

Saudi Arabia's Big Logistics Play

Saudi Arabia is wasting no time in diversifying its economy away from oil — embarking on an ambitious path to become the go-to logistics hub for the region.

The Kingdom of Saudi Arabia (KSA) launched its Vision 2030 in April 2016. A key pillar of the Vision is transforming the Kingdom into *the* go-to logistics hub for the region, capable of efficiently linking trade across three continents: Asia, Europe, and Africa. Today, some 18 months into the Vision, the path forward is taking shape. Import and export processes are being streamlined. Governance structures and regulations are being reformed, opening a path toward market liberalization and private-sector participation. In addition, public-private partnerships are helping finance the infrastructure and bringing in capabilities from the top logistics markets. By 2030, Saudi Arabia expects to be among the foremost logistics hubs in the region.

Designing a World-Class Logistics Hub

Saudi Arabia's determination to become a leading logistics hub is grounded in its economic weight and privileged geographic location. KSA is the largest economy in the Arabian Peninsula, Levant, and Iraq region—accounting for 38 percent of GDP and 21 percent of the population. Its central location is optimal for distribution to the Arabian Peninsula, the Levant, and East Africa, and the country resides directly on the Asia-to-Europe trade route, through which 12 percent of container trade moves annually (see figure 1).

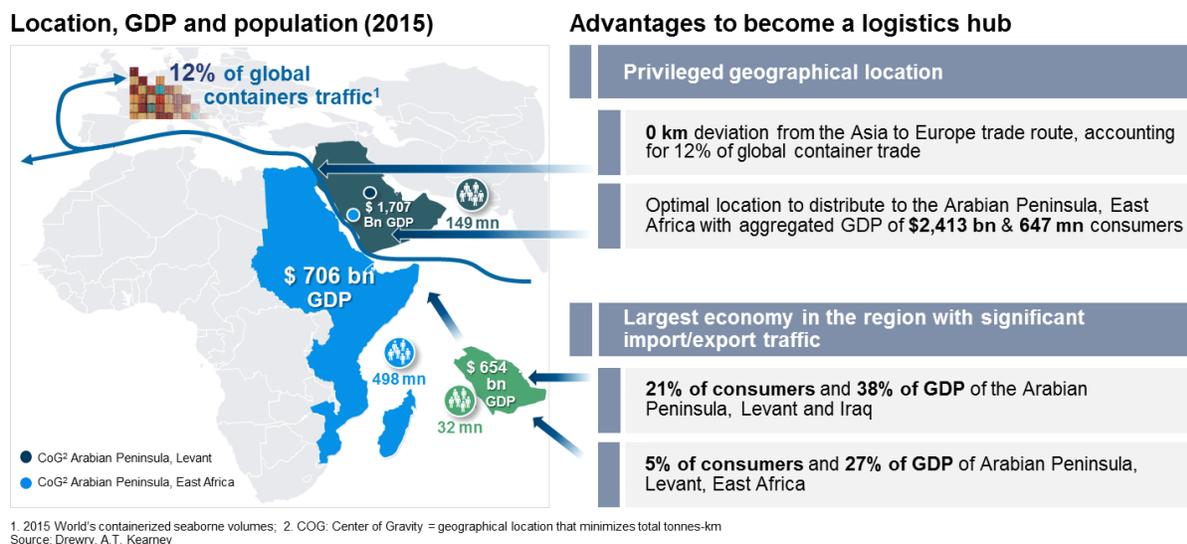


Figure 1: KSA advantages to becoming a logistics hub

Saudi Arabia aims to leverage these strategic advantages and become the most agile and cost-efficient alternative for distribution to the Arabian Peninsula, Iraq, Levant and East Africa, while advancing the quality of logistics services, infrastructure, and traceability to world-class levels. Figure 2 highlights where Saudi Arabia ranks on the World Bank's Logistics Performance Index (LPI) and where the country must rank to reach its goals.

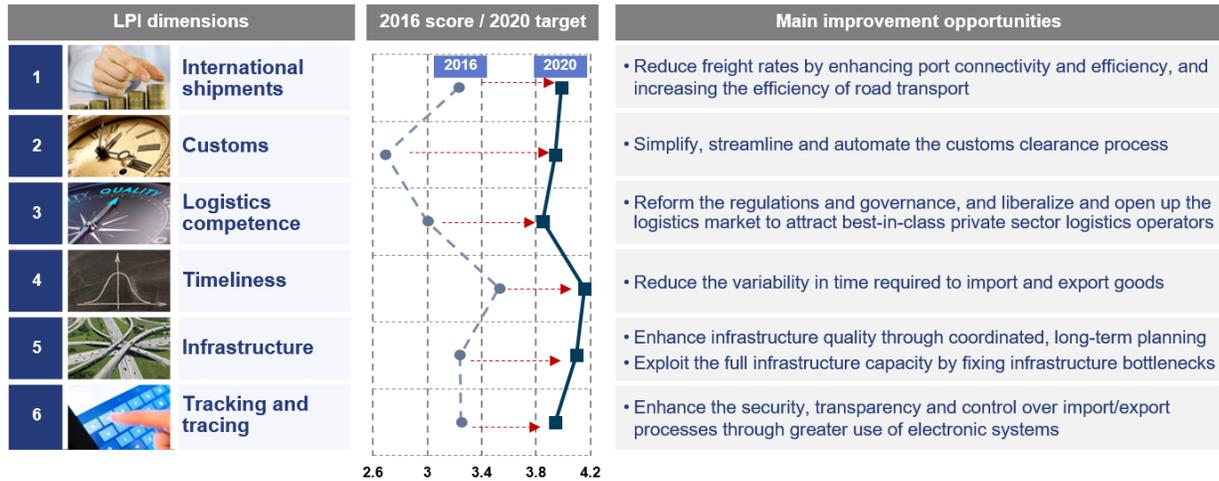


Figure 2: KSA 2016 baseline position and 2020 target in the LPI

KSA's Strategy and Early Wins

To reach its vision of becoming a logistics hub, the Kingdom launched a nine-point strategy for transforming its logistics sector (see figure 3).

	Initiative	Objective
Process improvement	1. Import/export process streamlining	• Reduce the time, cost and variability of importing/exporting goods, through process reengineering and automation
	2. Electronic system adoption	• Enhance the security, transparency and control over import/export, through greater use of electronic systems
Infrastructure enhancement	3. Integrated transport infrastructure masterplan	• Enhance the quality, safety and efficiency of the transport infrastructure, through coordinated, long-term master planning
	4. Air cargo capacity enhancement	• Resolve current infrastructure bottlenecks, by expanding air cargo capacity in major international airports
Regulatory and sector reform	5. Logistics regulations improvement	• Facilitate increased competition and private sector participation, by updating current regulations to international standards
	6. Port sector reform	• Enhance sea mode efficiency and service quality, through increased port specialization and reformed governance and concession frameworks
	7. Rail sector transformation	• Enhance rail mode efficiency and service quality, through governance reform and railway restructuring and privatization
	8. Air cargo liberalization	• Enhance the efficiency and service quality of air cargo transport, through increased liberalization and private sector participation
	9. Special economic zones development	• Increase and facilitate trade by establishing new special economic zones

Figure 3: KSA logistics sector improvement program

- Imports and exports.** KSA has managed to reduce the time, cost and variability of importing goods through process re-engineering and automation. Average declaration clearance time at seaports has been cut in half to just 2.2 days and at airports to just 1.2 days, and the amount of import-export paperwork to fill out is down by 75 percent (see figure 4).

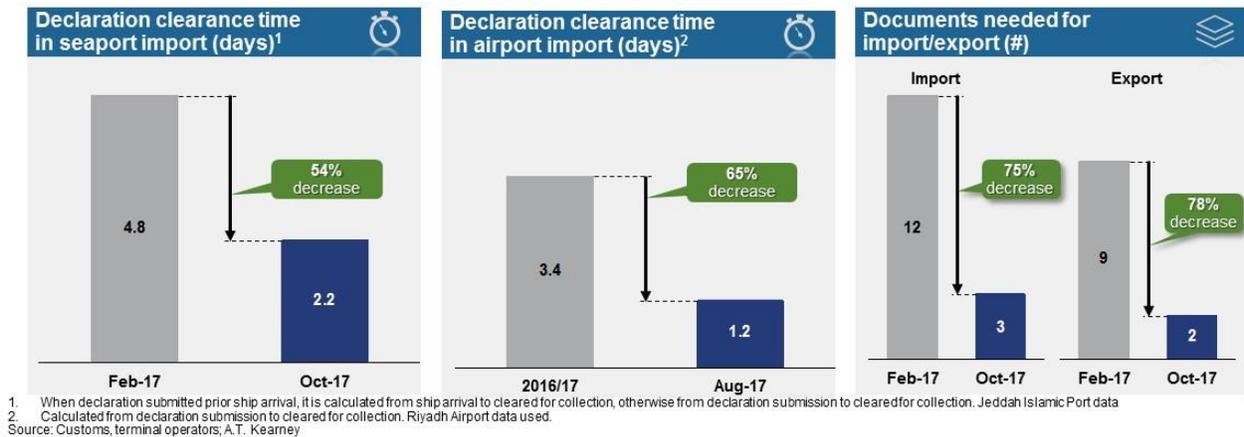


Figure 4: Early wins in customs process streamlining

The predictability and reliability of the clearance process has also significantly improved, with 40 percent of customs declarations in seaports now cleared within 24 hours and 70 percent within 48 hours. These results have been achieved by enabling declaration submission prior to arrival, digitizing declaration processing, increasing Customs operating hours to 24/7, reducing the level of manual inspection through enhanced risk management, and enhancing the collaboration and integration among all government institutions involved in the import/export process.

- Digital transformation.** Technology is improving the security, transparency, and control over the import-export process in KSA. Today, importers track the status and progress of their shipments in real time. Customs brokers receive automated notifications on their mobiles about the status of their shipments and are prompted to create their declarations as soon as the shipping manifest is available online, i.e., prior to ship arrival. KSA recently launched a port community system to guarantee secure and efficient exchange of information among all parties involved in the import/export process, covering vessel operations, terminal operations, digital payment and truck management, among other aspects. A similar community system is now being developed for the airports.
- Transportation and infrastructure.** Saudi Arabia has introduced a new integrated transportation infrastructure master plan to improve the quality, safety, and efficiency of its transport. The plan calls for development of several major assets, including the Saudi Land bridge railway to connect the east and west coasts of Saudi, and two new rail corridors, the GCC Railway Mainline in the east and Yanbu-Jeddah railway in the west (passing through King Abdullah Port and King Abdullah Economic City). Next on the agenda could be construction of new multi-modal logistics terminals to fill the growing demand for sea-to-air and rail-to-road connectivity.

4. **Air cargo.** KSA is rapidly modernizing its airports and expanding its air cargo facilities to eliminate infrastructure bottlenecks. The objective is to increase total air cargo capacity in the Kingdom from 0.8 million tons/year today to 6 million tons/year in 2030.
5. **Regulations.** If KSA hopes to attract more competition and private sector participants, then regulations must meet international standards. It won't be long before the customs broker profession opens up to industry and logistics players—triggering a move toward professionalism and consolidation. Licenses for road transport providers and warehouse operators are under review in an effort to improve efficiency, quality, and safety standards.
6. **Seaports.** Efforts are underway to improve seaport efficiency and service quality through increased port specialization, governance reforms, and updated concession frameworks. The recently established port regulator Mawani is leading the efforts for corporatizing and privatizing the port sector. It is revising the concession frameworks to make them more transparent, fair, and attractive to international terminal operators (many of which are already well established in the Kingdom), as well as to the growing domestic operators.
7. **Rail sector.** The rail sector is going through similar reforms. Last year, railway regulation was set apart from railway ownership and assigned to an independent regulator (the Public Transport Authority – Railway Sector). The government is consolidating all railway operations and planning to award operations and maintenance contracts for passenger and freight services to reputable international operators. In the future, new railway infrastructure could be financed through PPPs.
8. **Private sector.** The Kingdom recently awarded a 20-year contract to Singapore's Changi Airport Group to handle operations at the new King Abdulaziz International Airport (KAIA) in Jeddah. Similarly, SATS, Singapore's biggest ground handler, will develop and operate a new cargo terminal at King Fahd International Airport (KFIA) in Dammam. Similar schemes to increase private sector participation are being considered for the King Khalid International Airport in Riyadh.
9. **Special economic zones.** KSA aims to reduce the costs and barriers to setting up a business, nurturing trade, and attracting foreign direct investment. Plans are in place to develop several new special economic zones offering streamlined business setup procedures, attractive taxation policies, customs-bonded areas, and efficient transport connectivity.

All Eyes on the Prize

KSA's large economy and central location provide the country with a unique advantage to become an important regional logistics hub. However, because size and setting alone are not enough, the Kingdom has embarked on an ambitious logistics improvement program, encompassing process streamlining, infrastructure enhancement, governance and regulatory reforms, and market liberalization and privatization. Early wins have already been recorded, including shorter and more predictable clearance process, capacity expansions at key transport assets, and several concession contracts awarded to private sector operators. KSA will not stop here. As its big logistics play gains strength, all eyes will remain on the prize.