



# MIDDLE EAST INSIGHTS

Middle East Institute, National University of Singapore

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## SAUDI-SINGAPORE RELATIONS

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*This is the third in a series of analyses which will examine Saudi Arabia's - and later on the GCC's - economic and political relationship with some of the members of the Association of South East Asian Nations (ASEAN) such as Malaysia, Indonesia, Singapore, the Philippines, Thailand, Vietnam, Cambodia, and Laos.*

Saudi-Singapore relations appear to have started as early as 1964, though formal diplomatic missions were established only in the late 70s and early 80s.<sup>1</sup> This may be explained in part due to Singapore's weak religious and cultural links with the Kingdom, in comparison to its much larger, and predominantly Muslim, neighbor, Malaysia. Additionally, until Singapore underwent its successful industrialization process from the 70s onwards, there was no strong basis for trade. However, this began to change by the late 1970s as growing energy demands provided a 'catalyst for strengthening Saudi-Singapore ties. Although the Saudi Central Department of Statistics and Information's data only cover the period from 1991<sup>2</sup> to 2012, it is clear from the volume of exchange that considerable trade was going on between Saudi Arabia and Singapore prior to 1991. In all of these years, the balance of trade was clearly in favor of Saudi Arabia, primarily due to the fact that Singapore lacked any domestic oil reserves of its own. Despite active government policy aimed at increasing conservation and the use of natural gas in power generation, Singapore still imports - as of 2011 - 1.3 million bbl/d, with nearly 22 percent of that originating in Saudi Arabia (2012).<sup>3</sup>

The Saudi-Singapore relationship underwent significant change in the middle of the first decade of the 21st century with a series of high-profile visits starting with Singapore's senior minister Goh Chok Tong's trip to the Kingdom in 2005 as part of his Middle Eastern tour. During the visit, a General Agreement on Cooperation (GAC) was signed, "paving the way for their closer economic collaboration."<sup>4</sup> This was reciprocated with then Crown Prince Sultan bin Abdulaziz's visit to Singapore in 2006 - the first by a senior member of the Al-Saud family - on the invitation of Singapore's Prime Minister Lee Hsien Loong.<sup>5</sup> During this visit - which in many ways was an extension of King Abdullah's 'Going East' strategy' - a joint communiqué<sup>6</sup> was issued expressing support for a free trade agreement between the GCC member states and Singapore, as well as

confirming shared views on a number of key international issues. In addition to the communiqué, four bilateral accords were signed, including on strengthening trade cooperation, protecting and promoting investment, enhancing political consultation between the foreign ministries, and lastly an MoU concluded between the Singapore Business Federation and the Council of Saudi Chambers of Commerce and Industry for the establishment of a Joint Business Council, the Saudi-Singapore Business Council (SSBC).<sup>7</sup> Since then, the SSBC has emerged as a major advocate of closer economic ties, lobbying successfully for a better visa regime (issuance of five-year entry visas for Saudi businessmen and women)<sup>8</sup> and pushing for more direct flights between the two countries (in 2008, Saudia Airlines and Singapore Airlines signed an MoU for just that purpose.)<sup>9</sup> More recently in 2012, the SSBC agreed to create a joint \$26 million Saudi-Singaporean company aimed largely at promoting and facilitating investments between the two sides.<sup>10</sup>

Saudi Arabia quickly emerged as Singapore's largest trading partner in the Middle East, with bilateral trade rising from nearly \$10 billion in 2005<sup>11</sup> to well over \$23 billion in 2012.<sup>12</sup> This expansionary trend in trade was reinforced by the conclusion of an Avoidance of Double Taxation agreement in 2010<sup>13</sup> and, more importantly, a GCC-Singapore Free Trade Agreement (GSFTA) in 2008, which entered into force in September 2013.<sup>14</sup> Singapore is one of the major destinations for Saudi non-oil industrial products, the volume of which will likely grow as a result of the GSFTA.<sup>15</sup> Saudi exports include crude oil, petrochemicals and plastics, minerals, aluminum, construction materials, and basic electrical appliances.<sup>16</sup> Singapore's exports to Saudi Arabia are smaller by comparison and have been largely limited to drilling and boring machinery, various engine types, and re-exported goods.<sup>17</sup> The GSFTA, however, offers Singapore the possibility of expanding its exports to Saudi Arabia in the area of Halal products - of which it is a major producer. At present, four out of six GCC countries have already recognized Singapore's Halal Standards and the Kingdom has initiated negotiations to do the same.<sup>18</sup>

Since 2006, a number of Saudi groups and companies - emboldened by the government's eastward push - have begun to set up their base of operations in Singapore, seeking mostly to capitalize on the country's strategic position at the heart of the Asia-Pacific market, its experience with Islamic banking, highly efficient logistical capacities, as well as its friendly business environment.<sup>19</sup> SAGIA, for instance, established its first overseas office in Singapore in the wake of the Crown Prince's visit. It also reportedly held consultations over possible Singaporean investments and participation in the King Abdullah Economic City in the areas of insurance banking, IT, and port management.<sup>20</sup> Saudi Aramco established an office in 2006, for managing and providing inspection services for drilling material supply and project management.<sup>21</sup> SABIC (subsuming here SABIC Innovative Plastics and SABIC Asia Pacific) likewise uses Singapore as a marketing and distribution hub for its petrochemical products all across the Asia-Pacific market.<sup>22</sup> Other companies that have offices in Singapore include Zamil Holding Group,<sup>23</sup> Al-Rajhi,<sup>24</sup> and Sipchem Marketing Company (an affiliate of Sipchem).<sup>25</sup> The GSFTA and the possible creation of an Islamic Gulf-Singaporean Bank - facilitating Gulf investments into the Chinese market - will likely encourage other Saudi firms

and companies to establish a base in Singapore in the future.<sup>26</sup>

The Singaporean presence in Saudi is smaller by comparison. There is some involvement on the part of Singaporean companies in ongoing EPC projects. Rotary Engineering, for example, through its JV company Petrol Steel Company Limited provides construction services for Saudi Aramco Total Refining and Petrochemical Company (SATORP). Rotary has also signed an MoU with the Saudi Technical and Vocational Training Corporation to establish a 'Petroleum and Petrochemicals Technical Institute' (PPTI).<sup>27</sup> The Port of Singapore Authority (PSA), in partnership with the Saudi Public Investment Fund (overseen by the Saudi Ministry of Finance) and the Saudi Ports Authority, is involved in developing the King Abdul Aziz Port in Dammam and increasing terminal capacities at a cost of \$533 million.<sup>28</sup> Changi Airport International is also reported to provide operations management services at the King Fahd International Airport in Dammam.<sup>29</sup> Several Singapore-based food manufacturers, retailers, healthcare providers, and logistics companies have also sought to enter the Saudi market over the past few years.<sup>30</sup> More recently, the SSBC has made moves to encourage greater Singaporean investments in Saudi water and power utilities.<sup>31</sup> The GSFTA, which allows Singaporean companies, nationals, and permanent residents to hold majority stakes in key sectors of the Saudi market, will likely spur greater investments in the future.<sup>32</sup> Indeed, there are already discussions underway regarding possible ventures in solar power, petrochemicals, and Singaporean hospitals, among many other areas of investment.<sup>33</sup>

People-to-people connections are increasingly more important in the context of Saudi-Singapore ties. Saudi tourism to Singapore, for instance, has risen from 7,000 visitors in 2007 to over 17,000 in 2011,<sup>34</sup> an increase that can be attributed to Singapore's decision to liberalize its visa regime and offer more direct flight routes from the Kingdom.<sup>35</sup> Additionally, many Saudis are coming to Singapore on medical tourism, although their numbers may have dropped post-2011 following the death of three Saudi children in a Singapore hospital.<sup>36</sup> By comparison, there are no reliable estimates of the number of Singaporean visitors to Saudi, although the number of Singaporean pilgrims is fixed at around 600, according to Haj quotas.<sup>37</sup>

Education is also emerging as a major component in Saudi-Singaporean contacts. During the 2006 visit of the Crown Prince, the Kingdom declared its intention to send over 500 Saudi students to Singapore every year.<sup>38</sup> In reality, the actual number of students was quite low, but the opening of the Saudi Cultural Attaché office in 2008 helped propel the number to 60 by 2009.<sup>39</sup> Interestingly enough, and according to the Saudi Cultural Attaché in Singapore, Dr. Abdul Ghaffar Ba Zuhair, the Saudi student community is largely made up of "females undertaking post-graduate studies in engineering, law and in the medical disciplines."<sup>40</sup> The low numbers of Saudi students can be attributed to a number of factors, including cultural and language barriers, but the most important reason is to be found in Singapore's high cost of living.<sup>41</sup> Singapore's academic footprint is felt beyond this community, however. At present, there is an ongoing program organized by the Ministry of Education in Singapore to train over 300 Saudi officials.<sup>42</sup> Additionally, the King Abdullah University of Science and Technology (KAUST) is headed by the former president of the National University of Singapore (NUS),

Professor Shih Choon Fong.<sup>43</sup>

The future of Saudi-Singapore relations is bright, underpinned as it is by an economic synergy that will only strengthen thanks to the GSFTA and the continued attractiveness of Singapore as a base of operations for Saudi companies seeking to enter the Asia-Pacific market. There is an opportunity, if current trends hold, to develop a meaningful strategic partnership with Singapore over the coming years predicated on mutual interests and concerns. The 2012 letter of intent on security cooperation, in which both sides expressed their desire to cooperate "in combating terrorism, organized crimes, money laundering, drug trafficking and information crimes," among others, forms an excellent basis from which such a partnership can emerge.<sup>44</sup>

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