

‘The Arabian Phoenix’ – Saudi Arabia’s resurgence in global trade

October 2023

A new era is dawning in the Kingdom of Saudi Arabia (KSA). Historically, KSA’s riches have derived from abundant oil reserves, making it one of the globe’s leading exporters in this



energy sector. The revenue generated from this exceptional wealth has shaped the country’s economy and infrastructure. However, dependence on and exposure to a single revenue source (that harms other in-country manufacturing exports) has caused concern and has prompted an ambitious diversification strategy.

Fast forward to present day. Despite the oil price downturn in 2020, which was predicted to curb the country’s fiscal growth, the KSA has witnessed a significant growth transformation. Russia’s invasion caused a spike that created an astonishing US\$27 billion surplus for Saudi Arabia. In 2022, KSA won the accolade of fastest-growing G20 economy, with a growth rate of 8.7%. The achievement was not exclusively due to its oil production – but, in part, because of the country’s successful economic diversification efforts.

The diversification efforts

KSA’s Vision 2030 sets out to create a bustling and thriving economy and is the driving force behind the exponential visible changes and growth seen in recent years. Strong reforms to reduce the country’s dependence on oil has created additional income streams. Non-oil revenue has risen significantly since 2021, averaging 4.2% in 2022. Although lower than usual growth was experienced as a result of oil production cuts, non-oil growth is set to reach 5% by year end, indicating a rising domestic demand.

KSA's non-oil growth is spread across several sectors – tourism (including religious tourism), entertainment, real estate and property, agriculture, financial services, and retail and food. Perhaps the most surprising, though, is the growth that has emerged from mining. KSA has sought to do whatever it takes to rid itself of its dependence on one commodity and diversify income streams, and one of the key strategic factors in achieving this ideal is the mining industry (including phosphates, bauxite, gold, copper, silver, lead, zinc and iron ore). The incorporation of the mining sector into KSA's economic diversification strategy is intriguing, as it implies an on-going reliance on natural resources for economic expansion.

In order to achieve the goals set by Vision 2030, the Saudi Arabian Government (SAG) is welcoming investors to take part in its billion-dollar, once-in-a-lifetime giga projects. These include Neom, the Red Sea Project and Diriyah Gate which are the flagships of the nation's promising tourism industry. Investors, however, remain concerned with transparency and political risk and continue to highlight issues of repression of activists, limits on freedom of speech and unfavourable foreign investment policies (including strict 'Saudization' policies).

State-owned enterprises

KSA's economy remains heavily dependent on state-owned enterprises (SOEs) which operate in water, power, oil, natural gas, petrochemicals and transportation. The world's largest exporter of oil and supplier of natural gas, Saudi Aramco is 94.5% SAG owned. Four of the eleven Aramco board members are from the SAG, including the Chairman who also happens to be the Managing Director of the Public Investment Fund (PIF). The initial public offering (IPO) of 1.5% of Aramco's share on the Tawadul stock market in December 2019 was the largest IPO of its kind, valuing the company at US\$1.7 trillion. 4% of the shares went to the PIF. The Crown Prince Mohammed bin Salman himself ordered that the remaining shares stay with the state.

Corruption

In 2019, King Salaman issued royal decrees to form the Oversight and Anti-Corruption Commission called Nazaha. It has sole responsibility for ensuing transparency and tackling all manner of financial fraud and administrative corruption.

Nazaha reports directly to the King. It has extreme powers which include being able to remove government employees from office, even if they have not been found guilty by the courts. All announcements including arrests and investigations from all ministries within the SAG are reported by Nazaha on X/Twitter.

Corruption has been identified as an issue for foreign firms investing in KSA. Although there is a robust legal framework in place to monitor corruption, foreign businesses say this enforcement can be selective.

Importance of international relations and partnerships

Where the Middle East is concerned, KSA plays a pivotal role in international relations. Its vast oil reserves and strategic location allow the Kingdom to remain a key player in global markets and diplomacy. It is viewed by international forums as well balanced and always looking for stability in political affairs.

KSA promotes economic and trade initiatives and appreciates the value of nurturing foreign relations. The country uses this strategy to ensure its own interests are secure, and to improve global ties and the region's stability. KSA's diversification mandates indicate that it is well aware of the fluid global energy market dynamics, and the changes it must make to its own economy. The nation will want to continue using its influence to secure national interests.

Foreign Direct Investment (FDI) in KSA has experienced a significant increase in the last two years. In 2023, the total amount of FDI in KSA reached US\$24.5 billion approx..

Analysis of current trends and future economic predictions

KSA is in an era of unprecedented change due to its own diversification agenda, global energy markets, regional politics and conflict. The diversification into technology, tourism and entertainment could create new opportunities for sustainable growth. However, such bold endeavours require substantial investments and cultural adjustment.

An analysis of economic predictions brings concern. The Organisation for Economic Co-operation and Development (OECD) anticipates a contraction in KSA's growth that could exacerbate if the global energy crisis worsens, and its diversification plans fail to realise significant returns soon.

The war in Israel has complicated matters further. There is now risk of rising oil prices that could affect inflation and growth. For KSA, this is a double-edged sword. Higher oil prices will see a surge in revenue. However, the conflict will destabilise the region, damage trade relations and, worse still, affect investor appetite – all ultimately throwing the nation's diversification strategy into disarray. In addition, the changing geopolitical situation with the war in Israel will put pressure on KSA's international relations. Israel is known as one of the strongest Middle Eastern countries, with one of the most stable economies (aside from KSA). It also has one of the toughest military forces.

While it is acknowledged that KSA and Israel have historically not recognised each other, there have been indications of reconciliation. This has been brought about by concerns over regional security threats (from Iran) and mutually beneficial trade interests. KSA has demonstrated preparedness to engage in relations with Israel but with caveats, like support for its civilian nuclear program and its US Defence agreement. It has also been reported that both countries were, in fact, quietly preparing for an unprecedented peace deal. Saudi Arabia's Crown Prince is cited to have said that KSA is 'getting closer' to formalising Israeli ties. KSA will find itself having to tread carefully across hot diplomatic coals in any attempts it makes to balance existing alliances with new partnerships – in particular with the East, as part of the nation's 'Look East' strategy.

Summary

The war in Israel has, of course, unsettled the region and these times suggest that some political reorientation for KSA among substantial economic and political uncertainty is on the horizon. Regional conflict aside, the future for KSA is one of transformation both culturally and economically, bringing with it a promise of prosperity. Vision 2030 is playing out as planned. The country now must continue to encourage much needed investment in order to sustain the growth of non-oil sectors.

KSA's core diversification strategy focuses heavily on the mining sector. This dependence on a secondary stream of natural resources could be viewed as a quick fix, as opposed to a sustainable economic solution. International partnerships are now even more critical as the nation desperately seeks foreign investment and sustainable development strategies. The country will need to address foreign investor concerns of selective corruption treatment and its strict 'Saudization' policies if it is to increase investor appetite.

The Kingdom of Saudi Arabia has, without doubt, emerged like an Arabian Phoenix from the economic ashes, since the historical lows in the 1980's oil glut and the more recent slump brought on by the 2020 pandemic. However, KSA remains a formidable force in the Middle East and the world stage. It is moving dynamically away from its oil-rich influence to becoming a key economic powerhouse and diplomatic actor with serious aspirations.

'Just like the phoenix, those who rise from the ashes are the ones who will burn the brightest. But remember, this rebirth is not without its price.'

—Author unknown, old folklore wisdom.

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