

A changing Saudi Arabia proves attractive for investors

By [Joseph Mariathan](#) | April 2024 (Magazine)

Equity market is starting to open to investors as the country liberalises strict rules

Key points

- Crown Prince Mohammed bin Salman's policy reforms are aimed at diversifying economy away from only oil and gas
- Women participating in the economy is paying dividends, and there is a focus on increasing tourism
- The growth of pension schemes in Saudi Arabia is likely to boost the stock market

Saudi Arabia is changing fast under the leadership of Crown Prince Mohammed bin Salman, who is known as MBS. Foreigners may look aghast at an autocratic government whose muscular and controversial interventions abroad have attracted international opprobrium, but for most of Saudi Arabia's population who are under the age of 45, MBS represents a welcome change.

Under his leadership, Saudi Arabia is moving towards becoming a pluralist state, says ex-US diplomat David Rundell, author of *Vision or Mirage, Saudi Arabia at the Crossroads*, but he adds: "If you protest too loudly, he will throw you into jail."

Investing in autocracies is becoming more controversial, although it is not clear how practical and sensible it is to exclude them from investments. In his book *Beyond the ESG Portfolio*, Marcos Buscaglia suggests that D for democracy should be added to ESG and investors should consider excluding investment in autocratic countries. He names Saudi Arabia in his list of worst offenders. Yet Saudi Arabia represents the largest market by far in the Gulf region and when it comes to the issue of autocratic leadership, what is the alternative? As Rundell points out, none of the countries in the Arab world have moved to become stable liberal democracies. Saudi Arabia has remained stable and, unlike countries such as Pakistan, the Saudi government still has control over its military.

Diversifying away from oil



“There is huge potential in Saudi whether it’s in existing sectors such as tourism, or in developing new sectors such as fintech”

Khurram Mirza

The changes being brought about by MBS are an acknowledgement that the status quo could not continue, says Khurram Mirza, CIO at Kroma Capital Partners, an investment firm based in Dubai. “There is a large segment of the population that are a young, unemployed and reliant on the state, but there is also huge potential in Saudi, whether it’s in existing sectors such as tourism, or in developing new sectors such as fintech.”

Many of the projects that have been announced have been driven by the desire to diversify the economy away from oil and maximise its potential, leading to huge investments in infrastructure and technology. In his Vision 2030, outlined in 2016, MBS described his strategic goals that include becoming “a global investment powerhouse” and “transforming our unique strategic location into a global hub connecting three continents, Asia, Europe and Africa”.

The Saudis have seen the transformation of the United Arab Emirates (UAE), whose world-class business ecosystem and infrastructure makes Dubai comparable to Singapore. “There is a will and a motivation for change. Saudi Arabia may not go as far in liberalisation as, for example, Dubai, but [it] may become less conservative than other GCC [Gulf Cooperation Council] countries,” says Mirza.



“Saudi Arabia set a target of a 100 million domestic and international tourists by 2030. That was achieved by 2023”

Bijoy Joy

Ali Shafqat, CEO of Qbera Capital, says: “Saudi Arabia has seen a seismic transformation since 2010.” Even the logistics of visiting the country have been revolutionised from waiting for weeks for visa application appointments with the Saudi Embassy, followed by days processing applications, to being able to obtain visas online. “Everything has been digitised, whether it’s payments, government systems, telecoms – even booking appointments with a utility company,” Shafqat adds.

Doing business is now immeasurably easier. Moreover, international businesses are no longer required to have a local Saudi sponsor as the majority shareholder. The central bank has also relaxed rules on credit, allowing asset managers and finance firms to lend money alongside banks.

A key element of the changes has been curtailing the influence of the hard-line Wahabi religious establishment on society. MBS had declared that “our vision is a tolerant country with Islam as its constitution and moderation as its method”. Mosques have even been asked to reduce noise levels during Ramadan and there has been talk of relaxing the ban on alcohol in certain areas. It can be seen also in the drive to promote world-class sport in Saudi Arabia. “It is one big package that announces that Saudi Arabia is here and ready for business and open to the world,” says Mirza.

Women in the workforce

Perhaps the most striking development has been the rapid enfranchisement of women. MBS said in his vision statement that “women’s empowerment is central to the nation’s agenda, economically, socially and publicly”. In 1999, Saudi female participation in the workforce was just 10%. By 2023, it had reached 36%, according to Saudi Arabia’s General Authority for Statistics (GASTAT).

Bijoy Joy, portfolio manager of the Gulf Investment Fund, says this is reflected in the economy: “Earlier, there was just one earning member of any family. Suddenly that became two and the family income and spending power has jumped significantly.” That has given a boost to both retail sales and GDP.



Boulevard World theme park, Riyadh: Saudia Arabia is looking to boost tourism

Given that oil revenues account for nearly 90% of exports and 70% of government revenues and more than 40% of GDP, according to Lloyds Bank, investment opportunities in Saudi Arabia are driven from the top. Joy says the first component for equity selection is therefore understanding the overall direction of government policy.

The second part, is the impact on different sectors and identifying the strong companies in each sector and, finally, understanding how good the management is at executing strategy.

What has impacted investment opportunities in the country dramatically has been a shift away from investing surplus oil revenues into overseas investments, says Shafqat. Instead, most of the excess funds are now invested locally by the \$700bn (€642bn) Public Investment Fund (PIF), one of the world's largest sovereign wealth funds. "[PIF has] taken anywhere between 20% or 40% stakes in 30 or so companies and another 30 or so are fully owned. The moment the government steps in with an investment, the risk perspective and return outlook changes for investors as there is intrinsic government support."

The PIF is also the major backer for five 'giga-projects' which are specifically aimed at promoting

Saudia Arabia dominates the Gulf region equity index

technology and knowledge and creating new ecosystems. These include NEOM, a new urban complex incorporating a 170km-long linear city and the Red Sea project, a sustainable-tourism destination.

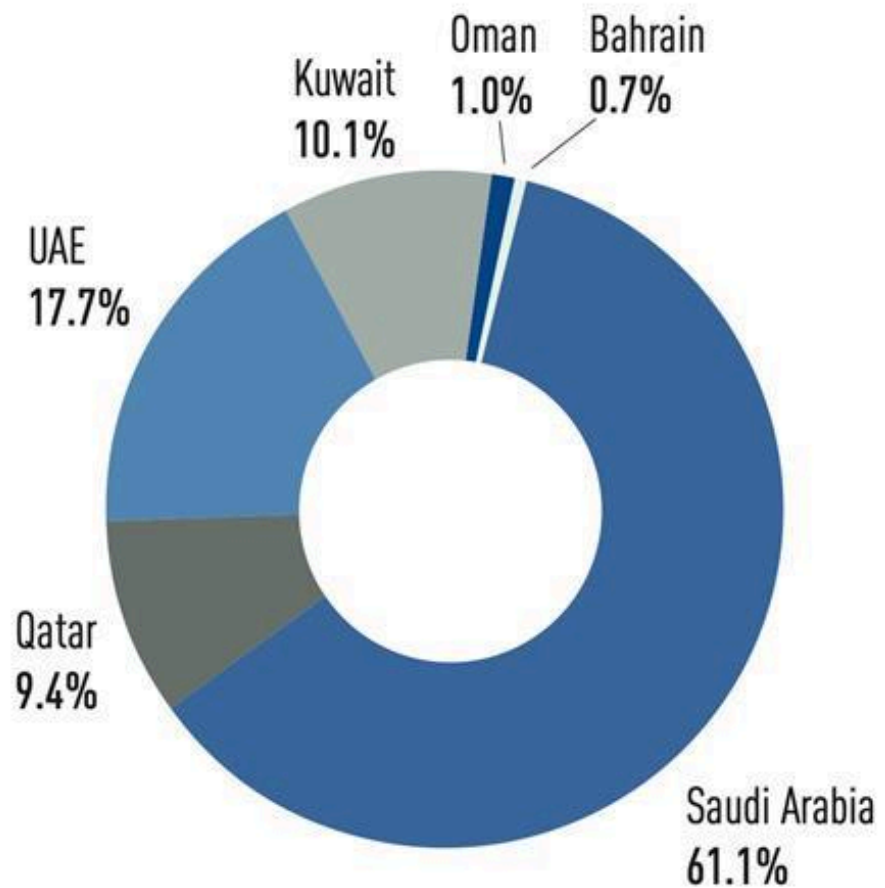
Boosting tourism

Given that Saudi Arabia has seen religious tourism since the dawn of Islam, it is not surprising that there is also a goal to increase the number and the length of stay for pilgrims. “There is no replacement for Mecca or for Medina for all Islamic pilgrims who will come and undertake their Umrah and Hajj in Saudi Arabia,” explains Joy.

In the past, there was a limited quota on visas. However, now there is no limit on the number of pilgrims undertaking Umrah or a lesser pilgrimage in the kingdom. The government is also encouraging pilgrims to stay longer by visiting other tourist sites.

In addition, there is an objective of promoting Saudi Arabia for leisure tourism. “Saudi Arabia set a target of a 100 million domestic and international tourists by 2030. That was achieved by 2023,” adds Joy. Tourism minister Ahmed bin Aqeel Al Khateeb also recently announced a new strategy to attract 150 million tourists by 2030, with 70 million being international.

For investors, the opportunity set in the GCC is growing, with the listed market seeing 21 initial public offerings (IPOs) in 2021, 48 in 2022 and 46 in 2023, says Joy. Many of these are not oil-related, which highlights the diversity of sectors and industries contributing to the GCC region’s economic growth and investment opportunities. This means the stock market is becoming more representative of the economy. The growth of pension schemes in Saudi Arabia is likely to be a



Source: S&P GCC Composite Index, composition by country (end-Jan 2024)

further boon to the stock market which, Mirza argues, should create a growing pool of savings to boost domestic investment.

Buscaglia's arguments about the importance of democracy for investors have merit, particularly for ESG-focused investors. However, the whole of the GCC region is ruled by families which, by Buscaglia's reasoning, would mean excluding investments from the whole region on the grounds that they rank among the worst "democracy offender countries". But Joy argues: "Unlike democracies which change leadership every five years, the good thing is that have investors have visibility on government policy and action plans for the long term."

Investors considering Saudi Arabia, have to accept the reality that MBS is here to stay and for Saudi Arabia's own population, that is probably a good thing, given the alternatives.