¹¹ Local Content and Government Procurement Authority (LCGPA)

Cost efficiency and fostering the right partnerships/relationships are key factors for maintaining competitiveness according to Swedish companies

TO DATE, WHICH OF THE FOLLOWING AREAS HAVE BEEN IMPORTANT IN MAINTAINING COMPETITIVENESS IN SAUDI ARABIA?



NOTE: The number of respondents for this question was 35. "Don't know/Not applicable" responses are included but not shown in figure. SOURCE: Business Climate Survey for Swedish Companies in Saudi Arabia 2024.

Overall, Swedish companies, independent of their size and industry, agree that good partnerships and relationships are one of the most important ingredients for maintaining competitiveness in Saudi Arabia, due to legal requirements and the unique business culture. For instance, distributors are a common way to test the market while limiting risk, and joint ventures with Saudi firms are common. Partnerships with local entities, such as distributors or agents, can provide valuable market insights in a country where market data is often not available or unreliable. Working with a local partner can help gain correct market understanding while shortening the time to market. Moreover, building relationships based on trust and cultural understanding is key in Saudi Arabia. In a mix of formal and informal business culture, the Saudi Arabian market requires investment in time and resources, and it is important to show commitment to the market as business is considered personal. Face-to-face meetings over a traditional cup of coffee (qahwa) and proper introductions are preferred, and having a local liaison can help establish credibility and reliability, which are highly valued in local business interactions. Maintaining good partnerships is considered essential for long-term success in Saudi Arabia and replacing agents or distributors should be handled with caution to prevent harming the firm's reputation. Lastly, partnering with local entities can also provide valuable operational support, facilitate access to resources, and ensure compliance with local laws and regulations. As it is often difficult to identify decision makers remotely and understand complex decision-maker processes, Business Sweden advocates the value added from investing in stakeholder management and relationship building with key stakeholders.

In addition, cost efficiency shares the top position in the survey, followed by sales competence. This emphasis reflects the strategic importance of cost management for Swedish firms operating in Saudi Arabia's business environment. Notably, amidst a heightened presence of Chinese competitors following the Covid-19 pandemic, maintaining cost efficiency has become increasingly important. Efficient operations enable firms to offer competitive pricing, which in turn enhances their ability to attract customers and expand market share.

▶ **80%** of Swedish companies in Saudi Arabia consider the “Swedish brand” beneficial to their business.

Moreover, 80 per cent of respondents believe that the "Swedish brand" contributes to their business in Saudi Arabia to some degree, with 12 per cent expressing significant impact. Upon closer examination of the results, some variations emerge: smaller businesses appear to place a greater significance to the Swedish brand compared to larger ones. Specifically, 50 per cent of small companies consider the Swedish brand beneficial to their business, in contrast to only seven per cent of larger firms. Furthermore, when examining industry breakdowns, companies operating in the professional services sector indicate the highest belief that their business benefits from the Swedish brand, with 83 per cent of respondents acknowledging its influence. In contrast, none of the consumer segment respondents believe that the Swedish brand has a significant impact on business in Saudi Arabia. Notably, data from our Global Business Climate Survey 2024 indicates a slightly lower belief that the Swedish brand's contribution to Swedish business in Saudi Arabia compared to other global export markets. This could be attributed to recent incidents and fake news campaigns in Sweden, which may have had a short-term impact. However, it also suggests potential opportunities to further market the Swedish brand in the future.



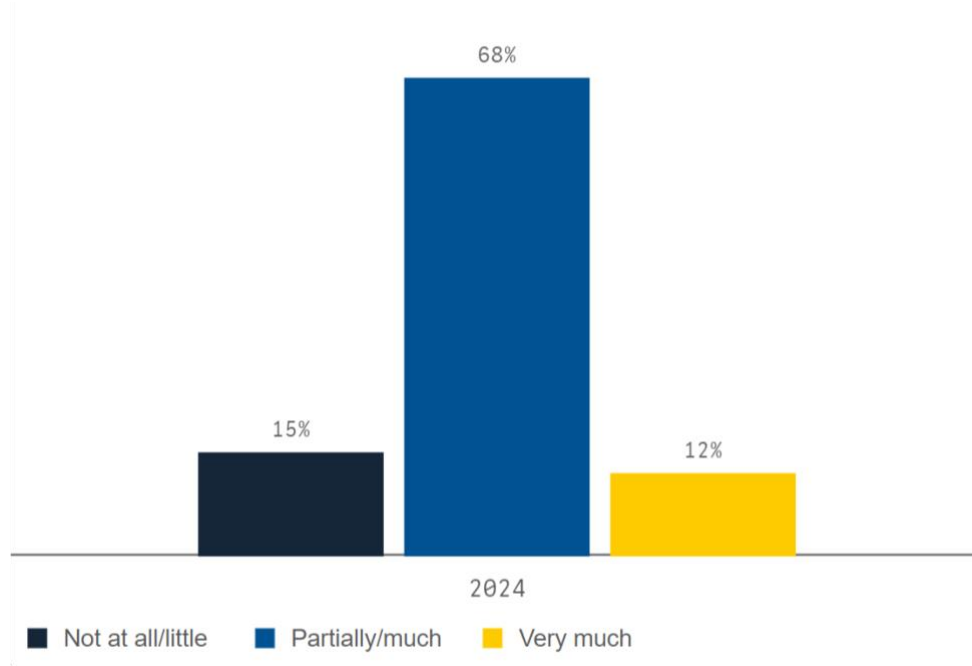
The Swedish brand is important for ensuring a continuous competitive advantage to further intensify the activities related to the Swedish brand.

Survey respondent,
healthcare and pharmaceuticals

ACTING SUSTAINABLY

Environmental sustainability awareness is growing among Saudi Arabian customers

TO WHAT EXTENT DO CUSTOMERS IN SAUDI ARABIA CONSIDER ENVIRONMENTAL ASPECTS OF A PRODUCT OR SERVICE IN THEIR PURCHASING DECISION?



NOTE: The number of respondents for this question was 35. "Don't know/Not applicable" responses are included but not shown in figure. SOURCE: Business Climate Survey for Swedish Companies in Saudi Arabia 2024.

Sweden is often associated with quality, innovation, reliability, and sustainability. From the survey, 12 per cent of respondents listed environmental aspects of a product or service as a significant factor in purchasing decisions while 68 per cent of the respondents see that environmental aspects have partial or much impact on their Saudi Arabian customers' decisions when evaluating their products or services. This perspective is particularly prevalent among medium and larger firms, with 80 per cent of respondents in the consumer segment sharing this view. Among medium-sized companies, 20 per cent of respondents believe that environmental factors significantly influence their customers' decisions. This suggests a growing awareness of environmental sustainability in the Saudi Arabian business landscape.

Yet, 15 per cent answers that environmental considerations currently hold less influence in purchasing decisions for their Saudi Arabian customers. This finding contrasts with expectations, particularly considering the high involvement among Swedish companies in giga projects where environmental sustainability is a central part of the vision. In recent years, Saudi Arabia has taken several steps towards promoting environmental sustainability through long-term strategies and regulations. In 2021, Saudi Crown Prince Mohammed bin Salman (MBS) declared Saudi Arabia's aim to achieve net zero greenhouse gas emissions by 2060 during the inaugural Saudi Green Initiative Forum in October 2021.¹² As part of this target, Saudi Arabia aims for 50 per cent renewable electricity by 2030 and is committed to investing more than USD 180 billion to reach net-



In Saudi, the subject of sustainability is new, and it's going to need more time to have impact.

Survey respondent,
IT and electronics

¹²Saudi & Middle East Green Initiatives. Note: This target is yet to be officially codified in legislation and policy documents, and as of October 2023, Saudi Arabia has not presented a long-term strategy to UNFCCC.

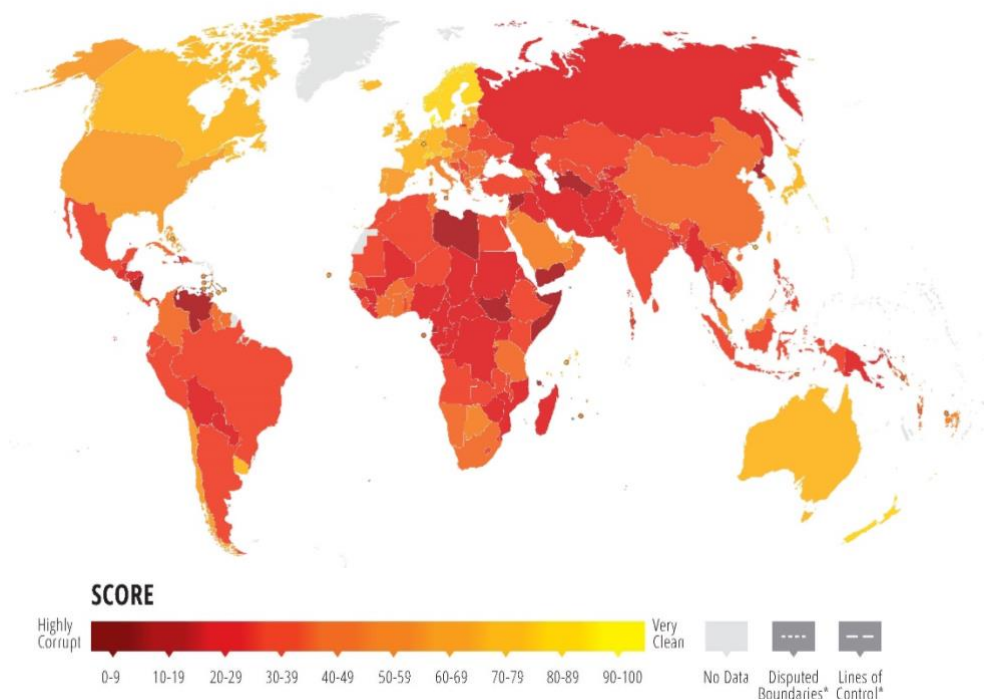
zero emissions by 2060. Through these initiatives, customers in Saudi Arabia will likely start to consider a product's or service's environmental aspects to a greater extent in their purchasing decisions.

In its NDC¹³, Saudi Arabia targets achieving an annual reduction of 278 million metric tons of CO₂ equivalent (MtCO₂e) by 2030, with 2019 as the base year. Investments include nuclear power and hydrogen, with plans for the world's largest green hydrogen plant in NEOM, producing 600 tons daily by 2026. The country intends to reach its net-zero target through the Circular Carbon Economy approach, which relies on carbon capture and storage (CCS). In addition, Saudi Arabia plans to meet part of its emissions reduction targets through the use of a carbon market scheme and Article 6 mechanisms. These measures apply to both the 2030 NDC and 2060 net zero targets. The national oil company Saudi Aramco has committed to reaching net-zero operational emissions in 2050, focusing on scope 1 and 2 emissions through CCS.

Anti-corruption measures are undertaken

To address and work against corruption, Saudi Arabia has established the National Anti-Corruption Commission (Nazaha) and implemented the National Strategy for Protecting Integrity and Combating Corruption. Nazaha has been publishing statistics on corruption since 2016. According to the latest report, published in 2022, bribery is the most common form of corruption reported. Other forms, such as abuse of influence, illicit wealth, forgery, and exploit of contracts rank lower on the list.¹⁴

CORRUPTION PERCEPTION INDEX 2023



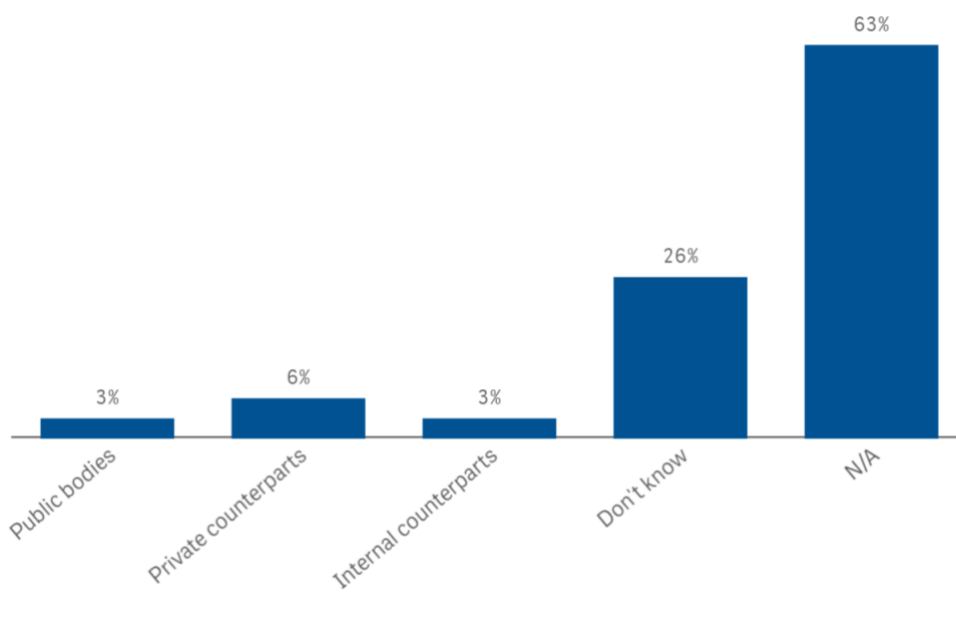
NOTE: The Saudi Arabia ranks 53rd in the CPI 2023, scoring 52 out of points. SOURCE: Transparency International.

¹³ The UN National Determined Contribution (NDC) is a country's pledge within the Paris Agreement, outlining its specific plans to reduce emissions and adapt to climate change.

¹⁴ GOV.sa Unified National Platform, 2024
https://www.my.gov.sa/wps/portal/snp/content/reportcorruption!/ut/p/z0/04_Sj9CPykssy0xPLMnMz0vMAfjo8zijQx93d0NDYz8LXx9LA0CjT1MAoPMzRxDAk30g1Pz9AuyHRUB5GLKcw!/

Transparency International's Corruption Perception Index (CPI) rated Saudi Arabia as the fourth least perceived corrupt country in MENA in 2023. Saudi Arabia is ranked 53rd out of 180 nations globally, scoring 52/100 points. In examining corruption challenges in the Middle East, the UAE stands out as the country with the lowest corruption rating in the region, followed by Israel, Qatar, Saudi Arabia, Jordan, Oman, Bahrain, and Kuwait.

IN THE PAST, HAS YOUR COMPANY IN SAUDI ARABIA BEEN EXPOSED TO CORRUPTION SUCH AS, BUT NOT LIMITED TO, ATTEMPTS OF BRIBERY OR FRAUD IN CONTACTS WITH...



NOTE: The number of respondents for this question was 35. "Don't know/Not applicable" responses are included but not shown in figure. SOURCE: Business Climate Survey for Swedish Companies in Saudi Arabia 2024.

Reforms continue, but some Swedish companies surveyed still perceive challenges, particularly related to bureaucratic hurdles and opacity in regulations. A few, primarily large companies, report having had incidents of attempted bribery or fraud. While Saudi authorities have exhibited a more receptive stance, hurdles persist, particularly in the realm of large-scale projects, where procurement processes sometimes are perceived to hold limited transparency and specifications undergo frequent changes, posing obstacles to submit competitive bidding. In addition, some companies reported reluctance to pursue legal recourse against state entities. However, it is important to note that the data pool is impacted by a significant number of respondents selecting "don't know" or "not applicable". The limited scope of responses warrants caution in generalising findings. Further research and a broader sample size would be necessary to validate these observations.

Human rights or labour violations

When queried about encountering any form of human rights violation, responses uniformly lean towards "don't know" or "not applicable". Consequently, no meaningful data can be extracted from this question in this particular survey. Swedish companies are expected to follow the OECD's guidelines for Multinational Enterprises on responsible business conduct and the UN guiding principles on business and human rights and the ILO Tripartite Declaration on Multinational Enterprises and Social Policy.

CONCLUDING REMARKS

The 2024 Business Climate Survey seeks to strengthen the understanding of the Swedish experience of doing business in Saudi Arabia by providing a nuanced picture of the factors driving Swedish companies' achievements. Team Sweden in Saudi Arabia is committed to continuing to support Swedish companies in the Saudi market and uphold the trust and value of the Swedish brand. Our aim is to support Swedish businesses in their global growth journeys and welcome further dialogue about the opportunities and challenges that the market in Saudi Arabia presents. We welcome you to reach out to us for further discussions.

