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Why Saudi Arabia is expanding its treaty network

Observers of the Middle East region might have noticed the recent impetus by the Saudi Arabian government to improve its network of tax treaties. Saudi Arabia for a long time only had one tax treaty in place, with France. Over the last year, there has been a relative flurry of treaty negotiations leading to the recent signing of tax treaties with, amongst others, Russia, China, Malaysia, India, Pakistan and Italy.

The reasons for the recent spate of treaty negotiations probably relate to political as much as economic factors.

Historically, the Saudi Arabian government has been closely aligned with US policy and, following a change in the political relationship, Saudi Arabia is increasingly looking east. It is significant that some of the main winners of the recent awards of new gas concessions include oil companies from Russia and China.

Economically, the signing of tax treaties is, of course, one aspect of a number of bilateral agreements that are put in place to enhance economic relations with partner states designed to encourage foreign inbound investment. This motivation is probably true of the Saudi Arabian government and is supported by much wider economic reforms in play within Saudi Arabia, including the continuous reduction of headline income tax rates.

Other governments in the region, Kuwait and the United Arab Emirates for example, are also more motivated to sign tax treaties to enhance the value of outbound investment.

Previous experience of applying the French tax treaty in Saudi Arabia has proved difficult and, in practice, that treaty provided little value to French investors.

The recent tax treaties that Saudi Arabia has signed are sure to test tax treaty theory before the Saudi Arabian tax authorities, since a much wider base of investors will be seeking to take advantage of the country's broadening tax treaty network.

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