

SPECIAL ECONOMIC ZONES IN THE KINGDOM OF SAUDI ARABIA

Special Economic Zones ("SEZs") are garnering increasing attention from governments and investors worldwide. In the Kingdom of Saudi Arabia ("KSA"), SEZs are a pivotal element of Vision 2030, aimed at diversifying the economy and attracting foreign investment. With over 5,400 SEZs globally, these zones exhibit varying degrees of success and maturity. We continue to monitor their development under diverse legal frameworks and incentive packages.

KSA is notably focusing on SEZs, as evidenced by the recent establishment of several SEZs and SEZ-related legislative frameworks. KSA is creating a thriving SEZ ecosystem that will drive growth and industrial diversification, offering incentives and unparalleled access to a well-developed infrastructure and a globally connected market.

This briefing provides an overview of the various legislative frameworks governing SEZs in KSA, as well as the incentive packages they offer.

Key subjects covered

- **First: Overview of the SEZs Frameworks in KSA**
 - Economic Cities and Special Zones Authority Statute
 - The Center for Riyadh Special Economic Zones Interim Statute
 - Integrated Special Logistics Zone Statute
 - Other Models
- **Second: Overview of the Applicable Incentives**
- **Conclusion**

First: Overview of the SEZs Frameworks in KSA:

KSA boasts a diverse array of legislative frameworks for SEZs, each tailored to foster unique economic opportunities. Below are some notable examples.

1. The Economic Cities and Special Zones Authority Statute ("ECZA Statute")

As the enabler and regulator of KSA's SEZs, the Economic Cities and Special Zones Authority ("**ECZA**") serves as the cornerstone for KSA's efforts to cultivate a diversified and globally competitive business environment. This is achieved through specialized regulations, competitive incentives, and highly efficient government services. The ECZA Statute, issued pursuant to Royal Order No. (A/19) dated 10/03/1431H (corresponding to 24/02/2010G).¹ governs the establishment, operation, and management of SEZs. It defines ECZA's supervisory powers and outlines the roles of entities operating and managing SEZs.

The establishment of SEZs under the ECZA Statute follows comprehensive studies that assess various aspects such as the value proposition and economic impacts (including the impact on the base economy). The approval for establishing SEZs is granted through a Council of Ministers Resolution, which determines the incentives and exemptions for each SEZ on a case-by-case basis. Activities under this framework can encompass a wide range, including, *inter alia*, commercial, industrial, professional, and educational activities. Currently, there are approximately four SEZs established under this framework.

2. The Center for Riyadh Special Economic Zones Interim Statute

The Interim Statute of the Centre for Riyadh Special Economic Zones, issued pursuant to Royal Order No. (37752) dated 28/05/1444H (corresponding to 22/12/2022G), establishes a distinct legislative framework for SEZs within Riyadh. This framework operates under the supervision of the Center for Riyadh Special Economic Zones, which reports to the Royal Commission for Riyadh City.

The Interim Statute of the Centre for Riyadh Special Economic Zones outlines the procedural steps required for the establishment of SEZs in Riyadh, involving multiple layers and culminating in the submission to the Council of Ministers for approval. The application process involves comprehensive studies that assess the value proposition, the sectors to be licensed within the SEZ, and other critical aspects. A wide range of economic activities is envisaged under this framework.

Similar to the ECZA framework, incentives and exemptions for SEZs in Riyadh are granted on a case-by-case basis through the Council of Ministers Resolution that approves the establishment of the SEZ. Notably, this framework establishes a special judicial circuit within the Commercial Court, which has jurisdiction over disputes within Riyadh SEZs. It is worth noting that no SEZs have been officially established under this framework yet.

¹ As amended several times, most recently by Royal Order No. (A/186) dated 05/04/1443H (corresponding to 10/11/2021G).

3. Integrated Special Logistics Zone Statute

The Integrated Special Logistics Zone Statute was issued pursuant to Royal Order No. (A/17) dated 01/02/1440H (corresponding to 10/10/2018G). It specifically governs Integrated Special Logistics Zones under the oversight of the General Authority of Civil Aviation ("**GACA**"). Within these zones, only a limited set of specialized activities is permitted including, *inter alia*, import, export, re-export, and waste recycling.

In contrast to the preceding two frameworks, the incentives and exemptions under the Integrated Special Logistics Zone Statute are predetermined rather than granted on a case-by-case basis. Integrated Special Logistics Zones are established following approval from the Council of Economic and Development Affairs, based on a recommendation from GACA. At present, there is only one zone established under this framework.

4. Other Models

KSA has been pioneering innovative models and frameworks that offer unique legal structures, incentives, exemptions, and arrangements tailored to specific geographical areas. These initiatives extend beyond traditional SEZs, showcasing KSA's commitment to fostering diverse and dynamic economic environments. Notable examples include:

a) Tourist Destinations

Tourist destinations are defined as "any geographical area or location where tourism activities are practiced or targeted, or which contains tourism resources". These destinations are designated through a Council of Ministers Resolution, based on a proposal from the Minister of Tourism. Within these designated tourist destinations, the roles, responsibilities, and competencies of government entities may differ from the base economy. Additionally, aspects such as urban planning, standards, requirements, and mechanisms for engaging in tourism activities within the destination may also vary, creating a unique and tailored environment for tourism development.

b) Other Geographical Areas with Special Arrangements

Certain geographical areas within KSA benefit from specialized legislative frameworks and incentives. While some of these areas are still under development and awaiting approval, others already have established frameworks and special arrangements. There are considerations and directions that these frameworks include enhancement tools, including: (a) a one-stop shop to streamline the issuance of licenses, permits, and approvals; (b) a master community charter to govern the community and sub-communities, and manage relationships with owners and occupiers of real estate within the area; (c) agreements or memoranda of understanding with relevant governmental entities; (d) exemptions from specific elements of base economy laws and regulations; (e) tailored municipality arrangements to handle municipal aspects within the area; and (f) other innovative tools and arrangement. Furthermore, certain geographical areas are envisioned to possess extended legislative powers, enhancing their ability to drive innovation and growth.

Additionally, there are specialized entities with distinct powers over specific geographical areas. These entities include authorities, commissions, and executive offices, such as the Royal Commission for Alula, the Royal Commission for Riyadh City, the Royal Commission for Makkah City and Holy Cities, among others. These entities are empowered to license and oversee activities, replace certain governmental functions within their jurisdictions, establish specific requirements for undertaking activities, and set out unique building or urban codes.

Second: Overview of the Applicable Incentives

Under the ECZA framework, a variety of exemptions and incentives could be granted based on the needs of each SEZ. Common exemptions and incentives under the ECZA framework include, among other things, a 0% income tax rate for up to 20 years, zero VAT on intra-SEZ goods exchanged within and between zones, zero rating for withholding tax, deferral of customs duties on goods, exemptions from expatriate levy fees, as well as relaxed labour requirements.

The incentives under the framework for the Centre for Riyadh Special Economic Zones have yet to be observed, as no SEZs have been established under this framework to date. However, pursuant to the Interim Statute of the Centre for Riyadh Special Economic Zones, the resolution approving the establishment of the SEZ shall determine the incentives and exemptions that apply within the SEZ. SEZs and the entities located therein are generally subject to the laws and regulations applicable in KSA, unless explicitly stated otherwise in the resolution to be issued for the establishment of the SEZ.

The incentives offered for Integrated Special Logistics Zones encompass, *inter alia*: a 0% income tax rate for up to 50 years, and exemptions from customs duties and VAT for goods under customs suspension.

In addition to the above, it is worth noting that incentives in KSA are not only confined to the context of SEZs. Other incentives may be applicable within the broader base economy, such as those offered through the Regional Headquarters Programme, which provides incentives to companies relocating their regional headquarters to KSA.² Also, there are incentives and exemptions evaluated on a case-by-case basis for giga and mega projects that are associated with specific geographical areas. Such incentives and exemptions are typically tailored to the specific needs and strategic importance of each project. The overarching goal is to create a conducive environment for investment, fostering innovation and economic diversification in line with Saudi Arabia's Vision 2030 objectives.

Conclusion

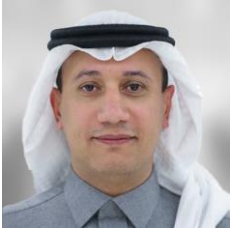
Originally, SEZs were established to address specific challenges and gaps within the base economy. However, in light of the rapid progress and significant enhancements across various areas of the base economy legislative framework within KSA, the role of SEZs has evolved. Today, SEZs are less about overcoming base economy challenges and gaps and more about driving advancements in targeted industries and sectors.

² There are 3 RHQ licensing schemes with different incentives, which are still under development.

The legislative frameworks regulating SEZs in KSA, along with their associated incentive packages, offer a wide array of economic and business opportunities. This dynamic regulatory and incentive landscape is continually evolving and warrants ongoing attention. Both local and international investors are strongly encouraged to explore the diverse legal and incentive offerings within KSA SEZs, which consistently provide competitive investment ecosystems.

It is important to note that each SEZ has distinct characteristics and prioritized sectors, requiring investors to carefully evaluate which zones offer the most suitable frameworks based on the specific nature and requirements of their business. Therefore, commercial and legal evaluation on a case-by-case basis is always recommended to identify each investor's needs and the most appropriate legislative framework to target within the various options available in KSA.

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