

# Saudi-German economic and cultural relations

CURRENT STATE, CHALLENGES AND OPPORTUNITIES FROM A GERMAN PERSPECTIVE

## 1. Introduction

The Kingdom of Saudi Arabia and the Federal Republic of Germany have kept and enjoyed excellent economic bilateral relations for decades. German companies have been present at every step in the development process of Saudi Arabia's economy. Saudi Arabia, in turn, has provided Germany with oil and derivatives. Today, Saudi Arabia is Germany's second most important trading partner in the region, while Germany is the third largest importer to Saudi Arabia.

In the past years, several visits of top governmental officials from both sides have marked a tightening of bilateral ties beyond the scope of commercial interests. Federal Chancellor Angela Merkel, also a Member of the Board of Directors of the Konrad-Adenauer-Stiftung (KAS), has visited Saudi Arabia last time in April 2017. Two months later, Saudi Foreign Minister Adel Al-Jubeir met with his German counterpart Sigmar Gabriel and participated in a KAS roundtable discussion in Berlin. Besides enhanced security coordination - an area in which cooperation has also progressively grown recently - the continuous dialogue between officials from both sides has resulted in the emergence of cultural exchange, starting to enable Saudi and German citizens to accumulate more knowledge about each other. Despite this positive track record, bilateral relations between the two countries have recently also experienced diplomatic setbacks. Overcoming these developments remains a key challenge for both countries in the upcoming months.

In the light of Vision 2030, both Saudi Arabia and Germany have indicated great interest in deepening bilateral trade and further promoting knowledge transfer. With its core objective being nothing short of re-inventing the Saudi economy and making it less dependent on oil, the Saudi Vision offers numerous starting points for enhancing economic and cultural ties and, hence, for opening a new chapter of Saudi-German relations.

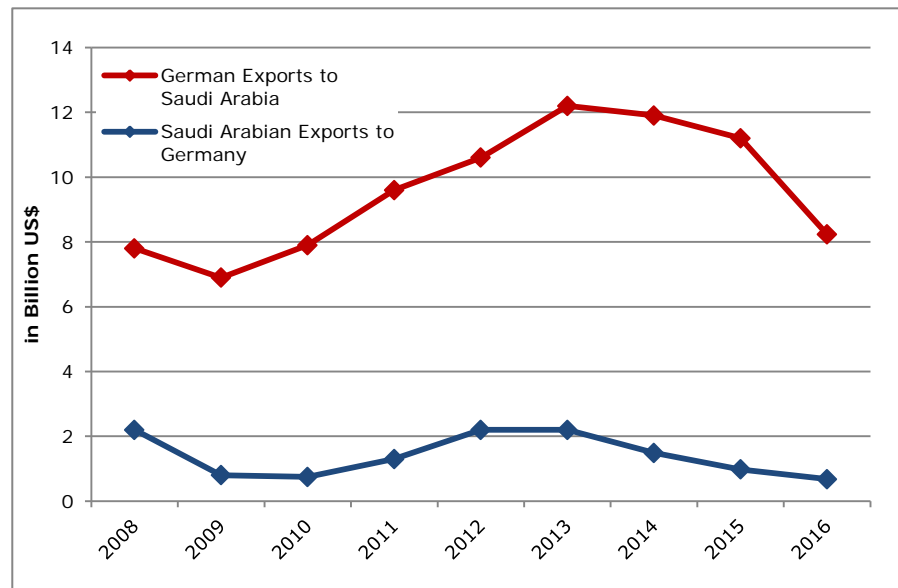
In this context, this paper tries to identify the most promising avenues for future economic and cultural collaboration. It presents brief overviews of the current states, highlights key challenges and concludes with a list of proposed topics for enhanced cooperation that should be investigated in more detail.

## 2. Saudi-German economic relations

### *Current State*

Saudi Arabia and Germany are both major global players. According to IMF data, Saudi Arabia is the 20<sup>th</sup> largest economy by nominal GDP, Germany ranks 4<sup>th</sup> - after the US, China and Japan. In addition and despite the oil price recession during the years 2015-16, Saudi Arabia maintains the 5<sup>th</sup> highest economic growth rate worldwide, increasing by an annual average of around 4% since 2008. Saudi Arabia and Germany are both members of the G-20, the group of the twenty most important industrial and emerging economies in the world. For the first time in the G-20's history, Saudi Arabia will host the group's annual summit in 2020.

Bilateral trade between the Kingdom of Saudi Arabia and Germany has been constantly growing throughout the last decades, reaching a maximum of about 14.4 Billion US\$ in 2014. In 2016, German exports to Saudi Arabia totalled 8.23 Billion US\$ (6.7% of all Saudi imports), making Germany the 3<sup>rd</sup> largest provider of imports to the Kingdom. Saudi Arabian exports to Germany, in turn, stood at 700 Million US\$ in 2016 (0.07% of all German imports) according to the United Nations Comtrade Database. In the regional context, Saudi Arabia is Germany's second most important trading partner after the UAE. Nonetheless, both German and Saudi Arabian exports have substantially declined during the past three years, year-on-year averages reveal negative growth rates of 12% and 32% respectively (see figure 1) - a development strongly correlated with the decline in oil prices.



**Figure 1: German and Saudi Arabian Export Statistics 2008-2016**

(Source: United Nations Comtrade Database)

Germany's main exports to Saudi Arabia are machinery, electrical equipment and vehicles, accounting for about 40% of the total export volume in 2016 (see figure 2). Also historically, both countries can refer to a long-standing history of trade in these areas: German companies already built the Hejaz railway at the beginning of the 20<sup>th</sup> century. Irrespective of the potential for enhanced cooperation, analysts expect that these traditional sectors will continue to play a major role in the bilateral economic relations between the two countries.

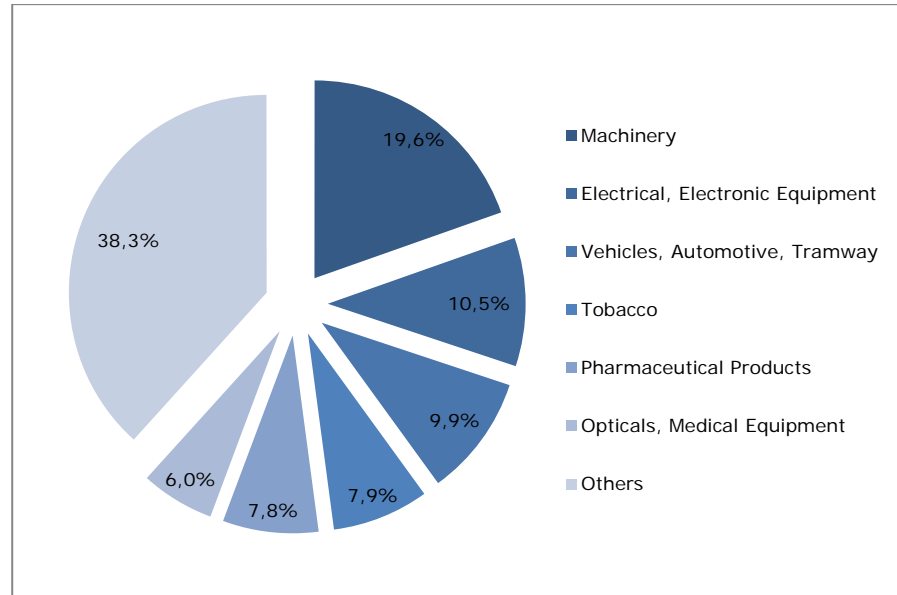
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**Figure 2: German exports to Saudi Arabia by product categories in 2016**

(Source: United Nations Comtrade Database)

German companies are also among the top investors in the Kingdom: according to the German-Saudi Arabian Liaison Office for Economic Affairs (GESALO),<sup>1</sup> some 800 German companies are currently operating in Saudi Arabia.<sup>2</sup> Their offices and manufacturing facilities employ around 40,000 Saudi employees and significantly contribute to the creation of high-quality jobs, delivering technical knowledge transfer and qualifying a new generation of Saudi workforce by in-house vocational training.

Saudi Arabian exports have followed a “mono-cultural approach”, mainly relying on the export of crude oil, distillation products, plastics and organic chemicals (see figure 3). As a consequence, export revenues from Germany have been subject to the volatile and increasingly competitive oil market prices. Saudi oil reaches German customers not only through direct freight lanes, but also via other European ports, illustrating that actual exports to commercial customers in Germany are probably underestimated by official trade figures. As a comment, it should also be noted that Saudi Arabia’s capitalisation on the sectoral value chain underutilises its full potential: important markets, such as the oligopolistic transportation sector, are still dominated by foreign providers, while, for example, Bahri, the National Shipping Company of Saudi Arabia, only holds relatively moderate market shares compared to the Kingdom’s relevance as one of the world’s top producers of crude oil.

<sup>1</sup> The GESALO has been established in 1978. It represents German-Saudi business interests and, on a more general level, follows its mission to support and extend bilateral economic relations.

<sup>2</sup> Other sources state that 100 to 120 German companies are actually operating in the Kingdom. Probably, the latter figures only account for companies with an actual physical presence in Saudi Arabia, either as part of Saudi-German joint ventures or by running stand-alone offices.

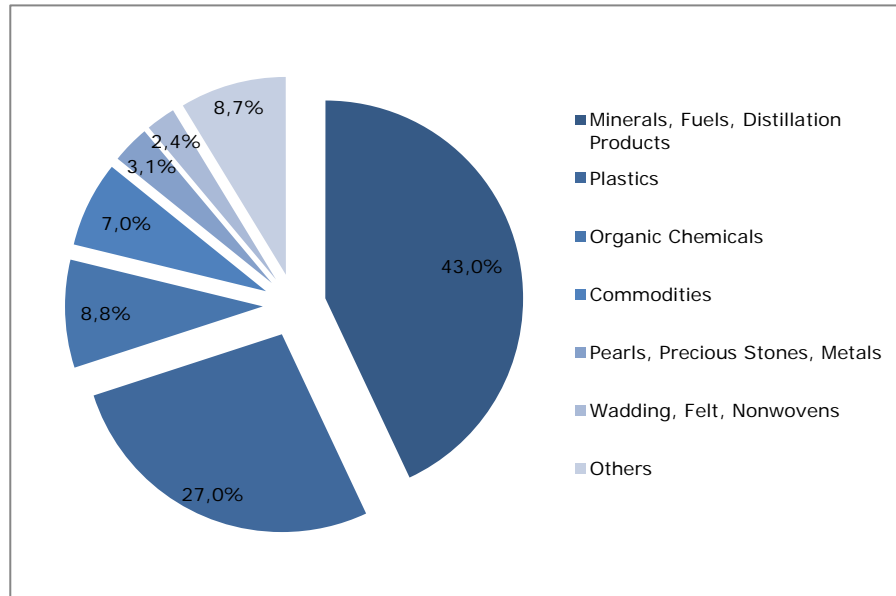
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**Figure 3: Saudi Arabian exports to Germany by product categories in 2016**  
(Source: United Nations Comtrade Database)

A second, yet less visible pillar of Saudi Arabian economic cooperation with Germany is direct investment. Although German media have regularly reported on Saudi and other GCC countries' investments in Germany, actual financial data is hard to elicit by help of publicly available sources. On top, Saudi investment policy systematically differs from those of the other GCC countries, mainly focusing on the acquisition of minority shares.<sup>3</sup> According to a recent statement by the former Ambassador of the Kingdom to Germany and current Minister of Culture and Information, Awwad Al-Awaad, Saudi Arabia's Public Investment Fund (PIF) is currently investigating opportunities for investing into German technology and financial companies. Related reports also mentioned the creation of a Saudi-German joint venture in which the PIF would own the majority of shares. A recent example is also Arlanxeo, a world-leading joint venture for synthetic rubber between Saudi Aramco and German Lanxess. In a similar vein, it has been reported that the Saudi petrochemical company Sabc is planning to expand its investments in Europe, particularly in Germany, to set up joint research centres on new applications in the petro-chemical industry. According to GESALO, further measures will soon be undertaken by Saudi Arabia in order to i) raise the extent of Saudi investments in Germany and ii) to ease access for Saudi companies to the German markets.

#### *Challenges and Opportunities*

From a German business perspective, Saudi Arabia appears to be an attractive future market. Vision 2030 and the National Transformation Programme 2020 offer a series of opportunities for German companies to contribute to the realisation of the Vision's objectives, particularly in the areas of renewable energy, manufacturing and infrastructure, water, health and waste management – core areas of German competence.

This is garnished by a generally positive, though still hesitant German attitude towards the current investment environment: Significant improvements in the regulatory framework, the gradual relaxation of the austerity measures and the recent revitalisation of some of the major investment projects in the country have been noticed and welcomed by German

<sup>3</sup> Apart from less rigorous disclosure requirements, the advantage of minority shares is that they increase a portfolio's diversification and thus minimize the risk of being affected by exogenous shocks (coming at the cost of lower returns on investments, of course).

businesses. The Saudi labour market is considered to provide a growing, high-quality work-force which is, from an employer’s perspective, a locational advantage. In addition, Saudi Arabia is the biggest regional market and therefore not only strategically important as gateway to the region, but also for reaching out to a large number of private households. For these reasons, more and more German companies are currently assessing the prospects of establishing manufacturing bases and regional sales offices in Saudi Arabia.

On the other hand, German companies have also raised concerns that render the future economic outlook less optimistic. The oil price shock and its impact on Saudi Arabia’s public spending and payment morals in line with the relatively low GDP growth estimates for 2018 onwards have fuelled uncertainty among the international business community. For many investors, also the regional dynamics, i.e. the growing tensions with Iran and Qatar, increase the risk of regional and political instability – a potential roadblock to foreign investments that is often considered an unacceptable business risk. Additionally, the domestic developments around the corruption crackdown, although in general highly welcomed by German companies, render it more difficult for managers to interpret the future business environment in Saudi Arabia. In this context, some businessmen mentioned that long-standing relationships may now need some time to recover until pre-crackdown levels of trust required for daily operations are re-established.

Business relations are, however, only one element of bilateral economic relations. Both countries still lack institutionalised links that go beyond the scope of mere commercial interests and aim at enhancing mutual knowledge transfer in the sphere of economic and social policy. Regular adjustments to the regulatory framework are needed in order to account for international market dynamics and to fine-tune the continuous development of a modern knowledge economy. Incentive-compatible mechanisms and state-of-the-art choice architecture are conducive to activating a market-oriented labour force as well as for facilitating innovation processes. Both Germany and Saudi Arabia have a distinguished set of experiences and competences in these areas, but, so far, underutilise the synergetic potential of knowledge exchange. In order to avoid missing important developments and groundbreaking opportunities, joint Saudi-German expert groups should be set up that assess the different needs, identify knowledge gaps and areas of complementing competence and finally draft tailor-made policy recommendations including proposals for pilot projects and possible roll-outs. A first matrix of 2x2 potentially relevant topics for enhanced economic cooperation and future benefit on both sides is depicted in figure 4.

Socio-Economic Policy Reforms		Bilateral Innovation Clusters	
I	<b>Market regulation</b> that is designed to <b>enhance competition, empower SMEs and prevent corruption.</b>	I	Modularized <b>start-up programme</b> under a joint <b>Saudi-German mentorship</b> including <b>networking and exchange</b> elements.
II	<b>Social security systems</b> that set incentives for citizens to act <b>self-dependently</b> and <b>productively engage</b> in the economy.	II	Joint <b>Saudi-German business angel council</b> that <b>identifies, coaches</b> and eventually <b>finances</b> promising start-up initiatives at early stages.

Figure 4: Topics for enhanced Saudi-German economic cooperation

### 3. Saudi-German cultural relations

#### *Current State*

In contrast to the long-standing economic cooperation between the two countries, cultural ties between Saudi Arabia and Germany have only a relatively short track record. In 2006, both countries signed an intergovernmental cultural agreement. Ever since, the German Embassy in Riyadh and the Consulate General in Jeddah have organized a variety of cultural events, ranging from concerts and lectures to exhibitions and film screenings, opening interested Saudi citizens a window into the German culture.

These efforts have been gradually supplemented by other sorts of cultural exchange: the Robert Bosch Foundation established an office in Jeddah in 2011 to raise interest in German culture. A branch of Germany's Goethe Institute was inaugurated in 2014, now offering German language courses to Saudis. In the same year, the first Saudi Arabian cultural week was held in Berlin. Germany, in turn, was a guest of honour at the Al Jenadriyah Heritage and Cultural Festival in 2016.

In terms of education, the German Academic Exchange Service (DAAD) runs offices at the King Saud University in Riyadh and the Effat University in Jeddah.<sup>4</sup> Around 50 German students are currently enrolled at the King Abdullah University of Science and Technology, around ten German graduates are completing their PhDs in Saudi Arabia. On the other hand, 1,600 Saudis have studied in Germany in recent years, most of them supported by the King Abdallah Scholarship Programme. In addition, Germany seems to become a more attractive spot for tourism and medical treatment. In 2015, the German diplomatic missions in Riyadh and Jeddah issued about 75,000 visas to Saudis.

#### *Challenges and Opportunities*

The emerging cultural exchange between the two countries has yielded important positive impact, although it is hard to quantify the extent to which perceptions on both sides have been changed and ties strengthened. On the one hand, the German society is starting to become interested in Saudi culture and the social developments inside the Kingdom. Particularly the initiatives to empower Saudi women have recently gained public attention and were covered by a series of German TV documentaries. On the other hand, however, large parts of the German society still think about the "well-known, controversial topics" when asked about their views towards Saudi Arabia, mentioning, for example, arms deals, women and human rights and the expansion of Islamic fundamentalism; topics which dominated the German media during the 2000s and early 2010s.<sup>5</sup> Nevertheless, it seems likely that the current developments in Saudi Arabia will help changing the Germans' public attitudes in the future.

Although the first institutional networks between Saudi Arabia and Germany have been formed, the cultural relations between both countries do not yet unleash their full potential. Saudi Arabia and Germany should jointly work on providing more platforms for insights into each other's societies, creating higher levels of mutual understanding in the long-run. The

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<sup>4</sup> For some years, GIZ International Services, the for-profit arm of Germany's governmental development agency, also supported vocational training centers in the Kingdom.

<sup>5</sup> In 1995, Saudi Arabia opened the King Fahd Academy in Bonn (and later its branch in Berlin), initially under the patronage of former German Foreign Minister Klaus Kinkel. The school was offering education outside the official German curricula and was subject to critical media coverage in 2003, accusing the academy of having connections to Islamist groups and preparing students for Jihad. For the following years, the school and its Berlin branch continued to be in the spotlight of German media reports. This came to an end in 2016/7, when the Saudi government eventually closed all the facilities of the academy.

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group of former Saudi students in Germany provides a unique pool of inter-culturally experienced multipliers that should be utilised in order to advocate in favour of more people-to-people exchange. In this context, more German scholars, young opinion leaders, entrepreneurial talents and artists should be offered opportunities to visit Saudi Arabia and get into contact with Saudi counterparts.

Saudi Arabia and Germany also share similar goals and obstacles with respect to civic education, an indispensable cornerstone for social cohesion and societal development: both countries need to manage the upcoming global and social challenges, invest in high-quality education and offer their youth opportunities to increase meaning and self-worth with the aim of becoming integral parts of their respective societies and finally agents of positive social change.

Like for the economic domain, joint Saudi-German expert groups should be created that analyse the diverse cultural and societal needs, potential knowledge gaps and country-specific best practice. These working groups should also be tasked with providing concise policy recommendations that include, amongst others, proposals for lighthouse projects and related impact evaluation as well as methods for country-wide roll-outs. Figure 5 shows an initial set of 2x2 topics that should be investigated in more detail.

	Cross-Cultural Understanding	Formal and Civic Education
I	Bilateral <b>scholar-, fellow- and internship programmes</b> that offer young talents opportunities to <b>learn from each other</b> .	Exchange of <b>best practice</b> on <b>effective and innovative learning methods</b> including bilateral <b>teacher exchange</b> .
II	Joint <b>research projects</b> that assess the <b>current state</b> of public perceptions and offer <b>evidence-based advise</b> to decision-makers.	<b>Behavioural research</b> which identifies the <b>determinants of youth engagement and pro-social behavior</b> .

**Figure 5: Topics for enhanced Saudi-German cultural cooperation**

#### 4. Conclusion

Saudi Arabia and Germany can not only refer back to a long-standing history of business-to-business cooperation, both countries are also at the edge of opening new chapters with respect to their economic, cultural, academic and societal ties.

Both Saudi Arabia and Germany share a very similar set of global and future challenges. Closer cooperation in these areas may facilitate the transfer of valuable know how and best practice and, in the long-run, could unlock large synergetic potentials, contributing to further economic and societal developments on both sides.

More specifically, this paper suggests that Saudi Arabia and Germany should 1) engage in experience-sharing in the field of effective socio-economic policy reforms, 2) collaborate on finding the smartest (young) entrepreneurial minds, supporting and connecting them, 3) jointly work on programmes that improve cross-cultural understanding and effectively reduce stereotypes and 4) build exchange platforms and initiate joint research in the fields of formal and civic education.