A growing international role

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The Kingdom is pushing for measures to contain speculation in financial markets, blaming them for the wildly fluctuating oil prices of recent years

This year has seen Saudi Arabia take two steps that will have lasting consequences for the future. The first, an annual budget for 2010 of US$144 billion (bn), up 14 per cent on last year, reflects its commitment to diversifying an economy still overwhelmingly defined by oil. The second, membership of the G20, reflects the country's growing integration into the world economy, and will offer it the opportunity to play a much greater role in international affairs.

Announcing the recent budget King Abdullah said the spending was designed to achieve sustainable development despite a drop in oil prices on the back of the global financial crisis. "It has taken into consideration the needs of the national economy as well as the global economic situation," King Abdullah said in a speech delivered by Abdul Rahman Al-Sadhan, Secretary-General of the Council of Ministers. The budget adds to the US$400 bn stimulus package announced in April.

Analysts say that the ambitious public spending scheme is manageable, should create few stresses on the fiscal situation of the kingdom and is unlikely to stoke inflation on its own. As private investments contract and private consumption falls, the state is drawing on continued high oil revenues to boost spending until private investment and consumption pick up in 2010.

In the past year, the Saudi government has become the most-important investor in the local economy. Had it not, most analysts agree that the economy would have entered an unavoidable, prolonged recession.

When King Abdullah bin Abdul Aziz Al Saud succeeded to the throne in 2005, among his reform priorities was a commitment to diversify Saudi Arabia's economy. The King's plan is to establish the conditions that will allow it to make the shift from being primarily a commodity producer, and subject to the ups and downs of the global oil market, to becoming a diversified industrial and knowledge-based economy.

King Abdullah understands all too well that the structure of the Saudi economy has for too long been that of a developing economy: most GDP growth has come from a single commodity subject to volatile price swings; while unemployment and population growth are increasing. He has repeatedly made clear that the situation is not sustainable in the long term. Now, five years of high oil prices have provided the Kingdom with sufficient financial reserves to continue diversifying the economy, while cushioning the impact of the global financial crisis with a programme of fiscal stimulus.

Government-launched programmes, such as the six new economic cities, are being established across the Kingdom to promote development and diversification, as well as provide a significant stimulus for the private sector. These new economic cities, of which the King Abdullah Economic City is the leading project, are designed to stimulate the private sector and boost manufacturing, real estate and private business, while also providing centres of learning. It is estimated that the economic cities will contribute 20 per cent of the Kingdom's GDP by 2020. The six economic cities under construction have already attracted investment worth more than US$35 bn.

Headed by flagship project King Abdullah Economic City, five other developments in Hail, Jizan, Medina, and the Northwest of the Kingdom and in the Eastern Province, aim to be vibrant communities by at least 2020. Spread out around a country the size of Western Europe, the new cities will take the pressure off Riyadh, Mecca, and the Eastern Province, which now house almost 65 per cent of the population, and are home to 75 per cent of businesses.

As with the creation of Jubail and Yanbu in the 1970s, these new cities are not simply export zones; there is a commitment to attract expertise and investment in key areas through clustering in the same way that Silicon Valley has. Providing a wide range of infrastructure and facilities will do this. Businesses looking to locate in these new cities will find that red tape has been cut to a minimum, and that the Saudi Arabian General Investment Authority offers a one-stop shop for investors.

King Abdullah Economic City will cover 150 square miles – bigger than Washington DC, and is a hypermodern, eco-friendly mix of port and industrial zone, financial centre, residential quarters, luxury resort, and schools and colleges. Two million people will work and play inside the protected zone. The aims of the cities go beyond job creation to urban renewal, modern education and easing the grip of the religious establishment on a society that has doubled to include 17 million (mn) Saudis (60 per cent of whom are under 30 years of age) of a total population of 25 mn in 18 years.

The government says that by 2020, the impact of the new cities will be an extra US$150 billion to GDP growth, along with 1.3 mn new jobs, as well as homes for almost 5 mn people.

Global integration continues through G20

Saudi Arabia's continuing integration into the world economy following its 2005 WTO membership has been further boosted by it becoming a member of the G20, providing it with opportunities to influence global events, and bringing new responsibilities.

The only OPEC member in the G20, Saudi Arabia assumes a leadership position in both the Arab and broader Muslim worlds, representing a very diverse political constituency. But like other G20 countries, it has been increasingly exposed to the challenges of globalisation. Saudi Arabia has played a key role in stimulating the regional economy through it's US$400 bn investment package.

Speaking in September Saudi finance minister Ibrahim Al-Assaf said the financial crisis has had only a minor impact on the kingdom's economy, pointing to "healthy growth" in the Saudi non-oil sector. "The impact was mainly on those sectors that depend on outside demand particularly oil and petrochemicals," he said. "When the recovery starts in the rest of the world, which we are seeing signs of, the demand as well as the price of oil will recover and we have seen those signs reflected on the current price of oil."

The country has managed its overall market exposure well, balancing the downside risks of volatile food commodity markets with the upward price swings of oil and gas. But all three of these vital markets have witnessed tremendous swings in the past two and a half years, and the Saudis cannot be comforted to know that their economic fortunes are so closely related to events beyond their borders and beyond their control. In the future, the Saudi leadership will look to the G20 process to help make these markets less volatile and easier to navigate.

Financial markets have become relevant to Saudi Arabia only in recent years. Driven by high oil revenues and prudent fiscal management, the Kingdom has made a formidable transition from a net debtor to a creditor country. Now, the Kingdom is pushing for measures to contain speculation in financial markets, which it blames for the wildly fluctuating oil prices of recent years.

As it faces up to the very real challenges that globalisation poses to its economy and national security interests, Saudi Arabia will look to international forums like the G20 for help. One of the lessons the Saudi government has drawn from the global financial crisis – and the ensuing volatility of oil and food commodity markets – is that it's hard to rely on forces beyond its control when it comes to meeting national interests. The desire to control these market forces, or at least manage their impact, will be at the top of Saudi Arabia's foreign policy agenda within the context of the G20 and beyond. F

SAGIA's 10x10 vision comes into focus

2010 is the deadline for the Saudi Arabian General Investment Authority (SAGIA) revolutionary 10x10 economic vision, a coordinated strategy to achieve rapid and sustainable economic growth in Saudi Arabia, capitalising on the Kingdom's competitive strengths as the global capital of energy and as a major hub between East and West. The strategy is expected to draw investments worth around US$80 billion (bn), and create more than a million (mn) jobs. As part of the strategy, three major initiatives are underway.

The first is a national competitiveness centre, whose role is to assess and support the development of competitiveness in the Kingdom and benchmark against different competitive indicators measured by international standard reports, such as the *World Bank Doing Business Report*. The second initiative has seen the creation of six economic cities, Public-Private-Partnerships (PPP), that are expected to add more than US$150 bn to Saudi GDP and generate more than 1.3 mn direct jobs by 2020.

With a quarter of the world's oil reserves, Saudi Arabia is capitalising on being the world energy capital. SAGIA has picked 10 industries that represent the most cost-effective areas for Saudi Arabia to compete in globally. These include downstream industries such as petrochemicals, water and electricity, and energy-intensive industries such as minerals.

With regard to the transportation sector, SAGIA will leverage Saudi Arabia's geographical position as a strategic hub between East and West by working with relevant authorities and players in the region to position the country as an efficient launch pad for goods and services, says SAGIA. The US$8 bn Prince Abdulaziz Bin Mousaed Economic City near the city of Hail in the northwest is set to become the largest transport and logistics hub in the Middle East, and will also include an education district with colleges, universities and research centres and a new agro-industrial zone.

The final strategic sector is the knowledge-based industries, key among them education, life sciences, health, and information technology. The R&D-driven KAUST University will play a key role in this regard, as will the US$8 bn Saudi Arabia Knowledge Economic City (KEC) in Medina that will combine the concepts of Intel Corp's 'digital city', Cisco's 'smart city' and Microsoft's 'internet frontier'.

Finally, the US$27 bn King Abdullah Economic City (KAEC) will be home to two mn people in an area twice the size of Hong Kong. It will be built around the US$4 bn Millennium Sea Port, set to be the largest in the region. F

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