

Saudi Arabia: Breaking the Curse of Black Gold

Many years ago, the chairman of the First City Bank of Texas was visiting the crown prince of Saudi Arabia. The topic of discussion was economics. The chairman asked the crown prince where he would prefer to live: a large country with a temperate climate, pristine peninsulas, islands, lush vegetation and abundant natural resources or a small country with no natural resources, sparse vegetation and an inhospitable climate.

The crown prince said – ‘the first, of course.’ ‘Well,’ said the chairman, ‘then you would be living in Mexico not Singapore.’

The crown prince nodded sagely before muttering ‘people’.

Indeed – people or the stock of human capital, makes GDP per capita higher in Singapore than the oil-rich Saudi Arabia. And this was perhaps the final thought that Dr Mohamed A. Ramady, associate professor of finance & economics at King Fahd University of Petroleum & Minerals, wanted to leave with his audience in his first lecture presented on Saturday 21st January in the main auditorium of Al Yamamah College, Riyadh.

Titled ‘The Saudi Arabian Economy: An Overview’, the two hour lecture touched on many issues including privatization, the financial markets, WTO membership and globalization, the Saudi Riyal, education & training and future challenges and opportunities.

The lecture also highlighted the significant contribution Saudi women make in investments in the Saudi economy: 35% of bank accounts, 20% of corporate shares, 15% of private companies, 10% of real estate and 62 billion in bank deposits – in spite of longstanding social, institutional and legal barriers.

Publicly, women are also playing a more important role in the Saudi economy. The small economic delegation that accompanied King Abdullah to China recently consisted of female Saudi economists. According to Dr. Ramady, political observers in the kingdom have interpreted images of the women, broadcast on the national Saudi channel 1, as a sign of the growing trend towards the political, economic and social enfranchisement of women in Saudi Arabia. Of course, any change would be done in accordance with Islamic principles.

While there is no sign of the nearly 2 million barrels per day output that makes Saudi Arabia the world’s oil warehouse abating, Dr Ramady was keen to point out how oil dependency was influencing the type of society Saudi Arabia has become.



Some of the challenges that face the Saudi economy today include: a mismatch between the needs of private industry and the education & training of graduates, the volatility of the Saudi share market and its impact on consumer confidence, the restrained implementation of the Saudization program, privatization which is paternalistic and limited to 30%, low direct foreign investment in Saudi Arabia and the Saudi Riyal and domestic monetary policy influenced by fluctuations in the US Dollar.

“So rich yet so poor” is a catch-cry often used to describe Saudi Arabia – rich in natural resources and yet poor in its capital stock of people. And people do make a difference. According to Dr. Ramady, per capita income in Saudi has not risen in the recent past and despite efforts to diversify the economy the country is still dependent on oil.

While the recent ascension of Saudi Arabia into the WTO has helped the government to focus on economic reforms to modernize the economy, Saudi Arabia is still regarded as a high-security risk by the international community. In fact, in a recent business environment rating Saudi Arabia was ranked 51 compared with the UAE at 13.

Wasta (nepotism) still has more currency in Saudi Arabia than professional or technical *wherewithal*. Most businesses are family oriented with a top-down, pyramid-shaped management hierarchy where capital raisings are internal, competition is with family members and accounts are largely unaudited. It was no surprise that the recent precipitous fall in the Saudi stock market index from 21,000 to 7,200 sparked suicides, disappearances and family disintegration.

Typically, a Saudi family business will have 3 sets of balance sheets: the Arthur Anderson accounts (largely meaningless), the tax department accounts (showing a loss, of course) and those accounts recorded by hand in ink stored in the family safe. According to Dr Ramady, what is needed for reform of the Saudi business sector is a larger public shareholder base, accountability and transparency – all of which would normally come with a public listing.

When Margaret Thatcher started selling off public assets in the 1970s she was using economics to achieve political goals. A middle class was created holding shares in public utilities and state assets. This made them stakeholders in the welfare of the country and it was hoped they would behave accordingly.

Similarly, an emerging Saudi middle class empowered with share capital in state assets and utilities would revolutionize Saudi business ethics and the prevailing two-tier class system of Saudi nationals and foreign national employees.

Presently, Dr Ramady noted, commercial transactions are driven by a win/lose mentality where, in a negotiation, it is expected that one party's gain is the other party's loss. This tribal model of business would change with the advent of widespread public share



ownership amongst the middle class and the creation of wealth and its dividends from astute investment strategies and decisions.

With the increasing affluence and mobility of a middle class the rapid growth of small and medium-sized businesses will come. In the USA, this sector accounts for 80% of the economy. In Saudi Arabia, it is expected that with the introduction of international standards, transparency, competition and the employment of Saudi women (represented as 55% of the population) the small and medium business sector could become the powerhouse of the new economy.

The future of the Saudi economy depends on how effectively the country diversifies away from its oil addiction, how well it empowers regional economies in the kingdom through targeted budget allocations and to what extent it fosters regional self-determination through municipal elections.

The climate for change is favorable: Saudi Arabia has stability in the political continuity of its traditions and laws of succession amongst the royal family. Moreover, the recent ascension of Saudi Arabia into WTO membership accelerates the process of economic reform. However, Dr Ramady cautions, change must be consensual.

Towards the end of his presentation, Dr Ramady related a story about one of his students. Having lost 3 million Riyals in the recent Saudi stock market crash (the market was overvalued with some returns as high as 150%), the 19-year old was almost inconsolable. After giving the student the benefit of his experience in these matters, Dr Ramady reflected that without a crash another generation of young Saudis would have been lost to the curse of black gold.

Moving from inheriting wealth to creating it, in a knowledge-based economy, is the challenge of modern Saudi Arabia.

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