

BUSINESS SURVEY

October 2023

In summer 2023, the German-Saudi Liaison Office for Economic Affairs (GESALO) conducted a business survey among German companies based in Saudi Arabia to capture key data around the business climate in the Kingdom.

The results highlight major aspects that drive business activities while providing insights into investment plans, workforce dynamics, and the choice of Saudi Arabia as the Regional Headquarters (RHQ) location.

The data reflects an optimistic outlook, prominently manifested in the flourishing market potential and ambitious investment plans. The data set captures different companies regarding their sector, size, market presence or legal entity status.

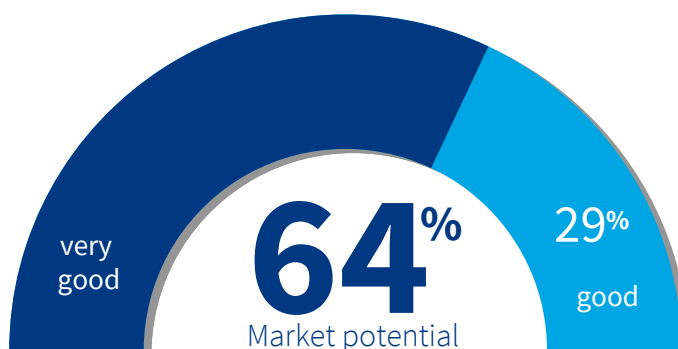


Business Climate

A significant majority of respondents (64%) view the market potential in Saudi Arabia as "very good" for their industry, indicating a high level of optimism about future opportunities.

Additionally, the Saudi market is considered highly relevant by the surveyed companies, as indicated by their plans to expand their business activities in the country.

How do you rate the market potential in Saudi Arabia for your industry?



There are several factors that impact the companies' decisions regarding their setup in the Saudi market:

Access to the Region

About half of the respondents (50%) consider access to the region as a high-impact factor. This suggests the strategic importance of Saudi Arabia as a gateway to the wider Middle East region.

Access to Qualified Labor

More than half of the respondents (53.6%) believe that access to qualified labor has a high impact on their setup in Saudi Arabia, highlighting the importance of a skilled workforce.

Government Support

A substantial portion (42.9%) says that government support has a high impact on their setup in Saudi Arabia. This suggests that government policies and support initiatives play a significant role in shaping business decisions.

Localization Programs/Local Content Requirements

The majority of respondents (57.1%) rate localization programs and local content requirements as having a high impact. This reflects the importance of complying with local regulations and promoting Saudi participation in business operations.

Investment

With regards to investment intentions, a striking 64% of the surveyed German companies are gearing up for increased investments in Saudi Arabia over the next 12 months. This robust commitment to expanding their presence underscores the confidence and opportunities they see in this thriving market.

Our survey data illuminates correlations between investment plans and various factors within the German companies' profiles in Saudi Arabia, pointing towards nuances of investment strategies.

Company size

Larger companies (with 250+ employees) predominantly intend to increase their investments, signaling a correlation between company size and investment enthusiasm.

Saudization and Workforce

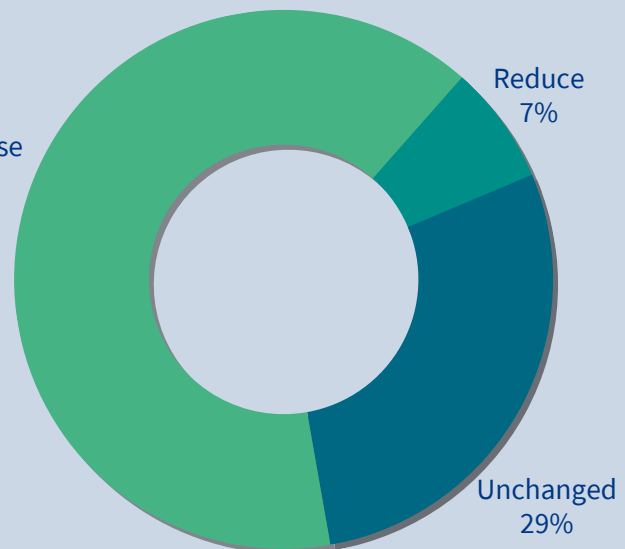
The ease of hiring Saudi nationals emerges as a crucial factor. Companies facing challenges in recruiting Saudis reduce their investments, while those with no difficulty in hiring Saudi talent predominantly plan to increase their investments. This correlation underscores the significance of a skilled and available workforce in shaping investment decisions.

What are your investment plans for the company in the next 12 months?

64%

of the German companies plan to increase their investment in the next 12 months.

Increase
64%



Who increases their investment?



Large companies
with 250+
employees



Companies with
legal status
"Branch Office"



Companies with
more than 25 years
of presence in KSA

Regional Headquarter

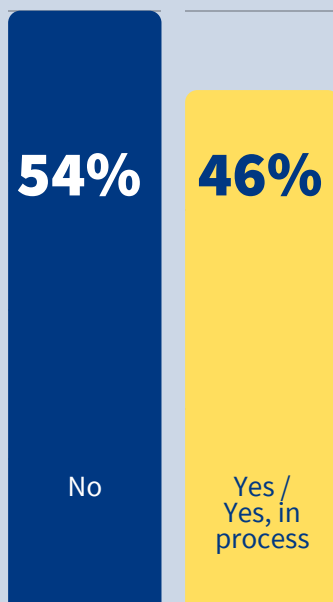
The Regional Headquarter Program (RHQ) fosters businesses operating in Saudi Arabia to move their regional headquarters to the Kingdom by 2024 to ensure their continuous participation in government tenders and contracts.

While 28% of the surveyed German companies have already established their RHQs in Saudi Arabia, an additional 18% are in the registration process, underlining the growing significance of Saudi Arabia as a regional hub for these companies.

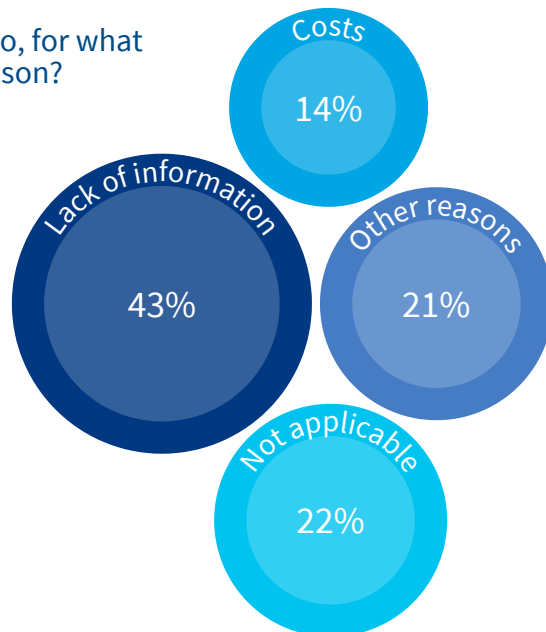
Notably, 43% of companies that have been operating in Saudi Arabia for three years or less have already founded an RHQ.

The path to establishing an RHQ is not without hurdles, and our survey pinpointed several factors that hindered the process, mainly the absence of reliable information and high costs emerging as primary barriers. Companies cite these factors as significant roadblocks, making it essential for policymakers and authorities to address these concerns to facilitate a more streamlined RHQ establishment process.

Have you already founded a Regional Headquarter?



If no, for what reason?



Employment

Attracting and retaining Saudi national talent is a major challenge for many companies: 82% face difficulties to keep their local staff, mostly due to competitive salaries in the public and private sector.

On the other hand, the experience to hire expatriate talent is divided: 50% of respondents face challenges, mainly because of the insufficient international schooling infrastructure, high living costs, or lack of affordable housing.

Employment rate

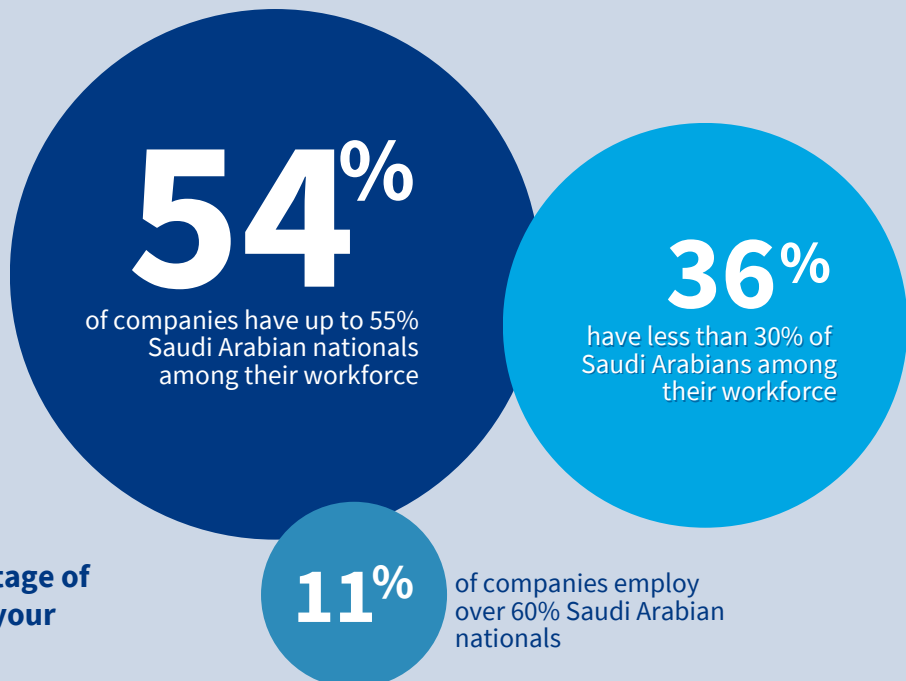
Approximately 11% of companies have more than 60% Saudi nationals in their workforce, while over half have at least 55% Saudis.

Hiring Challenges for Saudis

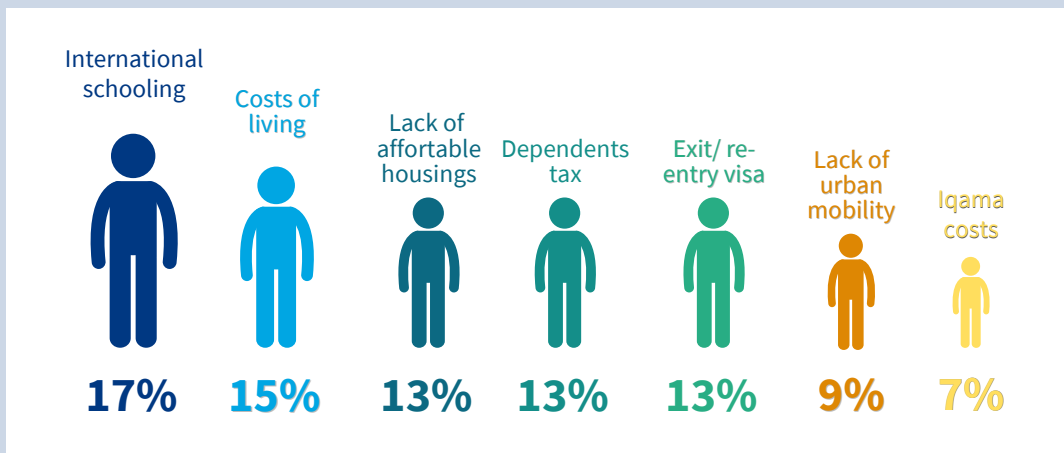
25% find it difficult or very difficult to hire unskilled Saudi nationals while 67.9% find it difficult or very difficult to hire high-skilled Saudi nationals; 82% of the companies are facing challenges to retain Saudi nationals.

Overall, companies are facing challenges to attract and retain Saudi labor, due to higher salary schemes in the government sector.

What is the percentage of Saudi nationals in your workforce?



What are impeding factors to attain high-skilled expatriates?



Conclusion

In conclusion, Saudi Arabia offers significant business potential, driven by ambitious megaprojects, legal reforms, and a dynamic, evolving market landscape.

However, the respondents address challenges in the realm of employment and lacking infrastructure. Apart from schooling and high living costs, banking sector's inefficiencies, demanding requirements from the government, legal uncertainties, and operational delays pose difficulties while operating in the Saudi market.

Navigating these complexities while advocating for improvements in regulations services is crucial to fully capitalize on the dynamic opportunities in the Saudi market. Looking ahead, it is important for companies to stay informed about the evolving business environment in Saudi Arabia, adapt to changing regulations, and explore strategies for long-term success in the Kingdom.



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