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Saudi Arabia: What are the effects of the global financial crisis on Saudi Arabia’s economic prospects?

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Although Saudi Arabia has to a great extent been insulated from the global downturn, the Kingdom’s economic future is not necessarily boundless and bright. Certainly Saudi Arabia’s excellent cash flow, liquidity, and its windfall of astounding oil profits throughout the decade left the Kingdom in a strong position when the financial crisis began. Financial analysts from Jadwa Investment Company project economic growth to rise to 3.8% in 2010 compared to the static figure of .15% in 2009. Amongst the Riyadh and Jeddah financial insiders, there exists a quiet confidence that the Saudi economy will continue to grow on the back of aggressive government spending, improved conditions in the private sector, and the increasing international demand for oil. Despite the American economy’s recent tailspin, the Saudi Arabian government announced in February that it was in the Kingdom’s future economic interest that the riyal will continue to be pegged to the dollar. One of the direct changes stemming from the financial crisis is that it has cajoled the government and banking authorities to become more diligent with regards to consumer credit and reviewing risk profiles; a weak link in the world of Islamic finance – see Dubai’s recent financial upheaval. Highly publicized episodes like the 2009 “Saad Scandal” implicated Maan Al Sanea and the Algosaibi family – pillars of the Saudi financial community – to a $10 billion Ponzi scheme, proving that even Saudi Arabia was not immune to its own Madoff-type ignominy. But whereas in the UK and USA the financial crisis has been viewed in existential terms, a bellwether moment in which Britons and Americans have questioned the very foundations of their own capitalist models, the Saudi Arabian government responded to the crisis as if it were an aberration, emphasizing the need to tweak rather than overhaul their banking system.

Overall, the lack of urgency shown by Saudi Arabia in response to the financial crisis is understandable. In those dark autumn days of 2008, when the United States’ mortgage system was unraveling, when Lehman Brothers was collapsing, when global capitalism itself was teetering on the brink, Saudi Arabia’s oil wells ignored the chaos and kept pumping. Certainly, Saudi Arabia was adversely affected by the extreme fluctuation in oil prices during the economic downturn, from $147 a barrel on July 2008 to $38 in December 2008. But it should not be overlooked that the Kingdom still holds over 20% of the world’s “proven” oil supplies, and it is rumoured that those with market knowledge estimate that the likely figure is closer to 40%, due to oilfields that have been undeclared. Furthermore, with Saudi Arabia’s current oil capacity so well known, it is easy to overlook that south of Riyadh promising new oilfields are being discovered. These new fields have minimal lifting costs and contain “sweet crude,” high quality oil with even lower refinement costs. In the aftermath of the world financial crisis, as the hopeful promise of the Copenhagen Climate Conference fades away, Saudi Arabian oil will become even more of a necessary entity in the “new normal” global economy. Oil will remain one of the bedrocks of this earthier kind of 21st century capitalism, providing material for many industries, including plastics, metals, paints and fertilizers. Companies like Sabic have not even begun to scratch the surface when it comes to Saudi Arabia’s unrealized potential in petrochemicals, but in the future expect them to dominate.

With this all being said, spotlighting the limited effects of the global financial crisis and the country’s oil paramountcy draws attention away from Saudi Arabia’s most crucial economic challenge: the question of how to integrate the Kingdom’s swelling population into its wider economy. As it stands now, the vast welfare state which Saudi Arabia’s government provides for its subjects was constructed for a different age; the age of Yamani circa 1973, when 5 million inhabitants could easily be taken care of by the quadrupling of oil prices. During this boon period, many Saudis were unwilling to accept low wages in the private sector, hence the country’s overreliance on a large expatriate workforce. For the 28 million Saudi subjects living in the economic downturn of 2010, “Saudization” (the government’s policy of employing Saudi nationals in the private sector) cannot come fast enough as the current structure is unable to provide the same standard of living of years past. This reality becomes compounded when one factors that sixty percent of the population is under the age of 21. Saudi Arabian unemployment stood at 15% in 2009, but many experts believe that the government is trying to hide the real figure, which is said to hover at 25%.

Since ascending to the throne in 2005, the conservatively perceived King Abdullah has surprised many with his zeal for reform and desire to face up to these demographically rooted economic challenges. His initiatives to create jobs, extend the middle
class and invest in education have come in many shapes and sizes, but all have been equally significant. As recently as March 7, 2010, King Abdullah addressed the Shoura Council (Saudi Arabia’s consultation body) calling for the creation of 200,000 jobs in the education sector to help facilitate Saudi Arabia’s ambitious “20 year employment strategy.” This trend toward emphasizing education has been made visible by the establishment of King Abdullah University of Science and Technology (KAUST). Having only opened in September 2009, KAUST is already ranked one of the top research centres in the world. However, what may have the greatest impact in terms of Saudi Arabia future economic output is King Abdullah’s decision to make KAUST the country’s first co-ed university. By promoting the normalization of mix gender working environments, women will be able to make a larger contribution to the country’s indigenous workforce, which will in turn give Saudi Arabia’s overstretched welfare system a needed rest.

Much like his older-half brother King Faisal, Abdullah is a pious reformer seeking to carefully bridge the gap between Saudi Arabia and the rest of the world, without causing the Kingdom to lose grip of its supreme Islamic identity. Though King Abdullah should be applauded for emending broken policies of the past in an effort to save his country’s future, he reminds this writer of Alexander II of Russia, the “Czar liberator”; a fateful notion of too little too late. Still possessing a crushing handshake, the King is nevertheless 85 years old. Therefore, coming out of the financial crisis, Saudi Arabia will continue to be a global economic force as long as it has the will to carry out social and economic reforms after King Abdullah is gone.

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