


[Print](#) [Close](#)

All roads lead to Riyadh - how Saudi has remained stable during the Arab Spring

Author: Kevin Connor

01 Sep 2011 | 00:00 | 

Squire Sanders' Kevin Connor says that despite turmoil in the region, Saudi Arabia's economy has remained stable and robust, in part due to initiatives launched by a forward-thinking monarch

Despite the ongoing violence in Syria, the crisis in Libya, uncertainty in Egypt and Tunisia, turmoil in neighbouring Bahrain and Yemen and general global jitters, the Kingdom of Saudi Arabia has remained stable and economically robust, attracting significant levels of foreign investment.

Indeed, given Saudi Arabia's strategic position in the Gulf, and the fact that it is consistently the world's first or second-largest oil producing nation (along with Russia producing more than 10 million barrels per day, but exporting more of its production and having four times greater proven reserves), markets have breathed a collective sigh of relief that the political and social upheavals taking place across the Middle East since the Arab Spring began have not negatively affected the Saudi economy or society.

On the contrary, Saudi Arabia has remained solidly on its progressive course, achieving market recognition and respect consistent with its importance as the leading economy among the six Gulf Cooperation Council (GCC) countries.

Whether measured by oil production levels, the volume of foreign direct investment, the breadth of infrastructure spending, the number of new companies entering the market, the ease of doing business, gross domestic product (GDP) growth or any other metric, it is clear that, at least for now, all roads in the Middle East lead to Riyadh.

Comprising more than half of the collective GDP attributed to the GCC, Saudi Arabia has emerged as the place to be for investment bankers, private equity funds, developers, financiers, manufacturers, entrepreneurs and professional advisers. No longer attracted solely by the country's oil wealth, the markets understand that something significant is unfolding in a country marked by a rapidly growing population, increasing consumer demand, the gradual but steady empowerment of its women, an emphasis on education and a clear sense that Saudi Arabia is emerging to take its rightful place as a leading global economy.

Even something as seemingly minor as the recent announcement by British Airways that it was increasing the number of flights between London and Riyadh indicates that something special is taking place on the Arabian Peninsula.

A modern leader

Under the leadership of King Abdullah, Saudi Arabia has launched and implemented a series of bold initiatives – legislative, social and otherwise – to make the country more competitive, investor friendly, transparent and, ultimately, more socially stable. Collectively, these initiatives have been dramatic, propelling Saudi Arabia to 11th position (from 67th) on the World Bank’s ease of doing business scale.

Whether through World Trade Organisation (WTO) accession, market liberalisation, revamping of foreign investment legislation, massive infrastructure spending or the building of entire new cities, hospitals and universities, Saudi Arabia has made, and continues to make, true and lasting change, social and economic, so that the country can provide a secure future to its young and growing population and diversify its economy to gradually lessen its reliance on oil production.

Importantly, the institutional, economic, legal and other changes in the Kingdom have been implemented at a measured pace to balance against competing pressures from conservative social and religious elements. And these gradual but steady changes have been done with the full understanding of the need to find long-term solutions to the demographic, economic, social and other pressures underpinning the social unrest we are witnessing in so much of the Arab world.

Of the many initiatives launched by King Abdullah, perhaps none will have such lasting impact as the commitment being made to education, and especially the education and empowerment of Saudi women. Much is written in the international press about the inability of women to drive, but more needs to be said about the construction of new universities such as Princess Nora University. Recently completed and opened, the university will be home to some 40,000 female students. The overall tone is clear – furthering of opportunities for women in the workplace, and in society generally. There is no doubt that the empowerment of Saudi women will be a powerful catalyst driving future growth and economic success of the Kingdom.

Another force in the remarkable transformation and growth of the Saudi economy has been the Kingdom’s drive to develop, improve and enhance infrastructure at every level and in virtually every sector. In 2010 alone the Saudi Government awarded in excess of \$150bn (£91m) worth of infrastructure contracts, nearly two thirds of which were non-oil related. The trend will continue over the next few years with a further \$400bn (£243bn) earmarked for a multitude of projects in transportation, healthcare, educational facilities, residential, energy and utilities (including more de-salination, solar and nuclear electrical generating plants), economic cities, residential developments, as well as industrial and tourist initiatives.

Indeed, as the industrial development and population growth continue to drive increased demand for electricity and desalinated water, which are rapidly consuming a larger share of Saudi Arabia’s oil production, the Kingdom will need to find alternative energy sources for domestic use if it wants to maintain the revenue from significant petroleum exports.

Infrastructure

Saudi Arabia has accelerated its spending on infrastructure projects to take advantage of the lowered costs for steel and other building materials as a result of the global recession, as well as the significantly higher revenues generated through increased oil revenues. King Abdullah also rightfully recognises that increased infrastructure spending, as well as the infusion of vast amounts of cash into the Saudi economy, lessen the likelihood of any social challenge to the monarchy. Some pundits have quipped that the monarch has “bought” the population.

But this misses the mark in a country where the long-term plan is to diversify and grow the economy so that the next generations of young Saudis have jobs and a future in the global marketplace.

The Kingdom has also aggressively launched a 'Saudisation' programme designed to draw more Saudis into the work force and gradually lessen the country's dependence on foreign workers. While controversial in some quarters (as there is still a gap between skillsets, work ethics and market expectations), the programme makes sense as part of the long-term strategy to diversify the economy and ensure that future generations are being trained to be gainfully employed and compete globally.

The legislative front

Saudi Arabia has been no less active on the legislative front, adopting legislation consistent with the overall objective to modernise and liberalise its economy. Indeed, consistent with Saudi Arabia's accession to the WTO in 2005 and general liberalisation of its markets, the country has adopted legislation designed to promote and encourage foreign investment, whether through making the administrative process for registering a business easier or by opening up many sectors previously closed to foreign investment to full or partial foreign ownership.

The Saudi foreign investment law and related implementing regulations provide the legal and regulatory framework governing foreign direct investment into the country. Licensing and regulatory oversight of inward-bound investment lies with the Saudi Arabian General Investment Authority. Importantly, foreign investors may now wholly own investments in several sectors including agriculture, manufacturing, real estate (other than in Mecca and Medina) and general services. Partial or full ownership is allowed in other fields such as telecommunications, banking, insurance, professional services and wholesale and retail trade. Other sectors of the economy are reserved for Saudi nationals such as oil exploration, drilling and production, the manufacture of military equipment, radio and television broadcasting and commercial agency.

Certain sectors of the Saudi economy which are open to full or partial ownership may require minimum capital investments and be subject to licensing and regulation by other agencies with specific jurisdiction over a given activity. For example, the telecommunications sector is regulated by the Communications and Information Technology Commission, and the banking and insurance sectors by the Saudi Arabian Monetary Agency.

Any investor considering an investment in the Kingdom can readily identify whether a particular sector is open to full or partial ownership, as well as the applicable capital or licensing requirements. And in terms of investor protections, Saudi law generally provides foreign investors with the same benefits, incentives and protections afforded to Saudi nationals.

Something else more subtle is also taking place in the Kingdom. Whether through discussions with government agencies, regulators, Saudi businesses or just through casual communications with friends and colleagues, one gets a palpable sense of confidence emerging in the country with a collective purpose and vision.

While most Saudi officials and businesses recognise that society cannot change too quickly and that there may be a backlash from conservative elements, they also know that the far-reaching changes set in motion by a progressive monarch are the only way forward, and that the future is now.

Kevin Connor is a partner at Squire Sanders and is based in Riyadh.

[Print](#) [Close](#)