

Analyze of Saudi Arabia international trade policy under the perspective of neo-liberalism theory

Lingyu Xu*

School of Sociology, Politics and International Studies, University of Bristol, Bristol, England

*Corresponding author: nv21147@bristol.ac.uk

Abstract. The globalization, privatization, and opening-up process of developing countries attract the world. These policies are helpful for the development of developing countries. This article uses Saudi Arabia as an example to study the execution of globalization, privatization, and opening-up policies. The article also discusses the influence of these policies in Saudi Arabia. The literature review method is applied in this article to explore the privatization and open-up policy of Saudi Arabia. This study mainly relies on information gathered from former academic reports and articles analyzing the economic reform of Saudi Arabia and some media articles. This article studies Saudi Arabia's economic globalization process and uses neo-liberalism theory to conduct qualitative research on the decisions of Saudi Arabia. The economic structure of Saudi Arabia profoundly relies on its resources. The economic system of Saudi Arabia also has some flaws, including the corruption and low efficiency of its bureaucratic system and public sector. The economic system highly relies on the global oil market, and there is also potential employment risk. The article uses the neo-liberalism theory to analyze globalization, privatization, and geopolitics in Saudi Arabia. The article studies the intentions of Saudi Arabia to strengthen its oil industry and financial market and solve the problem of low-efficiency public sectors and the contradiction between economic development and geopolitics conflict between Israel. This article found out that the neo-liberalism theory does influence the decisions made by the authorities of Saudi Arabia. However, the decisions of Saudi Arabia are also influenced by some factors, like the geopolitical conflict with Israel, which is outside the paradigm of the neoliberalism theory. This article may help developing countries make decisions in the international trade system, especially developing countries that are highly reliant on natural resources.

Keywords: Neo-liberalism, International relations, Saudi Arabia.

1. Introduction

The globalization, marketization, and open-up policy were confirmed to be valuable for developing countries. For example, People find out that the globalization and marketization of developing countries help the developing countries to accept investments and generate employees in the process of attending the global market. Like China and India, some examples indicate that attending to the global market and marketization helps developing countries eliminate internal poverty and develop their economy [1]. So deepening the process of marketization and globalization is essential for developing countries. However, the marketization and globalization of developing countries still need specified study because there are also differences between developing countries. The differences between developing countries lie in many aspects, like natural resources, population, and industrial structure. The differences in these aspects may mean that a general discussion about all developing countries worldwide is not comprehensive and accurate. Thus, deepened discussion about specific and representative cases is needed; the study of economic policies made by developing countries may need to focus on actual states to increase their accuracy. Analysis of different areas of its policy is also needed to make the study more comprehensive.

The article aims to analyze the policies used by authorities of Saudi Arabia in the process of deepening its participation in the global market. The characteristic of this article is that its analysis is based on a specific country, which avoids potential influences of the difference between developing countries in the study. Neo-liberalism theory is the theory used to analyze the policy of Saudi Arabia in this article. Neo-liberalism theory is a pro-market theory. It is mainly based on the support of the

free-market principle. People make rational decisions and actions in a free-market system. Enterprises and private property are encouraged. According to Friedman, respect for for-profit and the market is the core of neo-liberalism theory. The mission of authorities is to protect private property and the execution of contracts. The neo-liberalism theory believes that monitoring and controlling authorities in a free-market system cause instability in the economic system.

In contrast, free markets lead to prosperity. The developing countries were encouraged to adapt neo-liberalism theory in the economic areas to accelerate economic growth. For example, India used a neo-liberalism policy to solve its external debt crisis in 1991 [2]. Scholars also found that neo-liberalism policy was widely and continuously welcomed in post-communism developing countries in the post-cold war era [3].

From the perspective of international relations, although neo-liberalism scholars agree that international relations is an anarchy system and there are conflicts in this system. Neo-liberalism theory believes that the zero-sum game assumption of international relations is not persuasive. Thus, they think that the sovereign states can make a collective effort to achieve win-win consequences and avoid the harmful effects of anarchy in international relations. The neo-liberalism theory argues that the absolute potential gain of international cooperation is more valuable than the distribution of interest. Furthermore, neoliberalism scholars believe that institutions and international organizations play an essential role in international cooperation [4].

This article chooses Saudi Arabia as the case study. According to an analysis by the United Nations in 2014, Saudi Arabia was defined as a developing country [5]. In the world economic outlook report of the IMF released in 2021, Saudi Arabia was also categorized as a developing country and an emerging market [6]. In the 1990s, Saudi Arabia authorities decided to execute some open-up policies as the WTO accession negotiation started in the 1990s [7]. Saudi Arabia is a country that has abundant oil resources. The economy of Saudi Arabia is highly reliant on its oil resource. Saudi Arabia is the biggest producer and exporter of oil. Saudi Arabia achieved significant economic growth because of its oil industry in the 1970s and the 1980s. From the perspective of Saudi Arabia, although the oil industry is the primary source of income, the oil industry also has some risks and is not sustainable. The oil income of Saudi Arabia mainly relies on the international oil market. The global oil market is unstable because the price is decided by some relative factors, like the political situation of middle east and technical development related to fuel [8]. Besides, Saudi Arabia also has many flaws in its economic system, especially its unemployment and inefficient public sector. The unemployment problem is also an important threat to Saudi Arabia economy: Firstly, almost half the population of Saudi Arabia is under 25 years old. The population growth of Saudi Arabia means that many youngsters need more employment opportunities. The labor quantity of Saudi Arabia in 2030 may be two times as large as the labor quantity of 2015. Besides, in Saudi Arabia, about two-thirds of employees are employed by the public sector [9]. The public sector of Saudi Arabia plays a vital role in the domestic economic system. For example, the SABIC, also known as Saudi basic industry cooperation, is the second-largest enterprise in Saudi Arabia. SABIC contributed almost 25% of the net income in the Saudi Arabia stock market. The SABIC is 70 percent owned by the government [10]. However, according to some studies, the efficiency and resource utilization in public sectors, like public hospitals, are low [11]. Saudi Arabia is a representative example of a developing country. Many developing countries own sufficient natural resources and suffer from the influence of flaws like ineffective bureaucratic systems. This article may help the audience deepen the understanding of neo-liberalism theory and help the policymaking of developing countries.

This article mainly uses academic reports and news related to the economic reform in Saudi Arabia found in public sources. The aim of this article is to analyze the globalization and privatization policies of Saudi Arabia under the neo-liberalism theory. And understanding the logic of policymaking in Saudi Arabia, and providing a reference for developing countries. The article may be helpful for the economic policymaking of developing countries as well.

2. The analyze of Saudi Arabia policies under the neo-liberalism theory

2.1. The privatization of Saudi Arabia

The Saudi Arabia authorities have set up a development program based on the background introduced below. The key parts of this development program include the following targets:[12].

1. Achieve the diversification of the economic system, try to reduce the reliance on the fossil fuel industry;
2. The development of the human resource, the development program aims at developing the whole education system, from general education to high-level education.
3. Increase the level of physical infrastructure
4. Maintain the stability of economy and society, raise life quality
5. Regional development enhances the private economy and the economic relationship with other countries.

Based on this program, the Saudi Arabia authorities executed some actions based on the direction in this program. The effort of privatization started in the 1980s. The third development plan of Saudi Arabia from 1980 to 1985 started to show the indication of strengthening the private economy. The fifth development plan of Saudi Arabia from 1990 to 1995 concentrates on the growth of the private economy. The fifth development plan also concentrates on the capability of the private economy to accelerate economic growth and increase the vitality of the financial market because the private economy is more likely to use loans to make investments. The reason for privatization is the problem of the public sector. Wide attendance of the public sector in all domestic areas caused severe problems, like low efficiency and resource waste caused by overwhelmed subsidies programs [13]. In the public-owned telecommunication companies, the price of lines construction is about two times as much as international norms. The public sector shows the characteristics of high cost, low efficiency, and low labor utilization [14]. According to IMF, the large percentage of the public sector in the domestic economic structure is an important barrier to its economic development [8].

The main approach to privatization in Saudi Arabia is to switch the ownership and management of domestic projects and services from the public sector to the private sector [14]. In the fifth development plan, Saudi Arabia proposed a specific privatization plan. Including outsourcing the economy and increasing the attendance of businesspeople in the public economic sector. The authorities execute a series of procedures to achieve the goal of privatization: The authorities continuously support the private economy, providing tariff discounts, loans, and technology. Clarify and modernize the regulation system; Develop national bank and the stock market [13].

The start of privatization practice was in 2002, and it started in the telecommunication and post-service sector. In September 2002, the Saudi Telecom Company (STC) was privatized. 30% of its ownership was sold in an initial public offering (IPO). After that, the privatization wave spread to other sectors, like water supply and civil airlines [14]. According to a study of Saudi Arabia companies, after IPOs, the average efficiency and profit-making capability show a significant increase [8].

According to neoliberalism theory, competition through privatization is very important in the economic area. Privatization and the free market idea are two basics of the neo-liberalism paradigm. The neo-liberalism theory believes that free flow and competition in a free market system improve the efficiency of the economic system [15].

Based on the analysis of the former paragraphs, the economic structure of Saudi Arabia economic system was mainly controlled by the public sector. The public sector shows the characteristic of low efficiency and high cost. The privatizing of private sectors improves the efficiency and profit of Saudi Arabia economic system.

2.2. The WTO accession of Saudi Arabia

The WTO accession negotiation of Saudi Arabia started in 2005. The attendance of Saudi Arabia ensures that Saudi Arabia enjoys all benefits of WTO members, especially ensuring that the export

products can be protected from the trade barrier of other countries. The downstream industry of fossil fuels in Saudi Arabia is dominated by Saudi Arabian Basic Industries (SABIC). The attendance of WTO is helpful for it to make further cooperation with advanced enterprises in other countries to upgrade itself. Besides, both the Europe Union and Saudi Arabia promised to decrease the tariff on some petrochemical industry products to 6.5% [16].

The SABIC argues that the accession to WTO benefits the oil industry of Saudi Arabia. On the one hand, the accession helps avoid trade barriers of other countries and accelerates international products and service flow, which is helpful for the globalizing of the SABIC. On the other hand, the accession of the WTO helps develop new oversea markets, including developed and developing countries. For example, almost 50% of the petrochemical products of Saudi Arabia were exported to the Asia market. Because Saudi Arabia petrochemical industry has a comparative advantage in the price of raw materials, the SABIC can still make more profit by opening new markets with the help of the WTO frame [16].

The petrochemical industry and other industries of Saudi Arabia also changed by the accession of WTO, like the telecommunication industry and bank industry. The accession means the telecommunication market of Saudi Arabia is open to foreign companies. The mobility, a telecommunication company from the United Arab Emirates, entered Saudi Arabia in 2005. It created more employment and occupied a part of Saudi Arabia market. The telecommunication price trend shows that the competition between domestic and foreign companies in the telecommunication area is helpful for Saudi Arabia people to access cheaper telecommunication services.[16]. Besides, the accession of WTO meant the connection between the domestic market of Saudi Arabia and the global market was deepened because the foreign banks attended the domestic market of Saudi Arabia. Foreign banks own 60% of the whole bank industry; the rest 40% was for domestic banks, which increases the vitality of Saudi Arabia economy and financial market [17].

According to Freedman, the free market system can upgrade the fortune standard. Besides, the free competition of the free market is essential for creating innovation. In contrast, the public sector is managed by bureaucrats and politicians. They have the power to manage the whole economic system, and they are probably using their power to meet their own need and damage the interest of the public [18]. Based on the analysis of Saudi Arabia, a conclusion can be drawn that the public sector of Saudi Arabia is suffering from low efficiency, corruption, and resource waste. The accession caused the attendance of foreign companies. These companies compete with domestic companies in Saudi Arabia, leading to higher efficiency in the Saudi Arabia economic system. Besides, the attendance of foreign companies in Saudi Arabia because of the accession of WTO also helps Saudi Arabia to develop its financial market, create more employment and increase its industry diversity to strengthen the stability of its economic system, rather than solely rely on unstable international petrol market.

Besides, in the neo-liberalism theory, international cooperation is more frequent in international relations, and institutions play an important role in international cooperation[4]. Furthermore, international cooperation is a win-win game. The attendees pay more attention to relative gain than to absolute gain. International cooperation is not a zero-sum game. In the case of Saudi Arabia, the accession of WTO means that Saudi Arabia is possible to expand its market of oil products with the help of WTO protocol. The cooperation between SABIC and foreign companies based on WTO protocols strengthens the competitiveness of Saudi Arabia petrochemical industry.

3. The contradiction of neoliberalism and geopolitics: The relationship between Saudi Arabia and Israel

Date back to the 1950s, Saudi Arabia took an unfriendly attitude toward Israel. According to Eisenhower, the hostility of Saudi Arabia to Israel was obvious and irrational. The king of Saudi Arabia believes that the destruction of Israel is the ultimate solution to the middle east issue. In November 1957, the king of Saudi Arabia declared that the creation of Israel was a tragedy. The king of Saudi Arabia also told Eisenhower that all countries that help Israel in politics, economy, and

military areas are enemies of Saudi Arabia; all countries against Israel are friends of Saudi Arabia [19].

The hostility of Saudi Arabia extended to its policies. Saudi Arabia banned the Israel passports tourists and refused any official contact with Israel [19]. In the following years, the hostility toward Saudi Arabia increased. In 1967, Saudi Arabia provided financial support to Egypt after the military conflict between Egypt and Israel. In the next military conflict between Egypt and Israel in 1973, Saudi Arabia used its oil export as a powerful weapon and decreased its production of oil to support Egypt. Saudi Arabia and its friends used a continuous decrease in oil production to deter the United States and push the United States to stop supporting the comprehensive settlements of Israel in conflict areas [20]. By the end of the 1970s, Saudi Arabia became the main attendee of the Arab side in the Arab- Israel conflict [21].

In the 21st century, the relationship between Saudi Arabia and Israel improved. Because the threat of Iran was increased, In Saudi Arabia, the security threat of Iran gradually became the main concern of Saudi Arabia. Because of the Iraq war, Iran started to have wide influence in the Iraq and Palestine region. According to an argument of King Aziz of Saudi Arabia, the activities of Iran in the Gulf region are dangerous. Saudi Arabia is the most vigorous country in the aspect of containing the influence of Iran [22].

Although the relationship between Saudi Arabia and Israel started to improve, such improvement is not absolute. For example, in the economic area, Israeli cybersecurity companies were allowed to enter the Saudi Arabia market. When the computer system of Saudi Arabia's national oil company, ARAMCO, was attacked by hackers in 2012, the breaches of the computer system were repaired by Israeli cybersecurity companies. Besides, IntuView, an Israel data company, was hired by Saudi Arabia to monitor potential terrorism threats on social media [23]. However, although the mainstream of the relationship between Saudi Arabia and Israel is the reduction of confrontation, the contradiction of contact and withstands still exists. An example of such contradiction is the official boycott of Israeli products in Saudi Arabia.

The official boycott of Israel products in Arabia countries started in 1948. The boycott includes three steps: prohibition of trade between Saudi Arabia citizens and companies or individuals in Israel, a boycott of all entities trading with Israel in the world, and prohibition of trade between companies dealing with the companies trade with Israel. [24]. In November 2005, the Saudi promised to Bush government that they would remove restrictions on trade with Israel. Saudi Arabia had told Washington that it was abiding by its pledge to end the boycott of the Jewish state. The removal of the boycott was considered one of the conditions of the WTO accession [25]. However, the boycott continued after the promise of Saudi Arabia [24]. The continuity of boycott means violating the WTO accession commitment.

However, although the Palestine issue caused the official boycott of Israeli products and services in Saudi Arabia, the trade between Saudi Arabia and Israel continued. The products of Israel flow into the Saudi market. The business people of Saudi Arabia and Israel always meet each other. The Saudis need Israel products, ranging from agricultural products to high technology products like microelectronic products. Israel also needs petrol from Saudi Arabia and imports fossil fuels from Saudi Arabia [26].

From the perspective of neo-liberalism theory, Saudi Arabia and Israel need products from each other; a free market across the border is beneficial for both states. Besides, the removal of the Saudi boycott is also a preset condition of WTO accession, the removal of the boycott is also helpful for Saudi Arabia to deepen its connection with the global market. However, from the perspective of the geopolitical agenda, the Palestine issue is also a barrier the bilateral economic relations. Saudi Arabia shows a contradictory attitude on the attitude of Palestine issue. The official stance of Saudi Arabia was continued: the occupation of Israel in the Palestine region is illegal. However, the leaders of Saudi Arabia also express their willingness to cooperate between Saudi Arabia and Israel [27]. On the one hand, from the perspective of neoliberalism, the free market between Israel and Saudi Arabia is

a benefit for Israel. On the other hand, geopolitics also influences the free market. Thus, the action of Saudi Arabia can not be completely explained by neo-liberalism theory.

4. Conclusion

In this article, the decision-making process of Saudi Arabia was analyzed by using the neo-liberalism theory. The background of Saudi Arabia economic structure includes the domination position of the oil industry and public-owned industry and the corruption, high cost, and low efficiency of its public sector. The increase in unemployment caused by population growth also threatens the economy of Saudi Arabia. The study found out that the economic reform procedures, including privatization and accession of international organizations, can be described under the paradigm of neo-liberalism theory, and these procedures also have an effect that obeys the anticipation of neo-liberalism theory. The privatization of Saudi Arabia public sectors increases the efficiency of Saudi Arabia economy; the accession of WTO helps Saudi Arabia to strengthen its oil industry by attending international cooperation, the attendance of foreign companies causes competition, increases the efficiency and diversity of Saudi Arabia economy. The main finding of this study is that the neo-liberalism theory can explain the decision-making of Saudi Arabia, and the decisions made under the neoliberalism paradigm reached anticipated effects and benefit for Saudi Arabia. However, the decisions of Saudi Arabia are also influenced by other factors like the geopolitics issue. Some policies made because of these factors may also be opposite to the neo-liberalism theory paradigm. Thus, to some extent, Saudi Arabia shows a contradictory attitude toward its relationship with Israel

The article illustrates the relationship between the decisions of Saudi Arabia and the theories. So this article is also helpful for other developing countries to refer to the policy-making of Saudi Arabia and make their policies under the paradigm of neo-liberalism theory. The article also proves that the neo-liberalism theory is beneficial for the economic development of developing countries and has feasibility for these countries, but further analysis in the future that focuses on other related factors, like geopolitics, is still needed to deepen the understanding of decision-making of developing countries.

References

- [1] Fairouz H. The Impact of Globalization in the Developing Countries. *Developing Country Studies*, 2013, 3(11).
- [2] Kalim S. Developing Countries' Experience with Neoliberalism and Globalisation. *Research in Applied Economics*, 2012, 4 (4).
- [3] Hilary A, Mitchell O. Why did neoliberalism triumph and endure in the post-communist world?. *Comparative Politics*, 2016, 48(3):313-331.
- [4] Robert J. Realism, Neoliberalism, and Cooperation: Understanding the Debate. The MIT Press, 1999, 24 (1) : 42-63.
- [5] United Nations. World Economic Situation and Prospects .2014.
- [6] International Monetary Fund. World economic outlook: international monetary fund recovery during a pandemic health concerns, supply disruptions, and price pressures. 2021.
- [7] Steffen H. Two-level negotiations in a fragmented system: Saudi Arabia's WTO accession. *Review of International Political Economy*, 2008, 15(4): 650-679.
- [8] Khalid A. Contribution of oil in economic growth of Saudi Arabia. *Applied Economics Letters*, 2013, 20(4): 343-348.
- [9] Faisal S. Privatisation in Saudi Arabia: designing the keys for a successful vision. 2016.
- [10] Tim N, Monica M. The Political Economy of Saudi Arabia. 2007.

- [11] Ahmed A, Louis N, Jahangir K. Efficiency evaluation of public hospitals in Saudi Arabia: an application of data envelopment analysis. *BMJ Open* 2020, 2020.
- [12] Khalid A, Edward G. Human resources and economic development: The case of Saudi Arabia. *Journal of Third World Studies. Advancing new dimensions in third world studies in the 21st century*, 2004, 21(1):175-189.
- [13] Al-Sarhan M. Privatisation in the context of the Saudi Arabian economy: an examination of the attitudes of Saudi private investors towards privatisation in Saudi Arabia. Loughborough University, 1995.
- [14] Ibrahim A. Privatization in Saudi Arabia: Is Slow Beautiful?. *Thunderbird International Business Review*, 2009, 51(5):427-440.
- [15] UK Essays. Neoliberalism ideology of privatisation. 2018.
- [16] Mohamed R, Mourad M. The impact of Saudi Arabia's WTO accession on selected economic sectors and domestic economic reforms. *World Review of Entrepreneurship Management and Sustainable Development*, 2006, 2(3):189-199.
- [17] Ivy Panda. WTO Impacts on the Economy of Saudi Arabia. 2022.
- [18] Vallier K. "Neoliberalism", *The Stanford Encyclopedia of Philosophy*, 2021.
- [19] Jacob A. Saudi Arabia's rapprochement with Israel: thenational security imperatives. *Middle eastern studies*, 2004, 55(3):433-449.
- [20] Timothy Mitchell. The resources of economics making the 1973 oil crisis. *Journal of Cultural Economy*, 2010, 3(2):189-204.
- [21] Adeed D. Saudi Arabia and the Arab-Israeli Conflict: The Ups and Downs of Pragmatic Moderation. *International Journal*, 1983, 38(4): 674-689.
- [22] Reuven P. Iran, Israel, and Zionism since the Islamic revolution - from rational relations to threat and disaster. 2008.
- [23] Uzi R, Chelsi M. The Gulf Arab states and Israel since 1967: from 'no negotiation' to tacit cooperation. *British Journal of Middle eastern studies*, 2017, 44(4):576-592.
- [24] Martin W. Arab League Boycott of Israel. *Library of congress Washington DC congressional research service*, 2007.
- [25] Michael F. Saudi's flout vow to end Israel boycott, *The Jerusalem Post*, 2006.
- [26] *Jerusalem post*. Made in Israel, sold in Saudi Arabia, 2008.
- [27] Elisabeth M. Saudi Arabia and the Israel-Palestine conflict: between a rock and a hard place. *The conversation*, 2018.