

# Sands of Change: Navigating the Shifting Business Landscape of Saudi Arabia and the UAE



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In 2024, we significantly enhanced our capabilities in the Middle East, particularly in the United Arab Emirates (UAE).

As we approach the end of the year, it's an opportune moment to reassess two key economies in the region: Saudi Arabia and the UAE.

## Introduction

The Middle East, a region long synonymous with oil wealth and geopolitical intrigue, is undergoing a dramatic transformation. As 2024 draws to a close, two nations stand at the forefront of this change: Saudi Arabia and the UAE. Both are economic powerhouses, yet their paths to the future diverge in fascinating ways. For global businesses, understanding these nuances is no longer optional; it's a strategic imperative. This article delves into the heart of these two economies, exploring their ambitions, challenges, and the opportunities they present to foreign investors.

### Saudi Arabia: A Kingdom Reimagined

Saudi Arabia, the largest country in the Middle East, is a land of vast deserts, ancient history, and now, unprecedented ambition. With a population of approximately 35 million, 70% of whom are Saudi nationals, the Kingdom is not just a geographical giant but also an economic one, boasting a GDP exceeding US\$1 trillion. For decades, its economy was almost entirely dependent on its vast oil reserves. However, under the visionary leadership of Crown Prince Mohammed bin Salman, Saudi Arabia is undergoing a radical overhaul.

Saudi Vision 2030, launched in 2016, is the blueprint for this transformation. It's not just an economic plan; it's a societal and cultural revolution. The Kingdom aims to diversify its economy, reducing its reliance on oil and investing heavily in sectors like tourism, technology, and renewable energy. Mega-projects like NEOM, a futuristic smart city, and the Red Sea Project, a luxury tourism destination, are not just ambitious construction projects; they are symbols of Saudi Arabia's desire to become a global hub for innovation and sustainability.

The three pillars of Vision 2030 – a vibrant society, a thriving economy, and an ambitious nation – are interconnected and mutually reinforcing. The “vibrant society” pillar seeks to enhance cultural and recreational opportunities, preserving Islamic values while embracing modernity. The “thriving economy” pillar focuses on diversifying revenue streams, attracting foreign investment, and localising industrial

production. The “ambitious nation” pillar emphasises government efficiency, transparency, and environmental sustainability.

This transformation is not without its challenges. The Kingdom’s young and growing population needs jobs, and the government is under pressure to deliver on its promises. The legacy of a heavily oil-dependent economy and a conservative social structure presents significant hurdles. However, the scale of investment and the speed of change are undeniable.

### The UAE: A Federation of Innovation

In contrast to Saudi Arabia’s centralised approach, the UAE is a federation of seven emirates, each with its own unique character and economic focus. With a land area of just 83,600 square kilometres and a population of around 10 million (90% of whom are expatriates), the UAE is a study in diversity and dynamism. Its economy, the second largest in the Gulf Cooperation Countries (GCC), with a GDP of over US\$500 billion, is highly diversified, with key sectors including oil and gas, tourism, trade, real estate, and financial services.

The UAE’s major cities, Abu Dhabi and Dubai, are global hubs for business, tourism, and innovation. Other emirates, like Sharjah and Ras Al Khaimah, contribute to the country’s cultural and industrial development. The UAE’s strategic location, with major economies in the East, West and South within a four-hour flight, makes it a crucial link in the global economic chain.

The UAE’s strategic initiatives are as ambitious as Saudi Arabia’s, but they are more distributed across the emirates and emphasise long-term strategies. Vision 2021, launched in 2010, laid the foundation for the country’s development, focusing on healthcare, education, the economy, society, and infrastructure. This vision has evolved into the more ambitious UAE Centennial 2071.

UAE Centennial 2071 aims to make the UAE the best country in the world by its centennial year. It focuses on four key pillars – education, economy, government development and community cohesion. The “education” pillar aims to develop a world-class education system that prepares its citizens for the future. This includes investing in STEM education, promoting innovation, and fostering a culture of lifelong learning. The “economy” pillar aims to diversify the UAE’s economy further, reducing its reliance on oil and gas. This includes investing in sectors like technology, renewable energy, and space exploration. The UAE also aims to become a global hub for innovation and entrepreneurship. Under the “government development” pillar, the UAE aims to develop a more efficient and transparent government. This includes investing in digital technologies, promoting citizen engagement, and fostering a culture of accountability. Finally, the “community cohesion” pillar aims to build a more cohesive and inclusive society. This includes promoting tolerance, diversity, and social responsibility.

At the emirate level, initiatives like Abu Dhabi Vision 2030, Dubai’s D33 Economic Agenda, and Sharjah Vision 2025 are driving economic diversification, sustainable urban development, and cultural preservation. The UAE’s approach is characterised by its forward-thinking policies, world-class infrastructure, and a business-friendly environment.

## **Sector-Specific Opportunities**

Both Saudi Arabia and the UAE present significant opportunities across various sectors, though the focus areas and nature of these opportunities vary.

In Saudi Arabia, many opportunities are closely linked to government initiatives, particularly those led by the Public Investment Fund (PIF). In contrast, the UAE, being a more mature economy, sees the government primarily in an enabling role rather than as a direct leader in investments. However, UAE sovereign funds, such

as the Abu Dhabi Investment Authority (ADIA), Investment Corporation of Dubai, Mubadala, and ADQ, have also played a pivotal role in driving strategic investments within the country.

Specific opportunities in Saudi Arabia and the UAE include:

### Saudi Arabia

**Tourism:** Saudi Arabia is just opening to international tourism. To spur tourism, the Saudi government has relaxed visa requirements and offer tourist visas, as well as making heavy investments in luxury resorts, cultural sites and entertainment facilities. Projects such as the Red Sea Project, the Qiddiya entertainment city and the Diriyah heritage projects are giga-projects led by Saudi's PIF. For foreign businesses, there are potential opportunities in hotel development, tour operations, hospitality services and related services.

**Renewable Energy:** Saudi Arabia aims to become a global leader in renewable energy, with ambitious targets for solar, wind power and blue hydrogen. The country has set a target of generating 50% of its electricity from renewable sources by 2030. Incentives include government-backed initiatives and investments in renewable energy projects, such as the Sakaka solar project (a huge 6 square kilometres ground mounted solar farm). Opportunities exist in project development, technology supply, and energy storage.

**Technology:** Saudi Arabia is investing in digital infrastructure, artificial intelligence, and cybersecurity. Saudi Vision 2030 includes plans to develop its digital infrastructure and encourage companies to set up in Saudi Arabia for software development, IT services, and e-commerce. Incentives include tax breaks, subsidies, and other forms of government support for technology companies.

**Healthcare:** In the healthcare sector, Saudi Arabia is expanding its healthcare infrastructure and services, with a focus on specialised medical care and digital health solutions. Incentives for businesses include government support for private healthcare providers and investments in digital health solutions. The country is also investing in its pharmaceutical industry, aiming to localise production and reduce dependency on imported medications. The government supports initiatives to encourage research, development, and manufacturing of pharmaceuticals within the country.

**Infrastructure:** Saudi Arabia is undertaking massive infrastructure projects, including transportation networks, cities, and industrial zones. The country has been undertaking large-scale infrastructure projects, such as the King Salman Park, the Riyadh Metro and NEOM. Incentives from the government include government-backed investments and public-private partnerships for infrastructure development. Foreign businesses are likely to find opportunities in construction, engineering, and project management and supply of construction and industrial materials.

### UAE

**Tourism:** The UAE is a well-established tourism destination, with a focus on luxury travel, business tourism, and family entertainment. Dubai, for example, is the regional shopping mecca. Opportunities exist in hotel management, tour operations, event management and tourism related services. While each emirate differs in its approach, in general, government provides strong support for tourism infrastructure development and marketing campaigns to attract tourists. Ras Al Khaimah is on track to become the first place in the Middle East to have a casino – the US\$3.8 billion Wynn Al Marjan Island resort. This development marks a significant shift in the region's approach to gambling and entertainment and pitches the UAE with the likes of Macau.

**Financial Services:** The UAE is a global hub for financial services. DIFC (Dubai) and ADGM (Abu Dhabi) are internationally recognised international financial centres. Through DIFC and ADGM, the UAE has established itself as a major financial hub for banking, insurance, and investment management. Government incentives

include favourable business environments (including crypto regulations), low taxes, and regulatory frameworks that support financial services.

**Logistics and Trade:** The UAE is a major trading hub, with world-class ports and airports. Jebel Ali port (Dubai) is the region's largest port and one of the top 10 global container ports. Dubai International Airport is the world's busiest airport by international passenger traffic. The UAE presents opportunities in logistics, supply chain management, and e-commerce. Incentives include the country's strategic location, low tariffs, and the country's on-going investments in logistics infrastructure. For example, Dubai is currently upgrading its Al Maktoum International Airport (Dubai World Central) to replace Dubai International Airport within 10 years. Al Maktoum is targeted to have the world's largest passengers capacity, as well as one of the largest cargo airports in the world.

**Real Estate:** The UAE has a vibrant real estate market, with opportunities in residential, commercial, and hospitality development. Government provides strong support for real estate development, favourable business environments, and facilitates migration of foreigners to live in the UAE. The UAE's Golden Visa programme, designed to attract foreign talent, investors, and skilled professionals by offering long-term residency options, has gained significant popularity, attracting many expatriates and investors. The Golden Visa offers 5- and 10-year residency options without the need for a local sponsor, making it an appealing choice for expatriates looking to live and work in the UAE. It is estimated that over 200,000 individuals and families hold Golden Visa.

**Technology:** The UAE has launched initiatives like the UAE AI Strategy 2031 and has been investing in space exploration through the UAE Space Agency. In addition, it is investing in digital technologies and artificial intelligence. Government incentives include government support for technology startups, including funding, mentorship, and access to resources through initiatives like Hub71 and the Dubai Future Accelerators. The government has also invested heavily in digital infrastructure to support innovation and technology adoption across various sectors. The UAE has a favourable business environment for technology businesses, with free zones, tax incentives, and regulatory frameworks designed to attract foreign investment. Potential opportunities exist in software development, IT services, and aerospace engineering.

## **The Business Battlefield: Saudi Arabia vs. UAE**

For foreign businesses, the choice between Saudi Arabia and the UAE is not straightforward. Both countries offer significant opportunities, but their regulatory environments, costs, and cultural landscapes differ significantly.

### Company Registration and Licensing Costs

In Saudi Arabia, foreign companies must obtain a license from the Ministry of Investment of Saudi Arabia (MISA). The MISA license fee ranges from approximately SAR 2,000 to 10,000 (USD 530 to 2,660), depending on the business activity. There is also an annual commercial registration fee of approximately SAR 1,200 (USD 320). Certain sectors require minimum capital, such as SAR 500,000 (USD 133,000) for trading companies.

In the UAE, foreign companies can set up in the mainland or free zones. Mainland licensing fees range from AED 15,000 to 30,000 (USD 4,100 to 8,200), depending on the emirate and business activity. Free zone setup costs range from AED 10,000 to 50,000 (USD 2,700 to 13,600), depending on the free zone and package. Most free zones have no minimum capital requirements, while mainland companies may require a minimum capital of AED 300,000 to 1,000,000 (USD 82,000 to 272,300) for certain activities.

## Office Space and Real Estate Costs

Saudi Arabia requires foreign companies to have a physical office. Prime office space in Riyadh can range from SAR 1,000 to 2,000 (USD 266 to 533) per square metre per annum. Shared or serviced office spaces are less common, although they are starting to develop in major cities.

In the UAE, shared or serviced office spaces are widely available. Free zones often provide flexible office solutions, including virtual offices, shared spaces, and physical offices. Prime office space in Dubai can range from AED 1,200 to 2,000 (USD 330 to 550) per square metre per annum.

## Employment Costs

Saudi Arabia's Saudization policy (Nitaqat) mandates hiring a certain percentage of Saudi nationals. Expatriate employees require work permits and residency visas (Iqama), costing approximately SAR 8,000 to 10,000 (USD 2,130 to 2,660) per employee annually. Employers must also pay GOSI (General Organization for Social Insurance) contributions.

The UAE has no nationalization quotas for free zone companies, but mainland companies must comply with Emiratisation for certain roles. Expatriate employees require work permits and residency visas, costing approximately AED 5,000 to 7,000 (USD 1,360 to 1,900) per employee annually. Employers must contribute to the UAE pension scheme for Emirati employees.

## Annual Compliance Costs

Saudi Arabia has a higher corporate tax rate, value-added tax (VAT) and a more complex tax system. Annual compliance costs are generally higher due to the complexity of the tax system and a more bureaucratic government structure.

The UAE has a lower corporate tax rate and VAT. Annual compliance costs, especially in the free zones, are generally lower.

## Other Costs

In Saudi Arabia, employers hiring Saudi employees are required to contribute to GOSI at 12% of salary. The Saudi employee is also required to contribute 10% of his/her salary to GOSI. For Expatriate employees, the employer pays 2% of salary (the employee is not required to pay).

In the UAE, employers hiring Emiratis employees are required to contribute to the UAE's pension scheme for Emirati employees which is currently 12.5% of salary. No contributions are required for Expatriates.

## Ease of Doing Business and Incentives

Saudi Arabia now allows 100% foreign ownership in most sectors to attract foreign investment. However, bureaucratic processes and Saudization requirements can increase setup time and costs. There are incentives like tax holidays and subsidies for certain industries.

The UAE is known for its business-friendly environment, with streamlined processes for company registration, visa issuance, and banking. Free zones offer numerous incentives, including 100% foreign ownership, 0% corporate tax, and simplified regulations. Recent reforms allow 100% foreign ownership in mainland companies operating in most sectors.

## Nationalization: Saudization vs. Emiratization

Both Saudi Arabia and the UAE have nationalization policies aimed at increasing the participation of their citizens in the private sector workforce. However, their approaches and challenges differ significantly.

Saudization, a key component of Saudi Vision 2030, mandates that companies hire a certain percentage of Saudi nationals. Companies are classified into categories based on their compliance, with penalties for non-compliance. The goal is to reduce unemployment among Saudi youths, which was over 30% when Vision 2030 was announced and is now approximately 16.25%. However, skill gaps, resistance from employers, and the reluctance of some locals to take on certain jobs remain challenges.

Emiratization, on the other hand, focuses on integrating Emirati nationals into high-skilled and managerial roles. Companies with 50 or more employees must ensure that 6% of their workforce consists of Emiratis by the end of 2024, with annual 2% increases until 2026. Non-compliant companies face fines. However, the small Emirati workforce, preference for public sector jobs, and resistance from some private companies pose challenges.

## Taxation: A Tale of Two Systems

Saudi Arabia and the UAE have distinct taxation systems. Saudi Arabia imposes a 20% corporate income tax on foreign-owned businesses, with Zakat, a religious wealth tax, levied at 2.5% on the Saudi and GCC nationals' share of profits. Oil and gas companies face higher tax rates. VAT is 15%, and withholding tax applies to payments made to non-residents.

The UAE introduced a 9% corporate tax in 2023 for taxable income exceeding AED 375,000. However, many free zones offer 0% corporate tax if specific conditions are met. VAT is 5%, and the UAE does not impose withholding tax on payments to non-residents.

## The Expatriate's Perspective: Working in Saudi Arabia vs UAE

### Navigating the Visa Maze

Obtaining a work visa in Saudi Arabia requires sponsorship from a local employer and can take one to three months (and often much longer). The process involves medical examinations, police clearance, and attested educational qualifications. Recent reforms have abolished the Kafala sponsorship system (which involves binding migrant workers to a specific employer throughout the period of their residence in Saudi Arabia), but some restrictions still apply. Recent changes to Saudi laws have introduced a premium residency visa (which is similar to the UAE's Golden Visa), although the take-up rate is currently unknown.

The UAE's work visa process is more streamlined, taking only two to three weeks. A local employer must sponsor the visa, and expatriates undergo a medical fitness test. The UAE offers various visa categories, including the Golden Visa and Green Visa, catering to skilled professionals seeking long-term residency.

### Work Culture

The workplace culture in the UAE is notably more liberal and diverse, attracting a mix of nationalities. Saudi Arabia maintains a more conservative atmosphere aligned with Islamic customs.

### Cost of Living

The cost of living in the UAE is generally higher than in Saudi Arabia. According to Numbeo ([www.numbeo.com](http://www.numbeo.com)), the cost of living in Riyadh is 18.7% lower than in Dubai (without rent) while the cost of

living (including rent) in Riyadh is 33.1% lower than in Dubai. Other emirates have lower cost of living. For example, based on Numbeo statistics, the cost of living in Sharjah is comparable with Riyadh.

### Quality of Life

Living in the UAE (particularly Abu Dhabi and Dubai) offers expatriate families a highly multicultural environment with a diverse community, facilitating cultural affinity and social support. The UAE boasts a wide range of well-regarded international schools that provide various curricula, catering to the educational needs of expatriates. Dubai in particular stands out. With its vibrant lifestyle, Dubai presents numerous entertainment options, including shopping malls, recreational activities, and cultural events. The social scene is active, featuring clubs and community events that encourage networking and integration among expatriates. Additionally, Dubai's more liberal social norms contribute to a relaxed lifestyle, with alcohol available in licensed venues.

In contrast, living in Riyadh presents a different experience. The city has a smaller expatriate community, which can make cultural integration more challenging for families. Although there are international schools, the options are more limited compared to the UAE, with fewer diverse curricula available. While Riyadh is developing its entertainment sector, it traditionally offers fewer recreational activities. Social life tends to be more conservative, with expatriates facing challenges in socialising outside their communities. Stricter regulations on public behaviour and ban on alcohol consumption create a more traditional atmosphere, which may appeal to some families but could be restrictive for others.

Overall, the UAE is often seen as more expatriate-friendly, while Riyadh offers a more traditional lifestyle.

In order to have the best of both worlds, many expatriates adopted the "fly-in fly-out" culture - they work in Saudi Arabia while their families live in the UEA. These expatriates commute back to the UAE during weekends (which is Friday and Saturday) and return to Saudi Arabia during the weekdays.

### Personal Taxation

Expatriates working in Saudi Arabia are not subject to personal income tax on their salaries or wages. However, they are required to contribute to GOSI, currently at 2% of salary (which is paid by the employer). A monthly expat levy is imposed on companies hiring foreign workers. The current rate is SAR 8,000 to 10,000 (USD 2,130 to 2,660) per employee annually.

Expatriates working in the UAE are not subject to personal income tax on their earnings. They are not required to contribute to the UAE's social security system. Expatriate must have work permits and residency visas, costing approximately AED 5,000 to 7,000 (USD 1,360 to 1,900) per employee annually.

## **Cultural Nuances**

While both Saudi Arabia and the UAE are in the Middle East and part of the GCC, they are culturally very different.

### Saudi Arabia

Saudi Arabia is a deeply religious society, and Islamic values permeate all aspects of life. Businesses must respect religious customs, including prayer times, dress codes, and dietary restrictions. Saudi society is hierarchical, with a strong emphasis on respect for elders and authority figures. Business interactions tend to be formal and respectful, with a strong emphasis on personal relationships. It is said that business deals in Saudi Arabia are often based on trust and personal connections.

While Saudi Arabia is fast modernising, nonetheless, business processes is still bureaucratic and getting things done can be slow. Patience and persistence are essential when dealing with Saudi Arabia.

Although English is widely spoken in business settings, Arabic is the official language and almost all official communications are in Arabia,

## UAE

The UAE is a highly multicultural society, with a very large expatriate population from all over the world. Business interactions are generally more formal, much like what we are used to in the western world and other financial centres like Singapore and Hong Kong. The UAE is generally more open and liberal than Saudi Arabia, with a more relaxed social environment.

While Islam is the official religion and plays a central role in daily life, the UAE allows the practice of other religions. There are churches, temples, and other places of worship for various faiths. During Ramadan, business hours may be reduced, and public eating and drinking are restricted during daylight hours. However, many establishments cater to expatriates and tourists by providing designated areas for eating and drinking.

Arabic is the official language, but English is widely spoken and used in business settings. Many expatriates find it easy to communicate and conduct their daily lives in English.

## **Where to Set Up: A Strategic Decision**

The choice between Saudi Arabia and the UAE depends on a Company's goals, target markets, and operational priorities.

Saudi Arabia is generally more expensive due to higher licensing fees, mandatory physical office requirements, Saudization quotas, bureaucracy, and higher taxes. However, it offers significant opportunities in sectors like energy, infrastructure, and technology, supported by government incentives under Vision 2030.

The UAE is more cost-effective and business-friendly, especially for startups and SMEs, thanks to its free zones, lower taxes, and flexible office solutions. The UAE is particularly attractive for companies seeking a regional hub with minimal regulatory burdens.

Opportunities wise, the UAE is a more mature economy and has fewer large scale government projects. It also has a smaller population and therefore a more limited domestic market.

Many companies adopt a "dual strategy" establishing a holding company in the UAE to benefit from its tax advantages and a subsidiary or branch in Saudi Arabia to directly access the Kingdom's market.

This approach allows companies to leverage the strengths of both jurisdictions while minimising risks and costs.

The UAE's free zones offer significant tax advantages, including 0% corporate tax and 0% personal income tax. With UAE's business-friendly environment, companies can use the UAE as a regional hub for logistics, supply chain management, and financial services as well as holding company to manage their regional operations.

Saudi Arabia is a large and growing market with significant opportunities in multiple sectors. Companies can establish a subsidiary or branch in Saudi Arabia to directly access this market.



## Conclusion: A Region with Bright Future

Saudi Arabia and the UAE are both undergoing profound transformations. Saudi Arabia is a nation in a hurry, seeking to diversify its economy and modernise its society at breakneck speed. The UAE, on the other hand, is a more mature and diversified economy, offering a stable and business-friendly environment.

For foreign businesses, the choice between these two nations requires a careful assessment of their strategic goals, risk tolerance, and operational priorities.

However, one thing is clear: the Middle East is no longer just about oil. It is a region of innovation, ambition, and opportunity, and cannot be ignored by those wishing to diversify from their home markets.

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