



# DAVOS IN THE DESERT: A MIRAGE?

## *The Khashoggi Affair: A Ripple Effect on Saudi Investor Summit*

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Several international companies and investors have decided to pull out of Saudi Arabia's Future Investment Initiative (FII), a massive conference colloquially known as "Davos in the Desert", hosted by Crown Prince Mohammed bin Salman (MBS) as part of his "2030 Vision" to diversify the country's economy and reduce its dependence on oil revenues. A raft of high-profile investors across the world refused to attend the summit arguing that Saudi Arabia's explanation for Journalist Jamal Khashoggi's disappearance is not credible.<sup>i</sup> Khashoggi who was a prominent critic of MBS's governance, disappeared on 2 October after visiting the Saudi consulate in Istanbul, where Turkish officials allege he was murdered.

Given the Turkey-Saudi distressing relationship, the issue became more than just a writer's death. Erdogan intoned gravely about the Saudis involvement, dragging the international communities, especially US into the case. Most of the Western countries, including the US have condemned Saudi Arabia for violating international human

rights and decided to boycott the summit organised by them. The New York Times was the first to pull its sponsorship of the conference, followed by CNN, the Financial Times, Bloomberg. Media Mogul Arianna Huffington also resigned her position on the advisory board for this summit.<sup>ii</sup> Unlike, the Western media house, their government and investors response, however were capricious. For instance: The UK international Trade Secretary Liam Fox announced his withdrawal from the event, confirming that no UK officials would attend the conference but their ambassador to Saudi Arabia did attend the summit along with Simon Penney, Britain's Trade Commissioner for the Middle East, Afghanistan and Pakistan. Meanwhile, Germany that shares a frosty relationship with the kingdom decided to suspend exports of military equipment until they provide authentic facts about Khashoggi; they also sent their Economy Minister Peter Altmaier who urged the European nations to join them.<sup>iii</sup>

Moreover, the investors like Richard Branson, the founder of Virgin group; Ernest Moniz, former energy secretary under

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President Obama; and Neelie Kroes, NOEM board member and former president of European Commission have only suspended their ties with the kingdom whilst the investigation continues into the Khashoggi murder, hundreds were still attending the summit, representing the very companies whose bosses decided it was no longer expedient for them to attend.

The fundamental reason for such a dilemma among the nation-state and the investors is that they cannot afford to sever relations with the largest economy in the Arab world as it pursues diversification to wean itself off oil income. The investors pragmatically believe that there is a big future at stake in the kingdom and Khashoggi's overwhelming affair will eventually be resolved. In other words, if the accusation against Saudi Arabia is proved false, the ability of the West to do business with the country will clearly resume with full-effect.

As a result, despite the fallout of Khashoggi's death, the Saudis continued their usual business and managed to attract prominent global executives from across the world. In fact, Saudi oil giant Aramco bagged more than half of the 25 agreements, worth \$34 billion with companies from around the world including Halliburton. Deals worth another \$16 billion were done in other sectors of the economy.<sup>iv</sup>

### Looking Backward

Last year, Saudi Arabia held its first FII summit in Riyadh where Prince Salman announced the mammoth task of rapidly transforming the country economy by returning to a more "Moderate Islam." He unravelled the Kingdom's plan to have privatization, localization of key sectors such as defence and value-added industrial production and bold initiative to build a resort city of Neom on the Red Sea – a project worth the US \$500billion.<sup>v</sup> The Summit was also an opportunity for Prince Salman to move beyond the US and convince the investors from China, Russia to invest in their country. While there were many questions raised about the ability of Riyadh to execute its ambitious plan during the conference, Prince Salman's implementation of bankruptcy law<sup>vi</sup> and the Financial Sector Development program<sup>vii</sup> – both of which were designed to

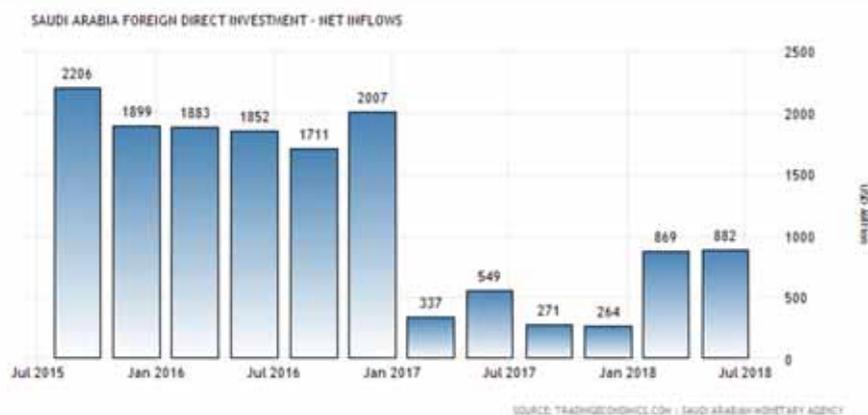
create a better regulatory environment for foreign investors did attract many high-profile business hubs across the world.

Moreover, the significant disinvestment and the negative intra-company loans that occurred in 2017, contributed to the downward trend in Foreign Direct Investment (FDI). The country, traditionally, one of the largest recipients of FDI in West Asia, saw its share of flows in the region decrease to barely six percent.<sup>viii</sup> This triggered Saudi Arabia to open up to the global market by allowing the non-resident foreign investors at least ten percent of strategic stakes in their companies as part of his economic reforms.<sup>ix</sup>

Over the year, MBS travelled across the West to personally engage with all the business giants while also developing Saudi Arabia's relationship with key organisations like IMF, World Bank etc. The US, one of the closet Saudi allies became one of the largest investors in the country's "2030 Vision". In fact, the second Saudi-US CEO forum held in March 2018, concluded with 36 Memorandums of Understanding signed between both the countries, totalling \$20 billion. The Saudi Prince also met US global advisers on Giga projects and bagged agreements related to a public investment fund which includes entertainment, the first sports and cultural destination in the kingdom etc.

Crown Prince Mohammed bin Salman also turned towards the UK for new trade and investment opportunities amid Brexit row and have set out a broad ambition to strike nearly \$100 million in commercial deals over the next decade. Both the countries have signed more than 18 economic agreements worth more than £1.5 billion, covering education, pharmaceuticals and banking.<sup>x</sup> Here, the most interesting part was that, Theresa May defended Saudi Arabia in the parliament about the alleged human rights abuse in Yemen in order to benefit from their growing economic ties.<sup>xi</sup>

Saudi Arabia's economic reforms have also strengthened its ties with New Zealand who agreed to contribute more on sustainable cooperation in all fields from this year onwards.<sup>xii</sup> As a result, within a year, MBS's bold economic initiatives have increased the FDI in the country (below table).<sup>xiii</sup>



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However, the desert kingdom's unyielding attitude towards its critics, both at home and abroad, have raised concerns in a few European countries and Canada. Though Saudi Arabia allowed women to drive whilst setting its global public image of empowering women, many believe that it is merely an act to attract investors and create a 'feel good' factor for the kingdom that had a very bad reputation, especially around adhering to humanitarian laws. This year, Saudi Arabia froze all new trade investment relationships with Canada and declared the Canadian ambassador to Riyadh as *persona non grata*, giving him merely 24 hours to leave the country. Canada, known to be one of the staunch protectors of human rights, urged Saudi Arabia for the release of anti-government activist Samar Badawi who had criticized Prince Salman's increasingly assertive foreign policy.<sup>xivxxv</sup>

Additionally, Saudi Arabia also blacklisted German companies who were looking forward to invest in the country as a result of the criticism in a rare case of economic retaliation.<sup>xvi</sup> By suspending ties to nations like Canada and even more important partners such as Germany, Saudi Arabia seems to be 'sending a message' to those countries who attempt to interfere in its internal affairs. It now appears that the Kingdom has adopted the Chinese approach which is pursuing relative success in recent years to modernize the country but on its own terms.

#### **The Khashoggi Affair**

As mentioned before, though Saudi Arabia has faced a wave of international condemnation over the Khashoggi affair, with many allies considering downgrading ties or halting weapons sales, the situation will eventually boil down due to oil and economic dependency. Major Western countries like the US, UK and France which exports nearly half of its arms to the war-stricken Middle East, with Saudi Arabia consolidating its place as the world's second-biggest importer, will never push hard to halt the arms trade over one man's affair. These countries continued to supply weapons to Saudi Arabia, notwithstanding military intervention in Yemen - a conflict that led to thousands of deaths, causing one of the worst humanitarian crisis in history. It is hence all the more likely that they would choose to swipe this issue under the carpet as well.<sup>xvii</sup>

For Saudi Arabia, it can always turn towards Russia or

Israel for arms supply. But countries like the UK - that has spent more than €3 billion, on issuing license to export arms to the kingdom - will also not, as they will have the most to lose if an embargo is put in place. Even Australia for that matter, despite being a signatory to the Arms Trade Treaty, planned an expansion into arms sales, with a fourfold increase in the number of military licenses sales to Saudi Arabia; hence Canberra too will be economically affected as they do not have an instant remedy to cope up with the revenue lose here. In fact, French President Emmanuel Macron, on behalf of the West, told the press that there was "no link" between arms sales and Mr Khashoggi's murder.<sup>xviii</sup>

It seems that the economic inter-dependency is making these countries to go beyond scruples. Surprisingly, Canada who previously witnessed the wrath of Saudis for interfering in their internal affairs, attended the summit, especially in the wake of US-tariff imposition. While Canadian economy is soft footing on growth, its need to improve economic ties with Saudi Arabia is a necessity. Probably, this could be the reason why Russia has sought to downplay Khashoggi's case and largely refused to go beyond acknowledging the official Saudi statement. In fact, Russia was one of the countries to send a high-level delegation to the FII summit, including billionaire oligarchs. Relations between Moscow and Riyadh have strengthened over the past two years as a result of closer co-operation between the two oil producers.

#### **Way Forward**

Need of the hour is that the Saudi government must reshape its role inside and outside the country to better promote trade and investment. It is also crucial for Saudi Arabia to cooperate with the US, Turkey and other international communities over Khashoggi's case and penalize the involved officials. MBS must also ensure that Saudi Arabia's diplomatic missions validate their capacities to advise both the government of Riyadh and Saudi business communities on ways to increase trade and investment in host countries, instead of nabbing the critics. Additionally, to accelerate the expansion of future industries in the post-oil Saudi economy, they must work to ease or eliminate tariffs, facilitation of market access, and find common ground on investment regulations, agricultural subsidies, intellectual property rights, dispute settlements, and trade in services which will require a marathon of negotiations.

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<sup>i</sup> BBC News. (2018). Saudi summit website attacked by hackers. [online] Available at: <https://www.bbc.com/news/business-45945644> [Accessed 25 Oct. 2018].

<sup>ii</sup> Basu, Z. (2018). The companies who have backed away from Saudi business over Khashoggi. [online] Axios. Available at: <https://www.axios.com/companies-saudi-arabia-conference-khashoggi-disappearance-153deaec-1282-4723-91f2-2ea8998d5fe2.html> [Accessed 25 Oct. 2018].

<sup>iii</sup> Last month, Germany approved the sale of €416m (£367.7m) worth of arms sales to Saudi Arabia.

<sup>iv</sup> Alkhalisi, Z. (2018). Saudi conference opens in Khashoggi's shadow. [online] CNN. Available at: <https://edition.cnn.com/2018/10/23/business/saudi-arabia-investment-conference/index.html> [Accessed 25 Oct. 2018].

<sup>v</sup> Khashoggi is a very strong critic of Prince Salman's plan to spend over \$500 billion on Neom, a brand new futuristic desert city nearly as large as Belgium, fearing the failure of project can bankrupt the country.

<sup>vi</sup> The National. (2018). Saudi Arabia bankruptcy law comes into effect. [online] Available at: <https://www.thenational.ae/business/economy/saudi-arabia-bankruptcy-law-comes-into-effect-1.761273> [Accessed 26 Oct. 2018].

<sup>vii</sup> Oxford Business Group. (2018). New sector development plan to strengthen Saudi financial services. [online] Available at: <https://oxfordbusinessgroup.com/news/new-sector-development-plan-strengthen-saudi-financial-services> [Accessed 26 Oct. 2018].

<sup>viii</sup> Unctad.org. (2018). [online] Available at: [https://unctad.org/en/PublicationsLibrary/wir2018\\_en.pdf](https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf) [Accessed 26 Oct. 2018].

<sup>ix</sup> Pacheco, F. (2018). Saudi Arabia may allow foreigners strategic stakes in listed companies. [online] <https://www.livemint.com/>. Available at: <https://www.livemint.com/Politics/5Hmy838qAI9eq7ifh1WBCN/Saudi-Arabia-may-allow-foreigners-strategic-stakes-in-listed.html> [Accessed

26 Oct. 2018].

<sup>x</sup> Wintour, P. (2018). Saudi Arabia wants more UK trade deals, say crown prince's team. [online] the Guardian. Available at: <https://www.theguardian.com/politics/2018/mar/08/saudi-arabia-wants-more-uk-trade-deals-say-crown-princes-team> [Accessed 26 Oct. 2018].

<sup>xi</sup> U.S. (2018). UK's May defends Saudi ties as crown prince gets royal welcome in... [online] Available at: <https://www.reuters.com/article/us-britain-saudi/uks-may-defends-saudi-ties-as-crown-prince-gets-royal-welcome-in-london-idUSKCN1GI2ZQ> [Accessed 28 Oct. 2018].

<sup>xii</sup> Arab News. (2018). Joint ministerial group sign accord for stronger Saudi-New Zealand cooperation. [online] Available at: <http://www.arabnews.com/node/1354406/saudi-arabia> [Accessed 26 Oct. 2018].

<sup>xiii</sup> Tradingeconomics.com. (2018). Saudi Arabia Foreign Direct Investment - Net Inflows | 2006-2018 | Data. [online] Available at: <https://tradingeconomics.com/saudi-arabia/foreign-direct-investment> [Accessed 26 Oct. 2018].

<sup>xiv</sup> GulfNews. (2018). Saudi Arabia freezes trade relations with Canada. [online] Available at: <https://gulfnews.com/news/gulf/saudi-arabia/saudi-arabia-freezes-trade-relations-with-canada-1.2262084> [Accessed 26 Oct. 2018].

<sup>xv</sup> In 2015, the kingdom temporarily recalled its ambassador to Sweden after the Scandinavian nation singled out Saudi writer Raif Badawi's arrest and trial as an example of broader human rights failures in the Middle Eastern monarchy. (The activist at the center of the current Saudi-Canadian dispute is his sister, Samar Badawi.)

<sup>xvi</sup> Global.handelsblatt.com. (2018). Saudi Arabia freezes out German firms as diplomatic relations sour. [online] Available at: <https://global.handelsblatt.com/politics/saudi-arabia-german-companies-boycott-928152> [Accessed 28 Oct. 2018].

<sup>xvii</sup> euronews. (2018). Which EU countries sell arms to Saudi Arabia?. [online] Available at: <https://www.euronews.com/2017/11/30/which-eu-countries-sell-arms-to-saudi-arabia-> [Accessed 26 Oct. 2018].

<sup>xviii</sup> U.S. (2018). Macron slams calls to halt arms sales to Saudi as populist. [online] Available at: <https://www.reuters.com/article/us-saudi-khashoggi-france/macron-slams-calls-to-halt-arms-sales-to-saudi-as-populist-idUSKCN1N01XV> [Accessed 29 Oct. 2018].