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Beyond Oil: Saudi Vision 2030 and Saudi–South Korean Relations

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Special Report

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Saudi Vision 2030, Saudi Arabia's bid for economic and social transformation, has been quietly gathering renewed interest in South Korea amid the unfolding drama with the nuclear program of its northern brethren. The latest sign of this engagement occurred when minister Khalid al-Falih of Saudi Arabia's Ministry of Energy, Industry, and Mineral Resources (MOEIMR) met with president Moon Jae-In on May 4 of this year. Their 35-minute private reception was rare for a minister's meeting, according to a Blue House official, signifying that interest in Saudi Vision 2030 is at the highest possible level.¹ During his visit, al-Falih also met with his counterpart, minister Paik Un-gyu of the Ministry of Trade, Industry, and Energy (MOTIE). The two affirmed their shared commitment to Saudi Vision 2030 by strengthening cooperation on energy and industry and exploring business opportunities and economic development. It continues recent efforts to expand, diversify, and institutionalize the two countries' bilateral economic linkages, following the establishment of the Korea-Saudi Vision 2030 Committee in 2017 and Paik's visit to Saudi Arabia in early 2018.

South Korea actively seeks engagement opportunities in Saudi Vision 2030. Not only does the plan promise huge business opportunities, but Seoul also believes that its government and business community possess the suitable experience and expertise needed to meet some of Vision 2030's key objectives. Al-Falih similarly has expressed an intention to expand the scope of its relations with South Korea beyond oil exports. The interests in cooperating appear mutual and the scope of trade promises to be both wide-ranging and sizable.

The stakes and implications of the new initiative raise several basic yet critical questions. Where is Saudi-South Korea cooperation heading? What makes Saudi Arabia and South Korea good partners in pursuing and realizing Saudi Vision 2030? What are the challenges and vulnerabilities? Ultimately, what is the best way forward?

(1) "President Moon, Seeking Joint Nuclear Plant Venture with Saudi Arabia," *Chosun Ilbo*, May 5, 2018, http://news.chosun.com/site/data/html_dir/2018/05/05/2018050500180.html.

Brief History

Since establishing diplomatic relations in 1962, a central pillar of Saudi Arabia–South Korea relations has been defined by economic needs. Like most economies in Asia, South Korea relied heavily on oil imports to power its economic growth, and Saudi Arabia, as a giant oil producer and also generally close to the United States, was a natural energy-trading partner. The trade began to flourish in the 1970s, fueled by the growing volume of oil exports and South Korea’s participation in large construction projects in the Middle East. The overreliance on oil, however, backfired in the decades of the 1980s and 1990s, during which oil prices remained low. Although Saudi Arabia remained a principal supplier of oil, the low price resulted in a shrinking volume of oil trade and, subsequently, of construction projects. In the same fashion, an oil price increase in the 2000s revitalized the economic linkages. Unlike the 1970s, the economic revival in the 2000s was followed by Seoul’s growing political interest in Saudi Arabia, which culminated in every sitting president undertaking formal visits to Saudi Arabia (starting with Roh Moo-hyun in March 2007, followed by Lee Myung-Bak in February 2012, and then Park Geun-hye in March 2015).²

Initial Setback

In many respects, the 2016 announcement of Saudi Vision 2030 represented a perfect opportunity for South Korea and Saudi Arabia to diversify and to deepen their economic relationship, which had previously been dominated by oil. Captivated by the new opportunities arising from Saudi Vision 2030 along with the rest of the world, South Korea was eager to learn more about the opportunities and how it might secure them.

South Korean government officials quickly moved to demonstrate the state’s willingness to use its exceptional resources to meet Saudi Arabia’s new push for economic and social transformation. The first of such efforts was seen during the meeting of South Korean prime minister Hwang Kyo-ahn with King Salman in May 2016, during which Hwang emphasized

(2) For a general overview, see Alon Levkowitz, “The Republic of Korea and the Middle East: Economics, Diplomacy, and Security,” Korea Economic Institute of America, Academic Paper Series, Vol. 5, No. 6 (August 2010).

that Saudi Vision 2030 was “a perfect-matching project to Korea.” The momentum continued to build up to a September 2016 meeting between then-president Park Geun-Hye and then-deputy crown prince Mohammad bin Salman during the meeting of the G20, when South Korea pledged “to closely cooperate with Saudi Arabia for the Saudi Vision 2030’s success” and “to send an advisory group to design the economic development plan.”

Unfortunately, South Korea’s efforts came to an abrupt halt in October 2016. Although not by design or intention, the misfortune was the side effect of an unexpected development in Korean domestic politics—a corruption scandal involving then-president Park and her long-time confidant, Choi Soon-sil. The scandal soon sent South Korean politics into turmoil, which only subsided with Park’s eventual impeachment on March 10, 2017.

The scandal proved nearly fatal to Saudi–South Korean cooperation on Saudi Vision 2030. By effectively draining South Korea’s entire political capital and most of the governmental resources, the scandal left the state apparatus barely functional and totally unable to handle complex domestic and foreign policy issues, including Saudi Vision 2030.

To make matters worse, South Korea’s stasis coincided with Saudi King Salman’s historic tour of Malaysia, Indonesia, Japan, and China in March 2017. South Korea was notably excluded, despite its position as one of the largest consumers of Saudi Arabia’s exports and potentially a significant partner and investor in Saudi Vision 2030. Reportedly, the exclusion was not due to the Saudis’ lack of interest, but rather to South Korea’s inability to host such a high-profile visit in the midst of the chaotic, months-long process of impeachment.³ Seoul had no choice but to helplessly stand back and watch King Salman’s successful Asian tour, during which the king concluded numerous investment agreements and packages. The news of the significant deals meant that many mindful watchers in Seoul “could not stamp out the sorry feeling,”⁴ and some chastised Seoul’s diplomacy as “preposterous.”⁵ While disappointment over a missed

(3) “Not to Blow a Torchlight,” *Dong-A Ilbo*, March 21, 2017, <http://news.donga.com/3/all/20170321/83418725/1#csidxf8c7e2809a6cbfb8ae7337db94944c>.

(4) Noh Stone International Press, “Saudi King Skips South Korea,” *Chosun Ilbo*, March 14, 2017, http://news.chosun.com/site/data/html_dir/2017/03/13/2017031302951.html.

(5) Kim Hyun-ki, “Korea’s Preposterous Diplomacy,” March 21, 2017, *JoongAng Ilbo*, <http://news.joins.com/article/21388637>.

opportunity is subjective, it is difficult to escape the conclusion that South Korea’s engagement with Saudi Vision 2030 suffered a significant setback as the result of its unforeseen domestic political developments.

Strong Fundamentals

The initial setback, however, does not, and should not, diminish the strong fundamentals and huge potential present in relations between Saudi Arabia and South Korea. Three factors—economic complementarity, an absence of political conflict, and favorable historical memory—are particularly important, and in combination they form the basis for optimism.

First, the two countries enjoy an unusual level of economic complementarity built on two levels. On the one hand, hardly any overlap exists between their respective areas of comparative advantage or their industrial needs and desires. This originates from the widely different conditions in the two countries, including their industrial structures, timing of the drive for economic development, and regional locations. Saudi Arabia’s comparative advantage has historically laid in its abundance of hydrocarbon resources, whereas South Korea notably lacks natural resources and instead has resorted to a mix of manufacturing and service sectors. As for the timing, South Korea’s big drive for economic development and diversification began in the 1970s, and hence posed very little competitive threat to Saudi Arabia’s most recent efforts under Saudi Vision 2030. The sheer physical distance between the two nations further reinforces their noncompetitive nature.

Saudi Vision 2030 takes this condition of structural complementarity a step further by creating several mutually beneficial areas. According to a report titled “Saudi Korean Vision 2030,” for instance, Saudi Arabia offers energy, capital, strategic location, a large consumer market, and infrastructure market, which meets South Korea’s “desire” for sustainable energy sources, more foreign direct investment (FDI) to revitalize the economy, and an overseas market for its manufacturing companies and infrastructure projects. The reverse relationship is equally robust. South Korea’s technology and manufacturing expertise, pool of skilled engineers and labor, and extensive experience in economic development and trade are extremely relevant to Saudi

Arabia's core objective of achieving a "Thriving Economy." The mutual needs are substantial and balanced, and the area of competition and conflict remains minimal, establishing an ideal basis on which to explore opportunities to widen and deepen the two nations' business and economic partnership.

Second, few conflicts of interest exist in the political arena. The nature of political relations often determines whether and to what extent the economic potential between states can materialize. A comparison with South Korea–Iran trade relations is a case in point. The nature of trade and investment is comparable to South Korea's trade with, and investment in, Saudi Arabia, but South Korea's economic interaction has been constantly marred by exogenous political events, including North Korea's suspected assistance with Iran's nuclear program and international sanctions on that program. The impact of the sanctions was highly visible and damaging: after sanctions placed on it in 2012, South Korea had to drastically cut its Iranian oil imports, from 250,000 barrels per day (b/d) in 2011 to 123,000 b/d in 2014. As a key ally of the United States, South Korea's leeway to interact with states that are hostile to that country is often severely limited.

South Korea's relations with Saudi Arabia are quite the opposite, however. Saudi Arabia is also a close U.S. ally, and its bilateral relations with South Korea have historically been mostly free of third-party disturbances. At the bilateral level, neither country has political aspirations outside its own regions, with the result that there are virtually no areas of conflicting interests. One possible complicating factor has been Israel. South Korea, however, has prioritized its trade with the Persian Gulf states over Israel, with which it had little political interaction during the Cold War and, from that point on, a relatively small volume of trade. Overall, bilateral relations have remained more or less apolitical, and the neutral tone was, and will continue to be, highly facilitative in materializing and expanding economic cooperation.

Third, while politically distant, relations between South Korea and Saudi Arabia have not been simply neutral, but rather consist of a favorable and positive history. The warm mutual perception is formed from the experiences and memories of the 1970s and its largely positive impact on the Korean economy. "A land of opportunity" was how Saudi Arabia was described

by the Korean companies and workers who participated in and benefited from the construction projects that at the time were proliferating in the Persian Gulf. The decade of the 1970s was particularly significant because, with the backdrop of vivid memories of the Korean War (1950–1953), the Korean economy was just beginning to rebuild, industrialize, and grow. Its industrial competitiveness and potential were, however, yet to be tested outside the peninsula, and South Korea’s rising *chaebols*, such as Hyundai, Daewoo, and Dong Ah, were eager to prove their international competitiveness. The Korean government also supported the chaebols’ bids for large construction projects in the Middle East with loans and tax reductions. Winning those bids, accordingly, was hailed, not only as a business success, but also as the state’s achievement and a public morale-booster. The justifications for such celebrations aside, what matters here is that Saudi Arabia has been long associated with the 1970s history of South Korea’s economic success and development, not only among chaebols and workers, but also at the social and state levels. These memories remain today. “Our workers’ blood and sweat in the 1970s is the talk of the town in the Middle East,” remarked the newly appointed ambassador to Saudi Arabia, Jo Byung Wook, upon pledging his commitment to the success of Saudi Vision 2030.

The rare mix of economic complementarity, absence of political conflicts, and favorable memory forms a robust structural basis on which to take advantage of the opportunity created by Saudi Vision 2030, while overcoming the initial setback of the South Korean corruption scandal. It may be no coincidence that Kwon Pyong-oh, who served as ambassador to Saudi Arabia from 2015 to 2018, was recently appointed CEO of the Korea Trade-Investment Promotion Agency (KOTRA); his familiarity and knowledge of Saudi Vision 2030 could prove to be important assets.

Toward Diversification and Development

One key limit on Saudi Arabia–South Korea economic relations has been the stark mismatch in the size and a scope of bilateral trade and investment. In terms of size, Saudi Arabia is currently South Korea’s most important economic partner in the Middle East and its top trading partner, with an annual trade volume of US \$250–\$300 billion. Saudi Arabia is also the number

one destination for South Korea's foreign investment, which was approximately US \$3.1 billion from 2014 to 2016. Unfortunately, the scope of these interactions is narrow and limited. For instance, over 90% of South Korea's imports from Saudi Arabia are of oil, and South Korea's exports consist mostly of automobiles and construction equipment. South Korea's investment in Saudi Arabia is also almost exclusively in the construction sector, which comprised 89% of total investment in 2017.

This limited trade relationship is problematic for two reasons. First, the volume and trajectory of bilateral trade and investment volume have been ultimately determined by one commodity, oil, which is also one of the most price-volatile of commodities. Since Saudi Arabia's export revenue and consumption capacity are highly oil-dependent, economic relations between Saudi Arabia and South Korea have been both the beneficiary and the victim of fluctuating oil revenue in past decades. When oil revenues were high, such as in the 1970s and again in the 2000s, the two nations enjoyed a high volume of economic activity. When revenues were low, however, trade also suffered a decline, and sometimes even a sharp plunge, as in the 1980s and 1990s.⁶ Inevitably, this fluctuation inhibited the emergence of sustainable and stable economic relations and challenged efforts to manage uncertainty about the environment for trade and investment.

Saudi Vision 2030 is a possible remedy to this chronic lack of trade diversity. In reviewing Saudi Vision 2030, and while acknowledging the pervasive concerns about its feasibility and future challenges, South Korean analysts generally agree that Riyadh's desire for development and diversification is real and founded on strong political will and economic needs. Furthermore, there is a significant overlap in interests between the Saudi Vision 2030 objective of creating strong foundations for the country's social and economic spheres and what South Korea could offer toward their achievement.

Naturally, policy analysts and decision makers are eager to elaborate on the target businesses. The Saudi-Korea Vision 2030 Committee, for instance, has currently identified five areas as

(6) KOTRA, "2017 Business Strategy for Saudi Arabia," November 2017, 18.

promising business fields—energy and manufacturing, smart infrastructure and digitization, capacity building, health care and life sciences, and small- and medium-sized enterprises (SMEs) and investment.⁷ The Korea Institute for International Economic Policy (KIEP) listed “SMEs,” “education,” “city development,” “solar energy,” and “defense sectors” as promising fields for future economic cooperation.⁸ In addition, KOTRA’s analysis identified new engines of growth, such as electricity generation, petrochemicals, the health and medical sectors, housing, and defense, on which South Korean companies should reorient their focus so as to meet the future demands of Saudi Vision 2030.⁹

Cooperation between South Korea and Saudi Arabia should look beyond the bilateral trade and investment. As proposed in another KIEP report, the two countries should consider joint ventures that aim, not just at the domestic market, but also at exports.¹⁰ The joint ventures need not rely on South Korea’s traditional strength, but rather should attempt to discover new business items and models.¹¹ Although the exact areas of export, transfer, and joint ventures have yet to be determined by business communities, they present the real possibility of moving Saudi Arabia–South Korea economic cooperation beyond its current bilateral arena and into wider regional market, and therefore is certainly a possibility worth exploring.

South Korea also seeks to contribute to Saudi Arabia’s development strategy. Two particular areas that have been repeatedly noted by analysts and agencies are technological transfer and sharing the development experiences. An emphasis on the latter was reciprocated by then-deputy crown prince Mohammad bin Salman in his meeting with then-president Park Geun-hye, who remarked, “Within international society, South Korea is the latest country that successfully transformed itself within one generation, and it is the model that Saudi Arabia

(7) For a detailed discussion of each category, see “Saudi-Korean Vision 2030,” 8–12.

(8) KIEP, “Summary of Saudi Vision 2030 and Its Implications,” *World Economy Today*, Vol. 16, No. 19 (2016): 17.

(9) KOTRA, “2017 Business Strategy for Saudi Arabia,” 25–27.

(10) KIEP, “Economic Diversification of Oil Producers in the Middle East: Saudi Arabia and UAE,” *World Economy Today*, Vol. 18, No. 11 (2018): 21.

(11) KOTRA, “2017 Business Strategy for Saudi Arabia,” 32.

is pursuing.”¹² Some concrete actions are already under way. MOTIE, for instance, agreed to create a dialogue to discuss cooperation on Saudi Arabia’s plan to foster its automobile industry. South Korea’s current bid for Saudi Arabia’s nuclear power plant project similarly reflects Seoul’s eagerness and competitiveness to participate in Saudi Arabia’s long-term development strategy.

Institutionalization as a Key

Saudi Arabia, through its Saudi Vision 2030 plan, openly and sincerely seeks outside cooperation in learning, designing, and implementing new policies to render its economy and society more diverse, resilient, and ultimately successful in times of global declines in reliance on oil. From the perspective of Saudi–South Korea relations, it naturally offers an exciting window of opportunity. Equally important, South Korea is a keen and capable partner: Its investment power, economic experiences and expertise, and social and political capital uniquely equip Seoul to contribute to, and benefit from, Saudi Vision 2030.

Unexpected obstacles, however, will arise, test, and interrupt their cooperation—just the way ex-president Park’s downfall did in 2016–2017. Rather than meet them with surprise, it is better to anticipate obstacles by building a system that can withstand external distractions. One practical approach is to further institutionalize Saudi-Korea Vision 2030, which systemizes a process of “selecting [of target businesses],” “monitoring,” “facilitating,” and “troubleshooting” in conducting both business-to-business (B2B) and government-to-government (G2G) projects.¹³ More generally, such institutionalized interaction reinforces resilience against political complications, establishes a standard procedure to handle potential disputes, and creates a more stable and predictable environment overall.

(12) Translated from South Korea’s Ministry of Foreign Affairs, “A Summit between South Korea and Saudi Arabia during the G20 Summit,” September 6, 2016, http://www.mofa.go.kr/www/brd/m_4076/view.do?seq=361638&srchFr=&srchTo=&srchWord=&srchTp=&multi_itm_seq=0&itm_seq_1=0&itm_seq_2=0&company_cd=&company_nm=&page=53.

(13) “The 18th Korea-Saudi Joint Committee,” November 2, 2017, available at the embassy of the Republic of Korea in Saudi Arabia, http://overseas.mofa.go.kr/sa-ko/brd/m_11062/view.do?seq=1336311&srchFr=&srchTo=&srchWord=&srchTp=&multi_itm_seq=0&itm_seq_1=0&itm_seq_2=0&company_cd=&company_nm.

South Korea's engagement with Saudi Vision 2030 is still in the inception stage, having moved very little beyond confirming mutual interests and setting up a rudimentary institutionalized structure. The next challenge is to transform the initiatives into practices, build a stable environment, and ultimately develop more sustainable and flourishing bilateral relations. It is therefore a welcome sign that the Saudi-Korea Vision 2030 Committee is currently in place to pursue such objectives. Headed by Saudi Arabia's minister of economy and planning and the minister for MOTIE in South Korea, with a myriad of relevant government entities and agencies represented at the subgroup levels, the committee also envisions establishing offices in Riyadh and Seoul. The office functions would include proposing the overall partnership strategy, managing the pipeline of opportunities, handling ministerial interactions, and following up on any regulatory or logistical needs. This is the right direction to take. Minimizing uncertainty and risks should be made a priority in order to attract more business participation, encourage more diverse linkages, and make these linkages more resilient to noneconomic threats. Institutionalization will also be conducive to the formulation of long-term strategies, which are preferable to subjecting Saudi-South Korean cooperation to ad hoc management without a coherent and stable framework.



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