

UNTAPPED POTENTIAL



How can corporates overcome the complexities of operating in Saudi Arabia to take advantage of the wealth of opportunities that it offers? Syed-Kamran Zaidi explains

Saudi Arabia and oil are almost synonymous. The country is the world's largest exporter of petrochemicals, holding roughly 20% of its proven petroleum reserves. The petroleum sector accounts for around 80% of budget revenue, 90% of export earnings and 45% of GDP, according to US business magazine *Forbes*. What is perhaps less well known is that the country's non-oil growth is almost equally as robust, as is evidenced by its large-scale infrastructure development. The Saudi Arabian government is planning to invest \$100bn over the next 10 years to realise its potential as a global transport and logistics hub, and to 'future-proof' its transportation infrastructure alongside rising consumer demand.

Buoyed by rapid growth in retail lending and falling unemployment (particularly among Saudi males), consumer spending is likely to grow – thereby creating an oil, consumer-spend and infrastructure-investment 'growth triangle' that is set to help the economy reach 4.3% growth this year and 4.6% in 2014, according to EY's most recent Rapid-Growth Markets Forecast.

Such growth is accompanied by notable economic, social and educational reform. In order to diversify the economy

and increase employment among Saudi nationals, the government is encouraging the development of the private sector – with a particular focus on power generation, telecommunications and IT. It is also investing heavily in education to ensure that nationals have corresponding skills. All things considered, it is easy to see why Saudi Arabia is broadly perceived as the most attractive destination for foreign investment in the Arab world, and a highly lucrative market.

Overcoming market challenges

Despite such social and economic advances, Saudi Arabia remains a demanding market for foreign entrants,

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however, with challenges ranging from high-level issues to practical hurdles.

First and foremost, businesses must navigate the country's complex regulatory environment. Saudi Arabia remains an opaque market, rendering the management of its idiosyncrasies doubly complex, and frequently acting as a barrier to entry.

Saudi Arabia's legal system can also pose difficulties, particularly with respect to intellectual property. However, there has been some encouraging progress, with the introduction of a new arbitration law in April 2012 underpinned by more 'arbitration-friendly' principles. The new law reflects terms that are mainly inspired by the international policies of UNCITRAL, with the aim to give more comfort for foreign businesses coming into the Saudi market.

Achieving best practice within such tight regulatory confines can be a challenge for companies without access to the right guidance and operational support.

Indeed, treasury provides a case in point. Successful

companies to navigate the local landscape from a regulatory and legal perspective, technology is an area in which they can lag behind.

As a result, global banks operating in Saudi Arabia often have the upper hand with regard to systems and functionality – particularly those that leverage their close working relationships with domestic banks and have the additional advantage of international knowledge. Given that optimal treasury management is often an issue of replicating or improving efficiencies – not only domestically, but more importantly, internationally – providing access to such a network is especially important, and adds significant value.

Tapping the potential of Saudi Arabia's ongoing economic advancement – and indeed the potential of the broader region – is not without difficulties. But challenges can be overcome with specialist support, meaning they need not present insurmountable barriers for companies.

treasury management has long been a question of technology. It is the enabler of integrated cash and trade functions; greater processing speed and efficiency; improved visibility over global cash positions; and control over transaction-related data. Corporates will naturally turn to banks for support in this respect, but while Saudi Arabia's indigenous banks can help



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