(Arabic Version)
(Japanese Version)

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Where are the Saudi merchant families? – Cold War with Prince Muhammad bin Salman (MbS)

No news about merchant families

It sounds strange that very few report about the big merchant families is shown in Saudi medias recently. In Saudi Arabia there are many big merchant families, such as Kingdom Holding group; conglomerate led by Prince Alwaleed al Saud, Abdul Latif Jameel (ALJ); Sole agent of Toyota Motor Corporation, Xenel group; the oldest conglomerate in KSA, Bin Laden group; the largest general construction contractor; Zamil group; an industrial conglomerate and Al Faisaliah group; real estate and hotels conglomerate. These conglomerates make joint venture foreign companies and/or M & A deals. They have been quoted their name in the media frequently.

However, since 2017 you can find very few reports about these conglomerates when you check the local newspapers. The fact fell in with the time when King's son Muhammad bin Salman (commonly known as MbS) launched the ambitious economic reform plan, so-called Vision 2030, and took over the full power of national politics.

Currently, the conglomerates in the Kingdom avoids direct involvement with MbS. The conglomerates and MbS are in the Cold War.

Seizure of private property by means of corruption detection

The signal of the Cold War was the Ritz-Carlton Hotel imprisonment in November, 2017. Prince MbS arrested and detained not only the Princes of former king Abdullah and the high-ranking bureaucrat but also Prince Alwaleed and brothers of Bin Laden conglomerate. It was clear that the hidden purpose was to exile political enemies. The suspects were imposed heavy fine. The details of the investigation and trial were not disclosed. The incident was blanketed out. Bin Laden family gave up their 36% of their company's shares and handed over to the government. PIF (Public Investment Fund) led by MbS became the largest shareholder of Bin Laden conglomerate. Private sector sounded the alarm against MbS.

No merchant families raised hand for the head of Councils of Chambers

The Ritz-Carlton Hotel imprisonment influenced to the election of the head of Councils of Chambers in July, 1918. The Chairman of the Taif Chamber of Commerce was elected as Councils' chairman, the highest post of Saudi private sector. The chairmen of Madinah and Hail were elected as vice chairmen of Councils respectively.

There are 32 chambers in the Kingdom. The three chambers of Jeddah, Riyadh and Eastern Province (Dammam Al Khobar) are overwhelmingly hold strong power. Historically, the president of the Councils has been occupied by the chairman of these three chambers. They were the heads of powerful conglomerates.

New Chairman and Vice chairmen of Councils are from lesser chambers compared to the big three. In Saudi Arabia there are no federations of industrial units. The Chamber of Commerce, therefore, is the only one mediator between the government and the private sector. Three big chambers in Jeddah, Riyadh and the Eastern Province are believed to avoid the role of mediator with the government. The government is MbS itself. Major conglomerates declared not to cooperate with MbS.

<u>Drastically decreasing foreign direct investment</u>

Declaration of non-cooperation of big merchant families resulted in the sharp decline of foreign direct investment (FDI) in Saudi Arabia. According to the report of the United Nations Conference on Trade and Development (UNCTAD), FDI inflows to Saudi Arabia was in the $ 8 billion range until 2015. But FDI dropped to $ 1.4 billion only in 2017 and $ 3.2 billion in 2018. Generally speaking, FDI is composed of foreign companies and Saudi private sectors by means of technology transfer and capital investment. Recent figures show that neither foreign nor domestic companies are attracted to investment in Saudi Arabia. It means that the investment climate in Saudi Arabia becomes dark. The most unpredictable factor is the vision 2030 plan. Many people think that MbS's Vision 2030 was too risky to achieve the goal.

Furthermore, IMF's semiannual World Economic Outlook tells that Saudi economic growth has been revised downward successively. GDP growth rate this year (2019), which was predicted to be + 2.4% in the October 2018 version, was revised to + 1.8% in the April 2019 version, and further lowered to + 0.2% in the latest October version. Much of Saudi GDP owes to revenue from crude oil. But the downward revision of the growth rate is not only due to oil price but also due to the sluggish domestic private sector. Foreign companies are looking at these economic indicators and reconsidering the business in Saudi Arabia.

The fate of Vision 2030

As far as the macroeconomic figures are concerned, it seems very difficult to achieve Vision 2030. Although there is still time by year 2030, there is no doubt that NTP2020 (National Transformation Program), which shows the specific goals to be achieved by 2020, is almost unachievable. The goals set by NTP2020 are practical, such as: (1)To increase non-oil revenue to 530 billion Reals, (2)To reduce gross salary payment for public servants from 480 billion to 456 billion Reals, (3)To improve sovereign rating of Moody's to A1 (4)To create 450,000 jobs in the non-oil sector, (5)To increase non-oil exports from 185 billion to 330 billion Reals, and so on. No economist thinks these goals can be achieved by next year. Even Saudi government itself is aware of this. Recently government has stopped touching the topic of NTP2020.

How about Vision 2030? A number of projects have been launched to diversify the non-oil-industry. Typical examples are the shipbuilding and dry dock project on the east coast (the Arabian Gulf coast) and the giant resort development project NEOM on the west coast (the Red Sea coast). It is said that 1 million jobs will be created. Government, which is struggling unemployment problem, is raising young people's expectations in these projects. But Nobody imagine that young Saudis can do the welding job at a shipyard dock under the hot sun. It is not also pragmatic that young girls do bed making at a resort hotel delightedly. Foreign guests may not feel hospitality. In the end, many of the Vision 2030 projects are likely to fail.

Aramco IPO – Allegiance test by MbS

Only Aramco IPO will promise to be successful in Vision 2030. The corporate value does not reach the $ 2 trillion as MbS expected. The amount may be around $ 1.5 trillion. Government is offering various incentives for individual investors. There is no doubt that ordinary citizens will rush to Aramco stocks (it is said that there are side effects such as selling other stocks to raise funds for purchases or borrowing money from banks).

However, the money collecting from ordinary citizens is not enough to fund Aramco IPO. It is said that MbS works on wealthy merchant families for the sale of 0.5% of Aramco shares in the domestic market. Merchant families who do not trust MbS are reluctant to buy Aramco shares. MbS seems to force them to buy shares forging his sword. This looks like the allegiance test to merchant families by MbS.

Your comment on this matter would be highly appreciated.

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