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EXECUTIVE SUMMARY

The transportation and logistics sector in Saudi Arabia is a large and dynamic industry, strongly supported by state-led investment in rail, maritime, road, and airport infrastructure. Government investment in the sector is driven by the Kingdom’s five-year development plans, which set the grounds for investment and development priorities for the entire economy. Since the 1970s, Saudi Arabia has focused on diversifying the economy away from oil, from which the transportation sector has benefitted considerably, both directly and indirectly.

The Ministry of Transportation manages the execution of government initiatives, tendering concessions and contracts, first to project management and consultancy firms, then to domestic and multinational construction and logistics companies. With a steady and stable state-income from the oil industry, the sector stands to grow significantly over the next decade and beyond.

The industry could benefit from more privatisation, greater openness and transparency in tendering processes, and greater exposure to international capital markets. There are very few tangible threats to the sector. Freight security is emerging as the leading challenge, although the overall impact of occasional sea piracy and desert raids on the sub-sector is minimal. Terrorism is also a lingering threat, with transport infrastructure a natural target for anti-government factions.

The sector is made up of five main components: rail, maritime, road, and air transportation, and warehousing and distribution. As these subsectors are currently expanding, riding a wave of government investment in transportation and logistics infrastructure, warehousing and supply chain management are emerging as strong subsectors, filling a vital supporting role and increasing efficiency in many various divisions of the primary subsectors.

Bountiful opportunities for both institutional investors and contractors exist throughout the industry. The country’s stable economy and currency limit the risk of investing in Saudi Arabia. The sector already has a strong foundation, is the beneficiary of long-term government investment in developing necessary transportation and logistics infrastructure and is characterised by high growth potential. Absent any drastic fluctuations in the price of oil, the transport and logistics sector will remain a low to mid-level risk play compared with the majority of regional markets, presenting a very attractive upside.

The Middle East and North Africa (MENA) region is well situated to enjoy rapid expansion in the area of transport and logistics. While Saudi Arabia has a clear strategic advantage over neighbouring countries due to its geographical location and its construction of the King Abdullah Port, most countries in the region possess some degree of geographic advantage with proximity to China, India, and Europe facilitating mutually beneficial transport links. The concentration of global oil resources in the region, relative affluence, particularly in the Gulf Cooperation Council (GCC) countries, and the region’s location at the crossroads of global trade all contribute to a positive outlook for the growth of transport and logistics services spanning the supply chain.
INDUSTRY STRUCTURE

The transport and logistics industry incorporates the infrastructure, products and services that together facilitate the local, national and global movement of products between production facilities and points of sale or final destination. The transport industry involves cargo movement via land (roads and railways), by river and sea, by air, in and out of ports and other multi-modal hubs, and through shipping lanes. Government-built infrastructure often plays a decisive role in how effective national transport networks are, determining shipment times and costs. The logistics segment involves the range of services that facilitate the transport industry, such as value-added services, repair facilities, coordination between different modes of transport, provision of services to ship crews and import/export and customs facilitation services.

The Saudi government is the dominant player in the industry, in which it is driving development via a large-scale programme of infrastructure investment. The transport and logistics sector is viewed as a key area of potential growth in a diversifying Saudi economy, but the government has been slow to open up competition for local tenders to international companies, preferring instead to rely upon corporations in which it holds an ownership stakes, or domestic companies. Companies operating transport and logistics services in the Kingdom consist mostly of joint ventures between international players and local partners, as mandated by Saudi law.
MARKET OVERVIEW

Initially fuelled by demand associated with the country’s booming oil and gas industry, which requires a comprehensive range of industrial structures and infrastructure, the Saudi Arabian government has recently made sizeable investments intended to boost the country’s non-oil infrastructure. This includes heavy investments in healthcare, education, and transport infrastructure projects, including the creation and restoration of rail networks and roadways, in addition to significant construction expenditures in the residential housing sector. The government’s current development plan will see over US$ 229 bn allocated for the 2015-2019 period, US$ 81.6 bn of which was allocated to transport projects in 2014. Despite lagging oil prices, which are expected to continue through 2016, the 2015 budget was Saudi Arabia’s largest allocated expenditure to date, with infrastructure development projects scheduled through 2040.

The transport and logistics industry is one of the most dynamic sectors in the Kingdom’s economy. Official reports estimate that the sector is growing by 6-10% annually. This growth is driven by massive transport infrastructure projects, which are generally initiated by government planning bureaus and then tendered to public and private, domestic and international, engineering, construction and project consultancy firms. As of 2014 year-end, the government overall has an estimated US$ 81.6 bn committed to investments in every level of the transportation networks in the Kingdom. The government is also active in long-term planning, taking into account the country’s rapidly growing population and increasing levels of religious tourism to the area.

Demand for the development of transport infrastructure has been bolstered significantly by the annual Hajj, the Muslim pilgrimage to the holy cities of Mecca and Medina. The number of foreign pilgrims allowed into the country has been rising yearly. In 2014, the total number of Saudi and foreign pilgrims exceeded 3.6 million, while actual demand for visas to perform the pilgrimage is estimated at almost twice that figure. To accommodate this level of demand and capitalise on the full potential of the religious tourism industry, government expenditure on transport infrastructure for religious pilgrims has grown 10-15% on an annual basis.

Another emerging segment in the domestic transportation sector is the emergence of application-based transportation networks such as Uber and Careem. Operating in the Kingdom since 2014, the Saudi government recently announced an investment of US$ 3.5 bn to the company as part of the country’s larger economic diversification efforts. Meanwhile, regional player Careem entered the Saudi market in 2013 and is currently active in five local cities including Riyadh, Jeddah, Dammam, Dhahran and Khobar.

In 2015, Saudi Arabia’s transport budget grew to US$ 16.8 bn to support extensive highway and roadway creation along with high profile rail and maritime transport projects in the works including the Haramain High Speed Rail being built to connect Mecca, Medina, Jeddah and King Abdullah Economic City, the US$ 3 bn Riyadh Light Railway, US$ 5.6 bn worth of public transport projects under the Jeddah Strategic Development Plan and the King Abdullah Economic City (KAEC) Seaport Project. The transportation and logistics market in this region is a dynamic one with bountiful opportunities for business development. Revenues from logistics sector alone are estimated to reach almost US$ 18 bn at 2015 year-end.

The sector is already an investment target for a number of foreign governments and investment institutions. China in particular has increased investment in the Saudi Arabian economy overall during the last decade, with its sights set on promoting its state-owned companies as prime concessionaires for a variety of transport infrastructure ventures, with a focus on light rail projects. The Saudi Arabian General Investment Authority estimates that domestic cargo demand is expected to grow by a 4 to 5% compound annual rate through 2020, while international flows are expected to grow at 5% and 7 to 8% for air and sea cargo, respectively. Logistics analysts have estimated earned revenues from all logistics ventures in the country at US$ 18 bn in 2015. The growth in the logistics sector will be driven by Saudi Arabia’s oil and gas industries and the government’s sustained investment in its business diversification program.
Saudi Arabia: Transport & Logistics

Rail Transport & Logistics

In the last five to 10 years, the Saudi government has embarked on a comprehensive rail network expansion campaign. The government is committed to the long-term development of the sector, commissioning a 30-year railway master plan from European consultancy firms in early 2011 to forecast demand for 2010-2040 and assess how to respond efficiently and attract higher levels of private investment.

Planned Railway Network

The government is currently investing US$ 25 bn in three mega projects as part of the passenger and freight rail expansion plan. The three projects combined equal 3,900 km of track. The largest and highest priority venture is the North-South Rail Project, which will primarily serve to connect the capital city of Riyadh, in the northwest of the country, to Al Haditha, near the border with Jordan. The two other projects are the 1,100 km Landbridge Project, connecting the eastern and western parts of Saudi Arabia and the 450 km Haramain High-Speed Rail Project, which will run from Haramain to Jeddah, connecting Mecca and Medina.

The North-South Railway Project includes 2,400 km of passenger and freight rail line stretching from the capital city of Riyadh, in the northwest of the country, to Al Haditha, near the border with Jordan. The project is the largest railway project in the region and is projected to transport four million tons of commodities and two million passengers annually. Pending resolution of on going conflicts in the Levant, the line will also eventually play an integral role within a larger regional rail network that will link the GCC to Europe, via Jordan, Syria, and Turkey.

The freight line is a 1,486 km line from Al Jalamid (phosphate belt) in the north to Al Azbirah (bauxite belt) in the centre of the country and will run eastwards to the processing and export facilities at Raz Azwar. The government projects that this line will make Saudi Arabia the second largest exporter of minerals in the world. Saudi Railway Company (SAR) is targeting rolling stock of 155 wagon trains, which will be capable of carrying loads of 15,000 tonnes. Close to 80% of the wagons on the North-South line will be used to transport phosphate. The 1,418 km passenger line runs from Riyadh and passes through industrial stations in Sudair, Al Quassim, Hail, Al-Jawf and Al-Basyata to Al Haditha.
The total cost of the project is US$ 3.5 bn, financed by the Ministry of Finance's Public Investment Fund (PIF). The lead contractor on the project is the Saudi Railway Company, which was founded by the PIF to act chiefly as the project’s contract manager. SAR has already sub-contracted the majority of the project construction and logistics to international and domestic firms.

The Haramain High Speed Rail Project is a 450 km rail link between Mecca and Medina, cutting transportation time between the two cities to a mere two hours. It will also run through Jeddah and Rabigh, shortening the trip from Jeddah to Mecca to half an hour. The project includes high-speed trains fitted with the latest equipment and five ultra-modern passenger stations – one in Mecca, two in Jeddah, one at King Abdul Aziz International Airport and one in Medina.

Phase 1 of the project was launched in 2009, under the auspices of the Saudi Railway Organization. Full project completion was initially expected by year-end 2012; the project was delayed, however, in late 2011 by land expropriation issues. The Haramain Project is designed to provide rail transportation to the throngs of religious pilgrims that visit the two holy cities every year, as an alternative to mass bus transport and a solution to road congestion during the pilgrimage season. In November 2011, the Saudi government authorised the start of construction of Phase 2 of the project, awarding the US$ 9.3 bn contract to Saudi-Spanish consortium Al-Shoula Group.

The Saudi Landbridge Project, which will provide the first direct link between the Red Sea and the Arabian Gulf, includes plans for construction of 950 km of new rail line between Riyadh and Jeddah and another 115 km of track between Dammam and Jubail. The estimated cost of the projects is US$ 7 bn.

Although the Saudi government had initially planned to fund the Landbridge project through a public-private partnership (PPP) in October 2011, the Council of Ministers decided to change course and publicly fund the vast majority of project expenses. Operations will be hired out to qualifying contractors. This decision ended arduous negotiations between the government and the Tarabot consortium, which was named preferred bidder for a 50-year build-own-operate-transfer (BOOT) contract in April 2008. Analysts familiar with the tendering of the project say that most private investors were reluctant to take on the risks associated with such a high-cost, long-term project.

The Saudi Landbridge will primarily be a freight and container line, with a total carrying capacity of 400 TEUs. The line will also be interoperable with the North-South railway. By 2016, the number of transportable containers on the Landbridge is expected to reach 700,000 yearly, equalling an estimated annual distribution of 8 million tonnes of freight cargo across the breadth of the Arabian Peninsula. The Landbridge will also offer passenger transport to millions of passengers a year, reducing travel time between Jeddah and Riyadh to six hours, compared to the current 10-12 hours via bus. For freight trains, travel time will be 12-16 hours, which compares favourably with the five to seven day shipping route by sea.

Public Transport

Transportation areas such as aviation, railways, roads, seaport and logistics are expected to see major developments, capacity enhancement and expansion in order to accommodate growing demand across the region. Metro schemes will take the spotlight among other investment projects, as the government plans to award projects in Jeddah, Dammam, and Mecca. Notwithstanding the aforementioned advances in modernising the country’s transport infrastructure, public and private expenditures in this segment continue to expand, with private sector growth exceeding 11% in 2014.

In its 2015 budget, the Saudi Arabian government has allocated large amounts of funds for the creation and renovation of new and existing roadways, rail networks and road systems. US$ 30 bn has been allocated for the construction of public transport systems in the city centres of Mecca, Jeddah, and Taif. In an effort to deal with traffic congestion related to pilgrimage tourism the city of Mecca will receive an additional US$ 18 bn for the creation of four metro lines, 88 stations, and a high-speed bus network for pilgrim transport.

Public road transportation in the Kingdom is dominated by the Saudi Public Transport Company (SABTICO), which operates a fleet of approximately 3,000 buses of various capacities and sizes, running 579 scheduled trips daily and serving 382 domestic and 30 international destinations.
Opportunities for growth also exist in Saudi Arabia's greater rail network, with spending expected to reach US$ 79 bn by 2025. Saudi Arabia plans to significantly improve its rail network by adding 3,900 km of track through three major railway projects. This includes a US$ 13 bn rail line linking Mecca and Medina, while work on a US$ 1.7 bn mass rail transit system for the holy city of Mecca began construction in 2013.

Additionally, the country plans to triple the size of King Khalid International Airport in Riyadh over the next five years in order to increase its capacity from 12 mn to 24 mn passengers. According to the head of the country's civil aviation body, the government also has plans to build a US$ 7.2 bn airport in Jeddah, Saudi Arabia’s second largest city. The volume and scope of Saudi’s current transport and infrastructure projects prepare the industry for an expansive future over the next several quarters, with significant growth expected in most areas.

In addition to expansion of the country-wide rail network, Saudi Arabia is actively developing local rail transportation networks, investing particularly in metro lines, monorail systems and light weight trains in Riyadh and Jeddah. The Mecca Metro performed flawlessly during the recent pilgrimage season, serving in place of a fleet of around 4,000 buses that used to choke the city’s roads. Additionally, despite being the country’s capital, Riyadh has almost no existing public transport. US$ 22.5 bn has been allocated for the creation of a metro line, 176.5 km of railway and 85 stations, which has an expected completion date of 2019. The Riyadh Metro Project is a US$ 3 bn project and includes 42 km of track and 36 stations. Currently in the planning phase, the project will comprise two lines and be built in two phases. The Metro is expected to be fully operational in 2017.

Another promising development within the public transport segment is the emergence of application-based taxi services such as Uber and Careem. Established in 2012, Dubai-based Careem began operating in the Kingdom in 2013. With a fleet of over 100,000 cars, Careem has focused on expanding its presence in the Kingdom by offering superior quality in terms of cars and customer service. Meanwhile, Uber is set to make a significant impression on the domestic market in light of a US$ 3.5 bn cash infusion to the company from the Saudi Arabia’s Public Investment Fund. Demand for these services has come increasingly from the country’s female population, who are not allowed to drive, and the country’s large and technologically savvy youth population. The country’s business tourism segment and expatriate population have also contributed to growth within the area in recent years.

**Maritime Transport & Logistics**

Saudi Arabia has nine major ports and close to 200 piers, which handle 95% of the country's trade. It is the largest seaport network in the Middle East. The Saudi Ports Authority recently announced that the Kingdom is preparing a strategic investment of US$ 8 bn for the modernisation and equipping of all of ports. In August 2011, the Saudi Ports Authority announced that would offer public tenders for the further development of capacity at Jeddah Islamic Port (JIP). The total estimated value of tenders for JIP is US$ 123 mn.

The Authority has also indicated that it will rely heavily on private sector partners to accomplish this goal. US$ 1.6 bn worth of maritime infrastructure projects are already underway, and an estimated US$ 266 mn worth of projects have yet to be awarded, suggesting future private sector involvement the development process. These expansion and development plans for Saudi Arabia's port network signal increasing opportunities for multinational companies in port-related areas. There will be potential for port planning and development consultancy, port security, equipment supply, and port operation contracts.

While the vast majority of maritime transport to the Kingdom is via freight, the volume of passengers passing through Saudi Arabia's ports is projected to increase substantially in coming years, driven by religious tourism. The government is already investing in infrastructure to support growth in this market; Saudi Arabia's Jeddah Metro Company has recently put out a tender for the design and construction of a series of ferry stations, fuel depots, mooring systems and breakwaters as part of a US$ 12 bn project in the Western sea port. Another key maritime project in the pipeline is building a Hajj terminal as part of the King Abdullah Economic City (KAEC) seaport project, complete with adjacent hotels and room capacity for 300,000 pilgrims. The country hopes that encouraging maritime travel to the country, via ferries and boats, will help to further ease congestion within the country’s airports and roadways.
Saudi Arabia: Transport & Logistics

The KAEC seaport is strategically located on the Red Sea, between the holy cities of Mecca and Medina and 80 km north of Jeddah. The port benefits both from the volume of industrial trade flowing through Jeddah and from the annual pilgrim, especially following the completion of the purpose-built Hajj terminal and hotels. The seaport will also be integrated with the industrial zone and logistics hub to provide a seamless logistics operation within the Economic City that will further promote regional trade.

The KAEC seaport project is currently under phase two of its construction and is scheduled to open by the end of 2016, with the ultra-modern future port expected to extend over 14 sq km. In 2008, the main developer of KAEC, Emaar the Economic City (Emaar E.C.) signed a Memorandum of Understanding (MOU) with Dubai Ports World (DP World), one of the top five port operators in the world. Upon completion, the seaport will be the largest in the Red Sea and one of the top 10 ports in the world, with a capacity to handle 20 mn TEU, almost tripling the current port capacity of 12 mn TEU. The KAEC seaport is estimated to cost US$ 5 bn and is the only port project in Saudi Arabia to date that is being built entirely from private financing. It is projected to create 15,000 jobs and to contribute approximately US$ 2.67 bn to the country’s GDP.

In addition to the major King Abdullah Port construction, the Kingdom has a number of other maritime infrastructure projects in the works related to the transport and logistics sector. The Saudi government recently awarded a joint-venture contract to Saudi Global Ports LLC (SGP), the company specially formed between the Public Investment Fund (PIF) of the Kingdom of Saudi Arabia and PSA International (PSA) to develop, operate and manage a new container terminal at King Abdul Aziz Port in Dammam, close to the capital of Riyadh. The project is expected to cost more than US$ 430 mn. The project will be implemented on a build-operate-transfer (BOT) basis. Studies have been completed on the new container terminal and tenders will be invited within a few months to implement the project, which will be open to Saudi and foreign companies.

Under the plans to be submitted to the Saudi Transport Ministry, a 400 sqm container terminal will be built adjacent to the port’s existing free zone. The terminal would add 1.5 mn TEUs to the port’s current capacity of 1.7 mn. This is being proposed by the Dammam Bonded & Re-export Zone (BBRZ), which is eight years into a 30 year concession to run the free zone, in order to expand the range of services at the site, enhancing its commercial appeal. Plans include development of the free zone and container facility side by side, as they have done at Jebel Ali in Dubai. Dammam port is already linked to Riyadh by rail, and is set to assume greater significance with the development of the Saudi Landbridge, which will link the project to the country’s largest port in Jeddah on the Red Sea coast, via a rail line.

Additionally, a contract for US$ 600 mn to build an industrial port at Al-Zour has been awarded to China Harbour Contracting Company (CHCC) and work is in progress. CHCC has partnered the local Rafid Group on the project to form the China Harbour Engineering Arabia Company. The Saudi Port Authority has issued a letter of intent to China Harbour for an engineering, procurement and construction contract. The port will serve nearby fertiliser and aluminium smelting complexes. Three berths will be built to handle general, dry bulk and liquid cargo. The port will cater for vessels of up to 70,000 dead weight tonnes and handle bauxite, process chemicals and other equipment needed for the aluminium smelter planned by Saudi Arabian Mining Co, Ma’aden.

Road Transport & Logistics

Road-based transport is a major form of freight and passenger transportation in the Kingdom. By the end of the Eighth Development Plan in 2008, the total length of roads in the Kingdom had reached 183,900 km. Currently, the estimated total number of registered vehicles operating on the roads daily is 12 mn, with private cars and light trucks constituting 96% of the total. Road transport using private vehicles is the foremost means of transport in the Kingdom, accounting for 85% of all trips. With an increasing number of vehicles on the road and little enforcement of driving regulations, road safety has become a major concern in the Kingdom, with a road traffic death rate of 22.5 per 100,000 people, compared to 9.6 in other high-income countries.

Shipping and logistics activity relies heavily on road transport services. The market is heavily fragmented, with only a handful of large trucking companies providing services, such as Crescent Transportation, Almajdouie Transport, and Saudi Land Transport Company in Saudi Arabia, which compete head-to-head with leading regional and global logistics providers in the Middle East.
In the coming years, road haulage will benefit from a number of road development projects, including a proposed motorway from the Saudi border with the UAE to Abu Dhabi, which will also link with the new railways.

Under the current development plan the Kingdom has allocated a substantial sum to the creation and renovation of the Kingdom's roadways, particularly its heavily used inner-city roads, intersections and bridges. Over 3,500 km of new roads will be created, including 284 highways that will link the country's main urban centres. Current projects include the 72 km Mecca-Jeddah Highway that will include four lanes in both directions with a median sidewalk extending the length of the highway. In terms of truck and cargo travel, the Mecca-Jeddah Direct Roadway will link the Second Ring Road in Jeddah with Hada and Al-Jomoum. The road is expected to facilitate the transfer of cargo trucks from Al-Mina and Southern Jeddah to the direction of Hada-Al-Jomoum, effectively reducing truck movement on the Al-Khair Bridge and Mecca-Jeddah Highway. Additionally, the government recently opened a tender for the design and construction of the Obhur Creek Bridge. Located 20 km from Jeddah, the bridge is expected to play a major role in the development of the area to the north. Initial plans for construction include eight lanes of road traffic, footpaths and two lanes of rail transit. These projects, among other major transport projects currently in the works, are expected to benefit over 35 million residents and tourists travelling within the country. An additional 2,200 km of road construction is planned for the next development period beginning in 2020.

Road Network by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Main Roads</th>
<th>Paved Roads</th>
<th>(km) Paved Roads</th>
<th>Feeder Roads</th>
<th>Total (km)</th>
<th>Unpaved Roads (km)</th>
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<td><strong>9181</strong></td>
<td><strong>29716</strong></td>
<td><strong>53768</strong></td>
<td><strong>130157</strong></td>
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</tr>
</tbody>
</table>

Source: Ministry of Transport

Air Transport & Logistics

The entrance of budget airlines into the commercial transport market has forced major bus companies to reduce prices significantly to curb a sharp fall in passenger volume. The air transport network comprises of 26 airports, including three international, six regional and 16 domestic airports. About 90% of the Saudi population lives within a two-hour drive of the nearest airport, making air travel a popular transport option. Due to the majority of goods entering and leaving the country via ports, the Kingdom’s aviation industry is centred on commercial flights serving the local and regional populations. Major airports in the Kingdom include Riyadh, Jeddah, Dammam, and Jubail.

In line with the country’s larger infrastructure goals, the government has been investing heavily in a massive nationwide airport building programme. The aviation sector alone contributes around 1.8% of the Kingdom's total GDP and is valued at US$ 8.1 bn. Over the past decade Saudi Arabia’s aviation industry has fallen behind that of regional neighbours such as Dubai, Doha and Abu Dhabi.
Despite this, total passenger traffic continues to climb, reaching over 70 million annual passengers in 2014 with double-digit year-on-year growth. Due to high population growth and an increasing influx of pilgrim tourists visiting the country, significant opportunity exists in increasing the number of airports and expanding capacity of existing airports in Saudi Arabia.

**Air Traffic Forecasts**

<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Total</th>
<th>Average Annual Growth Rate under Plan (%)</th>
</tr>
</thead>
<tbody>
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<td><strong>Passenger Transport</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of international passengers (million)</td>
<td>36.1</td>
<td>37.8</td>
<td>39.6</td>
<td>41.5</td>
<td>43.5</td>
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<tr>
<td>Number of domestic passengers (million)</td>
<td>9.3</td>
<td>9.8</td>
<td>10.2</td>
<td>10.7</td>
<td>11.2</td>
<td>11.8</td>
<td>4.9</td>
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<tr>
<td>Total passengers (million)</td>
<td>45.4</td>
<td>47.6</td>
<td>49.8</td>
<td>52.2</td>
<td>54.7</td>
<td>57.4</td>
<td>4.8</td>
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<tr>
<td><strong>Cargo Transport</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volume of international cargo (thousand tonnes)</td>
<td>517.1</td>
<td>526.1</td>
<td>535.2</td>
<td>544.4</td>
<td>553.9</td>
<td>563.9</td>
<td>1.7</td>
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<tr>
<td>Volume of domestic cargo (thousand tonnes)</td>
<td>22.5</td>
<td>22.4</td>
<td>22.3</td>
<td>22.2</td>
<td>22.1</td>
<td>22.0</td>
<td>-0.4</td>
</tr>
<tr>
<td>Total cargo (thousand tonnes)</td>
<td>539.6</td>
<td>548.5</td>
<td>557.5</td>
<td>566.6</td>
<td>576.0</td>
<td>585.9</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Source: Ministry of Economy and Planning

Current development projects include the development of new airports, the expansion of King Abdulaziz International Airport in Jeddah and modernisation projects at Medina’s Prince Mohammed Bin Abdulaziz and Taif Airports. The expansion of other airports is also in the pipeline, including King Khalid International Airport and a number of domestic airports. The largest expansion project currently underway both in the aviation sector and the country is the expansion of the King Abdulaziz International Airport (Jeddah International Airport.) The renovation project, worth an estimated US$ 7.3 bn, involves expanding the airport’s annual capacity from 17 mn passengers to 30 mn. Due to the airport’s status as a gateway to Mecca and Medina, it caters to a considerable influx of passengers during the Hajj, resulting in a 690% increase in overall traffic to the area throughout the five days of the Hajj. Phase 1 of the Jeddah International Airport project has an expected completion date in 2016, with full project completion expected sometime in 2017.

**Warehousing and Distribution**

The warehousing and distribution segment of the transportation and logistics sector is growing rapidly, as demand for outsourcing logistics, supply chain management, and product distribution increases in step with sector growth and overall economic growth. Industry experts have estimated logistics at US$ 20.5 bn at the end of 2015. Several international logistics companies, such as Agility, have been able to penetrate the growing market, winning government contracts and using them as springboards for further expansion into the Saudi private sector. Still, there remains significant and growing demand for experienced providers of logistics, in support of both the transportation side of the sector and the distribution of retail products throughout the country.
In 2014, international logistics company DHL Global, the world leading international express service provider, announced plans to expand its leadership within the MENA region due to the growing importance of trading links within the region. Over US$ 95 mn has already been invested to create three new gateways within the Kingdom in Damman, Riyadh and Jeddah. These distribution hubs will be linked to major DHL distribution hubs around the world, including DHL's regional hub in Bahrain. The Riyadh head office and gateway facility at King Khalid International Airport are currently undergoing construction. The 4,000 sqm operational facility will employ over 150 workers and will be an in-house costumes bonded facility, which is expected to reduce average clearance times considerably. The new gateways will double DHL's logistics offerings to customers in the Kingdom and will support the expansion of trade by increasing connections between Saudi Arabia and the UAE, along with major trading partners such as China, Japan and the United States.
KEY PLAYERS

Agility

Agility is one of the leading logistics providers in Saudi Arabia with more than 400 employees, five offices, and 2 million sqm of owned land, including 40,000 sqm of warehouse space in Riyadh. Agility KSA offers airfreight, sea freight, road freight, and logistics and supply chain management services. The company’s airfreight hubs are Riyadh, Dammam and Jeddah; sea freight hubs are Jeddah and Dammam, with customs clearance services at Yanbu and Jubail followed by local transportation services across Saudi Arabia. The road freight division has hubs in Dammam, Jeddah, and Riyadh. The company also has an 870,000 sqm logistics centre, strategically located in Sulay, next to Riyadh. Agility KSA is also pursuing a strategy of investing in logistics infrastructure to offer local and global merchants a one-stop-shop access and link Saudi infrastructure to Agility’s regional warehousing and transportation network to facilitate trade throughout the region. Agility is a publicly traded company, with over US$ 7 bn in annual revenue and more than 37,000 employees in over 550 offices and 120 countries. The company has been traded on the Kuwait Stock Exchange (KSE) since 1984 and on the Dubai Financial Market (DFM) since 2006, under the stock symbol AGLTY.

Almajdouie Transport

Almajdouie Transport (MTR) is one of the largest integrated transportation and logistics service providers in the Middle East, and the flagship company of the Almajdouie Group. Founded in 1965, MTR has a total transport fleet in excess of 1,200 tractors, 1,400 various types of trailers, and more than 100 pieces of heavy equipment. Since early in the company’s history, MTR has provided haulage services to Saudi Aramco, transporting pipes and cargo and also playing significant role in the development of many early Saudi Aramco production facilities throughout the Kingdom. Other major customers include The Coca-Cola Bottling Company of Saudi Arabia. More than 80 curtain sided trailers with cooling units are exclusively dedicated for hauling Coca-Cola products. The Almajdouie Group is privately owned, with headquarters in Dammam.

Saudi Oger Limited

Incorporated in 1978, Saudi Oger has grown to become one of the leading construction, facilities management and infrastructure development companies in Saudi Arabia. Most recently, the company signed a US$ 1.5 bn contract with Saudi Arabia’s General Authority of Civil Aviation (GACA) to increase the capacity of Prince Mohammad Bin Adbulaziz International Airport. Saudi Oger and SBG are considered to be two of the biggest players in the Saudi construction and infrastructure industry, with some analysts suggesting that their hold on the market borders on a monopoly.

Saudi Railway Company (SAR)

The Saudi Railway Company (SAR) is the lead contractor for the North-South Rail Project, responsible for tendering contracts for the project and managing the implementation of the project blueprint. In 2011 final testing was successfully carried out on sections of the track, with a focus on testing the track for long-haul mineral carriage. SAR is owned by the Ministry of Finance’s Public Investment Fund.

Saudi Arabian Airlines (SAA)

Saudi Arabian Airlines is the largest commercial passenger airline in the Kingdom with 119 aircraft serving domestic and international destinations. The Jeddah-based national flag carrier was founded in 1945 and was wholly-owned by the government until 2009, when implementation of a long-discussed privatisation scheme began. SAA has already privatized five operating units including catering, cargo, ground services and aerospace engineering. Future units on the privatisation agenda include Prince Sultan Aviation Academy, Saudia Private Airline, Medical Services and Saudi Airlines Real Estate Development Company.
Privatisation efforts have helped the airline boost revenue, with catering posting an annual profit of around US$ 275 mn.

**Uber**

Uber is a multinational online transportation company headquartered in San Francisco, California. The company markets and operates the Uber mobile app, allowing consumers with smartphones to request ride services to their location using GPS. All ride requests are routed to Uber drivers, who use their personal vehicles. Uber services are available in over 66 countries and 449 cities worldwide. In 2015, Uber announced they would be investing US$ 250 mn to expand their services in the MENA region, while the Saudi government recently announced it would invest US$ 3.5 bn into the company.

**GAC**

GAC Saudi Arabia is part of the GAC Group. GAC is one of the world’s leading shipping service and transport organisations, operating with its own offices in the Middle East, Eastern Mediterranean, the Indian subcontinent, the Far East, Poland and Nigeria. GAC Saudi Arabia was established in 1958 and has grown from a single operational office at Ras Tanura to have its own operations in the major ports of Dammam, Jeddah, Yanbu, Jubail, Ras Tanura, Ras Al-Khafji and Rabigh as well as the dry port in Riyadh. The GAC Group is a private company, headquartered in Dubai. The Group recently received US$ 35mn in financing from the International Finance Corporation (IFC) to support the group’s purchase of up to six supply vessels to service offshore oil rigs.

**National Shipping Company of Saudi Arabia (NSCSA)**

NSCSA was established in 1979. The company started its diversification from sole operations in the freight shipping business in 1985, initially diversifying into chemical-tanker operations, which grew into with the establishment of National Chemical Tankers (NCC), a joint venture with SABIC. NSCSA is a public company registered in Saudi Arabia. The Saudi Arabian government owns 28% of the company, while 72% is owned by around 20,000 shareholders.

**Integrated Transportation Company**

ITC was incorporated in 2007, with ACWA Holding as a major shareholder, in order to participate in the privatisation of the land, sea and air transportation sectors in Saudi Arabia. Since its formation, the company has successfully bid for the Kingdom’s divestment of a 30% share in Saudi Arabian Airlines (Saudia) Cargo, through its subsidiary Tarabot. Looking to the future, the company’s mission is to become a fully integrated land, sea and air transportation and logistics company. In the fourth quarter of 2010, ITC signed a joint venture agreement with multinational Japanese logistics firm Kintetsu World Express (KWE), which has a presence in 32 countries. KWE announced it would offer its customers a full range of logistic services including freight forwarding, warehousing, distribution and supply chain solutions. ACWA Holding is in turn owned equally by Al Muhaidib Group and Abdullah Abunayan Group, two private Saudi conglomerates.

**Bechtel Corporation**

Established in 1898, Bechtel Corporation is the largest construction and civil engineering company and the fourth largest privately owned company in the United States. The company’s operational activities are global and wide-ranging and include civil infrastructure, government services, mining and metals, energy and oil, gas and petrochemicals. The company is currently overseeing a number of key projects within the Kingdom including the expansion of Jubail Industrial City, which the company has managed since the 1970s. Additionally, Bechtel recently won a US$ 10 bn contract to design and build two rail lines of the Riyadh Metro Network.

**Crescent Transportation**

Crescent Transportation operates across the Gulf Cooperation Council countries with its head office located in Damman, Saudi Arabia. Established in 1976, Crescent offers freight transportation of all types of manufactured goods,
consumables, bulk liquids, petroleum, chemicals, foodstuffs, raw materials and project cargo by land, sea and air. Crescent employs a workforce of over 665 people and operates a fleet of over 500 trucks and 670 trailers. Crescent Transportation is a subsidiary of Rezayat Group (also known as the Alireza Group), a private multinational conglomerate with a focus on trading, construction, support services, manufacturing, investment and financial services.

**Saudi Land Transport Company (Mubarrad)**

The Saudi Land Transport Company (Mubarrad) operates in the transport, transfers, cargo handling, and various materials in Saudi Arabia and other GCC countries. It also provides construction, management and leasing of cold stores, trailers, machinery and related equipment. Founded in 1983, the company operates a large transport fleet, including 500 truck heads, 367 reefer trailers with 20 ton capacity, 58 reefer trucks with 10 ton capacity, 143 flat trucks for dry transport, and 100 trailers for bulk transport. Mubarrad also has a long-term investment of 400 thousand shares in SAPTCO, a public transport company that operates a fleet of around 3000 buses and provides service to 10 major cities in the Kingdom. The Saudi Land Transport Company trades on the Saudi Stock Exchange (Tadawul) under the stock symbol SLTCO.

**Saudi Public Transport Company (SABTCO)**

Established in 1979, SAPTCO operates a fleet of approximately 3,000 buses of various capacities and sizes. The company runs 579 daily scheduled trips, connecting 600 cities, towns and villages across the Kingdom. SAPTCO also offers daily international trips to Kuwait, Bahrain, Qatar, UAE, Yemen, Egypt, Jordan, Syria, Sudan and Lebanon. In February 2011, the Jeddah Chamber of Commerce and Industry's transport committee announced that a number of investors would be given the opportunity to invest in SAPTCO. In addition, Saudi Arabia has signalled the end of SABTCO's monopoly on public road transport in the Kingdom. According to SAPTCO figures, the company transported more than 11.9 mn passengers in 2008, covering almost 12 million km.

**El Seif Engineering Contracting Company**

Established in 1975, El Seif Engineering Contracting Company is a member of El Seif Group, a conglomerate of companies that has operated in Saudi Arabia since 1951 in the fields of construction, healthcare, defense and transport. Among the company’s most well known projects are the Kingdom Tower in Jeddah, the Kingdom Hospital, the King Khaled International Airport, the King Faisal Airbase, in addition to several power plants in Riyadh and other cities. The company’s website reports over US$ 710 mn in annual revenues.

**SENDDEX**

Established in 1998, SENDDEX offers surface express package transportation solutions within the Kingdom. The company distinguishes itself by offering next day, door-to-door delivery and flat rate, reliable service with optional insurance coverage. SENDDEX also has a Contract Logistics division, offering warehousing, distribution and logistics services. The company is implementing an integrated model to provide end to end supply chain management to major clients. SENDDEX is a subsidiary of Arabian Bulk Trade Limited (ABT), which is part of the Xenel Group, a major private conglomerate based in Jeddah. SENDDEX management has indicated that it will pursue GCC expansion opportunities in the near future.

**TNT SAB Express**

TNT SAB Express is a worldwide parcel, document and freight shipping service, catering to business and individual customers in more than 200 countries. In Saudi Arabia, TNT SAB Express holds a significant share of the commercial shipping market. In November 2011, the company resigned its agreement with IKEA to be sole shipping agent and warehouse manager for the Sweden-based home furnishings company.
### ECONOMIC OVERVIEW

#### Economics forecasts

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<tr>
<th>Subject Descriptor</th>
<th>Units</th>
<th>2014</th>
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<th>2016</th>
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<tr>
<td>GDP, constant prices</td>
<td>% change</td>
<td>3.6</td>
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<td>US dollars</td>
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<td>653.2</td>
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<td>Total investment</td>
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<td>Inflation, average consumer prices</td>
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<tr>
<td>Volume of imports of goods and services</td>
<td>% change</td>
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<tr>
<td>Volume of imports of goods</td>
<td>% change</td>
<td>6.4</td>
<td>2.5</td>
<td>-0.3</td>
<td>2.9</td>
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<td>4.8</td>
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<tr>
<td>Volume of exports of goods and services</td>
<td>% change</td>
<td>1.7</td>
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<td>4.4</td>
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<tr>
<td>Volume of exports of goods</td>
<td>% change</td>
<td>1.4</td>
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<tr>
<td>Unemployment rate</td>
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<td>Population</td>
<td>Millions</td>
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<tr>
<td>General government structural balance</td>
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<td>-16.3</td>
<td>-13.5</td>
<td>-11.8</td>
<td>-11.0</td>
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<td>General government gross debt</td>
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<td>33.3</td>
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<td>Current account balance</td>
<td>%, GDP</td>
<td>9.8</td>
<td>-6.3</td>
<td>-10.2</td>
<td>-6.1</td>
<td>-3.6</td>
<td>-2.2</td>
</tr>
</tbody>
</table>

Source: IMF

Growth in the Saudi economy is to slow in 2016 to its slowest pace since the trough of the global financial crisis. The outlook in the April 2016 forecasts by the International Monetary Fund is for GDP growth to fall to 1.2% in 2016 and recover to 1.9% in 2017, representing a significant cut from its October 2015 outlook of 2.2%-2.9%. The Saudi government has embarked on a pronounced austerity drive to offset the impact of the slump in oil prices.

The 2016 Budget unveiled by King Salman’s finance ministry will see major cuts in government spending from SAR 975 bn (US$ 260 bn) in the 2015 fiscal year to SAR 840 bn (US$ 224 bn). This will include cuts to capital spending, administration costs and reductions in government wages and salaries. The budget also included unprecedented cuts to utility and energy subsidies. The move will raise the cost of household water and electricity supplies and the price of petrol, ethane and gas. Given the strong reliance on government spending to fuel the economy, any marked slowdown in state expenditure will raise fears that growth will slow further over the coming years.
If the plans for economic reform unveiled in the Vision 2030 document become reality, it will lead to Saudi Arabia moving from an oil-dependent economy towards one based on flourishing industry and services. It would involve restructuring the kingdom's oil-dependent economy, involving diversification, privatisation of major state assets including the energy giant Aramco, tax increases and spending and subsidy cuts. Goals include increasing non-oil government revenue from SAR 163 bn (US$ 43 bn) to SAR 1 tr by 2030 and raising the share of the private sector from 40% to 65% of GDP.

The government also aims to raise foreign direct investment from 3.8% to 5.7% of GDP by 2030. Other ambitions include reducing unemployment from 11.6% to 7% by 2030, and increasing women's participation in the labour force from 22% to 30% and creating an additional million jobs for Saudis in the retail sector by 2020. If successful it will also boost small and medium-sized enterprises to 35% of GDP from 20%.
A full National Transformation Plan will be revealed in late May or early June. It is expected to set detailed performance indicators to hold ministries and government bodies accountable to monitor implementation more effectively.

One major impact of the decline in oil revenues and the forecast economic slowdown will be on the current account surplus, which will move further into the red in 2016 than had been expected according to the latest IMF forecasts. The current account fell into deficit in 2015 for the first time since the late 1990s and by 6.5% of GDP rather than the 1% deficit the IMF had expected a year earlier. However Standard & Poor’s anticipates a current account deficit equivalent to 14% of GDP in 2016.

The official figures, which come with a time lag, show that Saudi Arabia current account deficit in the third quarter of 2015 was US$ 11.3 bn, wider than the second quarter deficit of US$ 8.1 bn and versus a surplus of US$ 16.6 bn in the third quarter of 2014. This marks the third quarterly deficit in a row. The kingdom is a significant external creditor, which gives it a large amount of resilience in the face of any extended decline in crude prices.

However in order to sustain spending, the government has drawn down on its reserves. Foreign currency reserves held by the Saudi Arabian Monetary Agency have dropped from $746bn in the middle of 2014 to $593bn by February 2016. While this is sustainable — even at the current rate of depletion FX reserves would last for at least another eight years — Saudi Arabia is also suffering from significant capital outflows. On some estimates the change in capital flows since the global financial crisis is similar in magnitude to the impact the current account position from lower oil prices. On the positive side the opening of the stock market to foreign investors may attract some much-needed overseas capital.

### Current account deficit

![Graph showing current account deficit for Saudi Arabia and MENA](source: IMF, World Economic Outlook database, September 2014)

Saudi Arabia’s determination to adapt fiscal policy to low oil prices was accentuated by comments by the deputy crown prince. Mohammed bin Salman said that shares sold in Aramco as part of its flotation would be used to create a US$ 2 tr fund to reduce the economy’s reliance on oil revenues to underpin the public sector finances. This was supported by reports that it plans to return to the international capital markets for the first time for 25 years with a US$ 10 bn bond issue. The Saudi Vision 2030 unveiled in late April 2016 is focused on supporting the non-oil sector on the basis of continued reduced oil receipts. Saudi Arabia looks set to curb its budget deficit as it relies on further spending cuts and tax rises to offset the impact of maintaining its oil market strategy is increasing production in the face of low oil prices.
Saudi Arabia ran a deficit of SAR 367 bn (US$ 98 bn) in 2015 or 15% of GDP — its first deficit since 2009 and its largest shortfall in its history. While the deficit is forecast to decline in 2016 and beyond as one-off spending ends and large investment projects are completed, it will remain high over the medium-term. Nevertheless, government debt is very low and was 7% of GDP at end of 2015. As well as budget cuts, the authorities are looking to raise debt. In July 2015 the Saudi Arabian Monetary Agency issued bonds to Saudi banks worth SAR 15 bn (US$ 4 bn). This was the first debt issuance since 2007 and went someway towards filling the gap created by the deficit especially as Saudi diverts more resources towards the Yemen conflict. Saudi Arabia is understood to be close to borrowing US$ 10 bn on the capital markets.

The readmission of Iran into the global economic system as a result of the deal over its nuclear weapons programme will shift the balance of geopolitical power in the region to Saudi Arabia's disadvantage. The deal is a sign of rapprochement between Iran and the United States, which the Saudis see as a key ally. Long-simmering tensions between Iran and Saudi Arabia have been on the rise recently. The main of dispute is Yemen, where a Saudi-led coalition is trying to restore the government in Yemen and overthrow Houthi rebels. The Saudi-led coalition is backing forces in Yemen loyal to the exiled President Abdrabbuh Mansour Hadi who are fighting the Houthis, who are supported by Iran. There are concerns that the initial bombing raids could then require a land-based invasion and raise the risks of a wider scale conflict between Sunni-led Saudi and Shiite-majority Iran.

Inflation has surged in the first months of 2016. The increase, which followed an annual rise of 4.2% in February, was due to electricity and water tariff hikes earlier in the year and, more recently, last month's hike in tobacco import duties. These factors will keep the headline rate high this year. Saudi authorities had increased the price of petrol by 50% and diesel by 81% as part of its fiscal consolidation programme. Housing sector has seen an inflation rate increase of 4.3% year-on-year, while transport suffered a notable inflation rate increase of 11.3% to 12.6%.

Monetary policy in Saudi Arabia is anchored by the riyal's peg to the US dollar and the country does not have an independent interest rate policy. While the peg, which has been in place for some three decades, provides credibility to monetary policy and stability to patterns of trade, income flows and financial assets, it means the authorities have limited flexibility in the face of its current economic slowdown at a time when interest rates in the US are rising. The Saudis are almost certain not to alter the peg of SAR3.75 to the US dollar.

Saudi Arabia unveiled a plan in March 2016 to guarantee jobs for its citizens over foreigners living in the country — by legally forcing firms to have 100% Saudi employees within six months. The overall jobless rate decreased to 5.6% in the second half of 2015 from 5.7% in the previous period.
Employment grew by 3.2% in 2014, with Saudi nationals’ employment growing by 4.4%. There was a decline in the female unemployment rate from 35.7% to 32.1%, with the male unemployment rate holding constant at about 6%. Youth unemployment rose to 12.88% in the third quarter from 12.7% in the previous three months. Some 40% of Saudi Arabians under the age of 30, or 13 million, are unemployed. Over the past decade, the number of graduates with tertiary education has more than doubled, but leaving them without the skills that the private sector needs. The government is making changes to wage subsidies, incentives, working hours, unemployment insurance and social benefits to encourage more nationals into work.

The decline in oil prices has increased the importance of structural reforms to switch the focus of growth away from the public sector and toward the private sector. The government has given a clear signal that it will live with lower prices for longer and that it is prepared to embark on a radical reform to cut state spending and waste rather than raise the deficit further to maintain livings standards or devalue the riyal. Oil export revenues account for almost half of GDP, 80% of tax revenues and 90% of export earnings. However, the kingdom will continue to have the foreign reserves needed to sustain both current account and fiscal deficits and to tide it over. Its efforts to diversify into non-hydrocarbon growth in sectors such as construction, manufacturing, transportation, trade and tourism, have so far proved successful and the details of the forthcoming National Developed Plan will be pored over.

Given Saudi Arabia’s dependence on oil and gas for economic growth and its fiscal and external position, the plunge in global prices will put pressure on GDP growth and the current account balance over the coming years. The decline in oil prices has increased the importance of structural reforms to switch the focus of growth away from the public sector and toward the private sector. The government has given a clear signal that it will live with lower prices for longer and that it is prepared to embark on a radical reform to cut state spending and waste rather than raise the deficit further to maintain livings standards or devalue the riyal. Oil export revenues account for almost half of GDP, 80% of tax revenues and 90% of export earnings. However, the kingdom will continue to have the foreign reserves needed to sustain both current account and fiscal deficits and to tide it over. Its efforts to diversify into non-hydrocarbon growth in sectors such as construction, manufacturing, transportation, trade and tourism, have so far proved successful and the details of the forthcoming National Developed Plan will be pored over.

The main source of risk therefore is the long-term impact of the fall in global oil prices on the government’s reserves. Crude prices have fallen well below Saudi Arabia’s fiscal breakeven point of US$ 106 a barrel and the country will see its current account surplus and budget deficit turn negative over the coming years, assuming that oil prices do not recover dramatically. The Saudis’ determination not to allow a freeze in production means it will face further years of lower-than-normal tax and export revenues that will require it to dip into its admittedly vast foreign exchange reserves.

Meanwhile the country needs to encourage private sector non-oil growth but the risk is that domestic reforms do not generate a growth dividend and create a more diversified and self-sustaining private sector that creates jobs. The large scale cuts in government spending and civil service wages raise the risk of rising public discontent especially if unemployment begins to rise. Job creation is already well short of the employment rate needed to supply work to new entrants into the labour market.

However Saudi Arabia is a highly authoritarian country and will suppress any signs of protest. The government needs to continue to push through labour reforms to limit the risk of social unrest, particularly among its larger population of young and well-educated nationals.
With a young educated population entering the labour force in large numbers each year, creating a sufficient number of well-paying jobs is a critical challenge to support sustained and inclusive growth.

There are still obstacles to doing business in Saudi Arabia although it is one of the less bureaucratic countries in the MENA region. The country is ranked at 82 out of 189 countries in the World Bank’s 2016 Doing Business report. However this is a slight rise from its revised rank of 84 in the 2015 assessment. The improvement was due to the fact that made property transfers faster by introducing a new computerised system at the land registry, which raised it 18 places in the property registration sub-index. Bribery is illegal in Saudi Arabia, and is prosecuted with increasing vigour. The UK government notes that the late King Abdullah had “done much to tackle the market distorting effects of patronage and compel prominent individuals to play by the rules”. Saudi Arabia ranked 49 out of 175 countries in Transparency International’s 2014 Corruption Perceptions Index, a deterioration from its 46 ranking in 2013.

**Doing Business in Saudi Arabia**


Unemployment

![Unemployment chart](image)


<table>
<thead>
<tr>
<th>Year</th>
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<td>2006</td>
<td>5.25%</td>
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<tr>
<td>2010</td>
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<td>2011</td>
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<td>2012</td>
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CHALLENGES TO INDUSTRY

Relative to the rest of the MENA region, Saudi Arabia undoubtedly exhibits lower political risk than its neighbours in North Africa and the Levant; however this does not guarantee that Saudi Arabia is completely insulated from the effects of the Arab Spring or political unrest in general. Recent reports published by companies analysing political risk in the MENA region noted that political risk in Saudi Arabia remains higher than in the past few years in light of tensions resulting from the wave of democratisation efforts engulfing the rest of the region, the status of the Shi’a minority, and lingering social tensions related to housing shortages and broader human rights abuses. In response to the first two concerns, the Saudi Arabian government acted swiftly, by drastically increasing public spending on the one hand as a means of quelling discontent related to unemployment and social inequality, while simultaneously suppressing pro-democracy demonstrations throughout the country, in particular in the Eastern provinces home to the Shi’a population.

Still, Saudi Arabia faces little to no risk of regime change or of a civil uprising in the foreseeable future as the government possesses the means of appeasing its population through generous fiscal programs, however the government does face legitimate security threats from terrorist networks within its borders, particularly in light of the recent merger between the Yemeni and Saudi branches of Al-Qaeda, now known collectively as AQAP. In addition to home-grown terrorist threats, the regime also views instability in neighbouring Bahrain and Yemen with trepidation, and has intervened in both countries in support of the existing regimes. Continued political unrest in neighbouring countries Bahrain, Yemen and Egypt, combined with already existing security concerns, have the potential to shake investor confidence in Saudi markets and negatively affect FDI levels.

In addition to the various perceptions of political risk and security threats in Saudi Arabia, the country’s business environment continues to lag behind that of developed countries in certain areas. In 2015, Saudi Arabia’s overall position in the World Bank’s annual ranking of countries based on the ease of doing business was 49, down 5 positions from 2014. Additionally, obstacles continue to render getting credit, enforcing contracts, and resolving insolvency difficult. Enforcing contracts has proved particularly tedious, requiring 43 procedures and an average of 635 days to accomplish. This is particularly upsetting for the transport and logistics sectors, deterring investors as the government attempts to open the market to private sector participation.

Saudi Arabia is currently facing a population conundrum within the country’s urban centres. Population growth rates within the Kingdom have skyrocketed in recent years and currently rest around 2.5%, almost double the MENA average. Additionally, Saudi has a large and cyclical tourism industry that is largely limited to visitors on religious pilgrimage. Passenger traffic peaks throughout the five days of the Hajj during the last month of the Islamic calendar, with an estimated 3.5mn visitors flooding the area in 2014. Due to the 690% increase in passenger traffic during this time, transport projects that will increase passenger capacity seem obvious and necessary, however, for the rest of the year, these projects may seem redundant. Unless the Kingdom is able to attract more business tourism, position itself as a regional hub for intercontinental flights, or appeal to leisure or medical tourism, transport utilisation rates are likely to be low for the majority of the year.

Finally, an issue that relates to the Saudi Arabian economy as a whole with particular effect on government revenues, fiscal policy and therefore transport infrastructure spending, is the economy’s reliance on the hydrocarbon industry and vulnerability to oil prices. Despite lagging oil prices, the government has been persistent with its development initiatives, with the country projecting an almost US$ 40 bn deficit for the 2015 year. Historically, and particularly in the past decade, Saudi Arabia has routinely overspent budget projections by more than 20%. This marks the highest projected deficit in the Kingdom’s history and given the most recent projections on the price of oil futures and government reluctance to increase production levels, the Saudi government has reason to fear a tight fiscal situation moving forward in the short term.
# SWOT CHART

## Strengths
- A high level of government investment and support in the transport and logistics sector presents considerable opportunities for new development.
- Oil production requires extensive and reliable transportation infrastructure. State income from oil directly funds transportation and logistics projects, particularly port development, shipping and logistics.
- Saudi Arabia is rich in mineral reserves, particularly phosphate and bauxite, providing diversified income streams to fund current and future transport projects.
- High per capita annual income and a steadily expanding population mean that passenger transport, particularly air and rail, is positioned for strong future growth.

## Opportunities
- The government is engaged in long-term planning and will continue to spend consistently to develop the transportation and logistics industry, even during periods of global economic crisis.
- Significant opportunities exist throughout the sector, with particular emphasis on the rail subsector.
- Transportation and logistics-related international consultancy firms are in high demand and receive lucrative contracts to plan and execute government initiatives.
- High-quality project execution will land companies on the short-list for future tenders.

## Weaknesses
- The Saudi economy is still closed to certain imports, limiting the overall volume of cargo shipping and handling.
- Cultural restrictions coupled with regional and domestic political tensions limit tourist arrivals outside of the Hajj. The contract tendering process is not as transparent as it could be, as the state is biased towards awarding contracts to companies with full or partial state ownership, followed by Saudi private sector companies.
- State control over development in the sector means that opportunities for participation are limited to certain areas, restricting opportunities for potential participants.

## Threats
- Uncertainty in the global economy could threaten investments in the local transport and logistics industry and put a damper on the expansion of cargo volumes.
- Piracy remains an issue, posing a threat to the safety of cargo and passengers passing through the Red Sea.
- Transportation infrastructure can be an easy target for anti-government fundamentalists.
- The Kingdom could be swept down the path of other ‘Arab Spring’ countries if democratic reforms and social programmes are not implemented rapidly.
- A sustained crash in the price of oil, though unlikely, would be felt throughout the Saudi economy and lower the state’s appetite for new investment in the transportation and logistics sector.
PROJECTIONS

Economic Projections

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP (US$ bn)</td>
<td>698.2</td>
<td>727.5</td>
<td>757.3</td>
<td>789.9</td>
<td>823.8</td>
</tr>
<tr>
<td>Real GDP Growth (%)</td>
<td>4.2</td>
<td>4.1</td>
<td>4.3</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>GDP Per Capita (US$)</td>
<td>22,865</td>
<td>23,802</td>
<td>24,825</td>
<td>25,893</td>
<td>27,058</td>
</tr>
<tr>
<td>Population (mn)</td>
<td>30.5</td>
<td>31.1</td>
<td>31.9</td>
<td>32.4</td>
<td>22.8</td>
</tr>
</tbody>
</table>

Source: Noozz

Industry Projections

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<thead>
<tr>
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<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aviation Sector Value (US$bn)</td>
<td>8.6</td>
<td>9.2</td>
<td>9.9</td>
<td>10.6</td>
<td>11.3</td>
</tr>
<tr>
<td>Logistics Sector Value (US$ bn)</td>
<td>18.2</td>
<td>19.1</td>
<td>20.0</td>
<td>21.0</td>
<td>22.1</td>
</tr>
<tr>
<td>Transport Sector Contribution to GDP (%)</td>
<td>2.9</td>
<td>3.0</td>
<td>3.3</td>
<td>3.4</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Source: Noozz
NEEDS ASSESSMENT

- The continuance of the government’s integrated strategy for sector development will support optimal utilisation of Saudi Arabia’s advantages in the area of transport and logistics and promote integration of multi-modal hubs across the country.
- Current projects under construction must stay on schedule and yield satisfactory ROI’s when operational in order to ensure project completion and sustain high levels of FDI in the sector for the medium to long term.
- While the Kingdom has a lucrative tourism industry for a small part of the year, the government will need to find ways to attract more business, leisure and medical tourism to keep capacity levels up within the country’s new and costly transport systems.
- While Saudi Arabia ranks favourably to regional neighbours, the government needs to place more emphasis on increasing the ease of doing business in the sector, as well as in the overall economy, for international companies in particular.
- The government’s preference for a handful of domestic and US-based contracting firms has effectively closed the market to competition. In order to promote competition and attract new investments the government will need to open it’s project and tender market to qualified regional and international firms.
- In order to hold off the possibility of domestic unrest, the government should respond to the demands of the Saudi population, particularly in the area of unemployment, while continuing to provide citizens with high quality social services.
- A growing population and economy means that sustained investments in infrastructure will be needed in both the short and medium terms. Significant investments in logistical, transport, and water infrastructure are needed to keep up with growing population demand.
- Port investments are significant, but progress could be instrumental to future economic plans. Export-oriented ports delivering LNG and other hydrocarbons have been a key driver in the Saudi economy. Additionally, maritime infrastructure such as boats and ferry systems are instrumental in transporting visitors to the country while easing congestion in airports and on roadways. Continuing to modernise port infrastructure will support revenue streams and keep trading costs low.
- Continued progress towards economic diversification should continue to reduce the economy’s reliance on hydrocarbons. The government should continue pumping investment into industrial cities and other projects to create jobs and promote new industries.
The Middle East and North Africa region is well situated to enjoy rapid expansion in the area of transport and logistics. While Egypt has a clear strategic advantage over neighbouring countries due to its geographical location and its expansion of the Suez Canal, most countries in the region possess some degree of geographic advantage with proximity to China, India and Europe facilitating mutually beneficial transport links. The concentration of global oil resources in the region, relative affluence, particularly in the Gulf countries, and the region's location at the crossroads of global trade all contribute to a positive outlook for the growth of transport and logistics services spanning the supply chain.

Indeed, the industry has posted double digit growth in recent years with the total value of the industry reaching US$ 70 bn in 2014. The Gulf countries currently dominate the sector regionally, contributing around US$ 35 bn in 2014. While contribution of transport and logistics to regional GDPs remains negligible by comparison to more developed markets—just 2.3% of GDP in the Gulf or 4.3% of GDP excluding hydrocarbons—the potential for rapid growth and high revenues exists as a result of low penetration in the sector and the need for massive infrastructure investment to propel growth.

GCC Market Forecast

Source: IMF
Current forecasts predict 10.5% annual growth for the sector in 2015, with the ground transport and freight segments expected to expand by 7% and logistics by over 10%. Operating margins compare favourably to developed markets, making the regional industry attractive to investors. Road transport is forecasted to offer yields of over 6%; freight forwarding over 8%; and logistics, 10%, compared to average margins of just 2% to 4% in the countries of the European Union. While other segments may allow for higher profit margins, the relative simplicity of road transport means that this form of transport will likely continue to dominate the regional transport segment in the short and medium-term, particularly in Gulf countries that lack rail infrastructure and natural inland waterways. Current plans to construct a railway that links the Gulf countries could unlock potential opportunities in rail cargo transport.

The United Arab Emirates and Dubai in particular has led progress in the regional transport and logistics sector. Dubai’s business-friendly climate is well known, and has been a major factor in its success in this area. Active government planning and partnership with industry companies has also been key; the security concerns associated with the sector necessitate a relatively intensive level of government involvement in the sector, but this does not necessarily have to be a drawback, as long as the government is committed to promoting growth via the development of key infrastructure and the promotion of investment opportunities. In this respect, Dubai can serve as a model for countries like Saudi Arabia, where government participation in the industry has stifled development.

While Dubai has taken great strides towards becoming a global transport hub in the MENA region, much space remains for other countries to follow suit and take advantage of the region’s strategic location at the midpoint of world trade to develop sophisticated transport and logistics networks. For countries with access to the Mediterranean and Red Seas, the opportunity to grow multi-modal transport hubs offering a third way between slow but cheap sea freight and fast but costly airfreight is particularly promising due to ever-increasing trade volumes. Regional cities also have the chance to position themselves as strategic stopover locations for air and shipping crews, a move that would unlock potential for the provision of an array of value-added services.
In addition to large-scale transport and logistics infrastructure projects throughout the MENA region, the emergence of application-based taxi services in recent years have spurred growth within the regions public and road transport segments. Regional and global players such as Careem and Uber have had significant success within the MENA market in recent years. Founded in Dubai in 2012, Careem has experienced month-on-month growth upwards of 30% within its key markets of the UAE, Saudi Arabia and Egypt, and the company has enjoyed rising levels of investment to expand their services. Uber is also emerging as a regional player in the public transport segment. In 2015, the company announced it would invest US$ 250 mn to accelerate expansion into the MENA region, while Saudi Arabia recently announced it would invest US$ 3.5 bn into the company as part of the country’s greater economic diversification efforts. As these companies scramble to capitalise on the strong demand generated by a young and technologically savvy regional population, opportunities abound within this segment looking ahead.

GCC economies lead the region in terms of quality of infrastructure and business environment. Saudi Arabia’s ambitious infrastructure development plan and unmatched economic growth offer numerous opportunities for long term investment in a transport and logistics sector that has strong foundations, long term government commitment and high growth potential. Barring a sustained global economic crisis, the current trajectory of Saudi Arabia’s transport and logistics industry will yield strong returns on investment over the coming decade and beyond.