

## Saudi Arabia will play part in recovery.



As the world's leaders meet in London to seek ideas and funds in order to prevent a systemic collapse of the global economy, many eyes have turned to Saudi Arabia as an obvious source of cash.

The kingdom's contribution to rescuing the global financial system has been far from negligible. It is investing more than \$70bn to bring its oil production capacity to 12.5m barrels a day by the end of this year.

More than 40 per cent of the new total capacity will remain unused so that global consumers can tap into it at a later stage. Saudi Arabia's current control of production capacity makes Tehran and Moscow, to name but two, completely dependent on its adjustments.

Saudi Arabia has used its status as the world's swing producer benignly. Its leaders have understood for decades that their interests are intertwined with the prosperity of the world economy and that excessive prices and the accompanying volatility are counter to the kingdom's long-term interests.

Saudi Arabia has helped maintain moderation within Opec, which has resulted in lower gasoline prices around the world. Lower pricing at petrol pumps is perhaps the most effective way in which the kingdom can aid recovery. Compared to the record highs of last year, lower petrol prices are currently adding an extra \$200 of extra per capita income on a monthly basis.

Also, by maintaining an oil-price floor at about \$40 per barrel, Saudi Arabia is ensuring that the economies of the rest of the Gulf Co-operation Council run roughly balanced budgets and thereby act as engines for the global economy.

This year the kingdom announced a sharply expansionary budget to maintain domestic demand. Its \$400bn worth of infrastructure projects earmarked for the next five years should also be 20

viewed as a direct stimulus to the global economy. These long-term projects will help maintain an expatriate workforce in Saudi Arabia rather than prompt the kind of exodus we are seeing in some other GCC states.

The nation's defence procurement programme also continues to provide jobs and revenues for many western companies. At least \$220bn is likely to be recycled abroad in the form of imports, contracts or labour transfers. According to official data, over the past six years Saudi Arabia has imported more than \$335bn worth of goods. We estimate that since 2003, more than \$100bn has been officially and unofficially remitted by expatriate workers.

So what will Saudi officials be pushing for at the G20 summit in London? First and foremost, the kingdom will fight against protectionism and unilateralism. Having joined the World Trade Organisation, Saudi officials understand that trade barriers need to be flattened so that the wheels of the world's economy can keep turning.

"We should not have policies of beggar thy neighbour," as one minister put it to me ahead of the meeting.

The kingdom wants better financial regulation and believes that progress in mitigating the excesses of the global financial system cannot be addressed without more oversight. But it does not want control to curb competition.

Saudi officials are also likely to support the arguments of Germany and France, who have argued for stronger regulation of hedge funds and derivatives – although they recognise that these instruments cannot be driven out of existence. Many Saudi businesses have been hurt by their exposure to these vehicles and instruments. In contrast, we should view the conservative policies of the Saudi Arabian Monetary Agency in regulating local financial institutions as a policy to be emulated.

The kingdom is also likely to oppose those countries proposing a "green" recovery or a low-carbon agenda. The world cannot afford to choose the colour of its recovery.

Finally, in representing the GCC states, Saudi will look to defend the interests of sovereign wealth funds that have played a significant role in maintaining financial stability and confidence so far. Many SWFs from the GCC have invested in financial institutions whose shares have plummeted.

The kingdom, whose central bank is now the world's largest holder of foreign assets, is likely to be keen to maintain access to global markets.



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