

# How Saudi Arabia's Economic Liberalisation Can Benefit Indonesia

By Dede A Rifai

## Abstract

*In this paper, the author argues that compared to its investment in China, Saudi Arabia's investment in Indonesia is small due to the state of economic liberalisation in both Indonesia and Saudi Arabia. China, in contrast, has an open economy, which has allowed it both invest substantially overseas as well as to receive investments from abroad.*

In his first term in office, President Joko Widodo made great strides in reforming Indonesia's economy. Citing Indonesia's strong economic growth prospects and supportive policy dynamics, in May this year, ratings agency Standard and Poor (S&P) raised the country's sovereign credit rating from the lowest investable grade of "BBB-" to "BBB", a rating awarded by two other major credit rating agencies, Fitch and Moody's, earlier.<sup>1</sup>

The country's ranking in the World Bank's ease of doing business study has also shot up from 114 in 2014 to 73 this year. But securing capital remains a challenge.

Last year, foreign direct investment fell 8.8 per cent, the worst performance since 2010, and figures for this year look equally unsatisfactory — in the second quarter, growth stood at 5.01 per cent, compared with 5.85 per cent in the same period last year.<sup>2</sup>

Now in his second term, President Joko Widodo, popularly known as Jokowi, has repeatedly stressed that Indonesia is in dire need of foreign investment to address its current account deficit and to create more jobs.

While his administration has actively and successfully wooed Chinese investments, Indonesia has also been trying to diversify its sources of funds by looking to the oil-rich countries of the Gulf — but with limited success.

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<sup>1</sup> Philip George & Fransiska Nangoy, "S&P raises Indonesia's rating to 'BBB' on strong economic prospects," *Reuters*, May 31 2019, <https://www.reuters.com/article/us-indonesia-ratings-s-p/sp-raises-indonesias-rating-to-bbb-on-strong-economic-prospects-idUSKCN1T10VF>.

<sup>2</sup> "Muhammad Zulkiflar Rakhmat, "Indonesia still wants Chinese investments, but Jokowi is also wooing Middle East money", This Week in Asia, *South China Morning Post*, August 15 2019, <https://www.scmp.com/week-asia/opinion/article/3022886/indonesia-still-wants-chinese-investments-jokowi-also-wooing>.

Case in point: Indonesian investment from China, including Hong Kong, was US\$1.5 billion in 2015, US\$2.8 billion in 2016, US\$5.4 billion in 2017, and US\$4.3 billion in 2018.<sup>3</sup> In comparison, Saudi Arabia's investment in Indonesia was only US\$30 million in 2015, US\$939,000 in 2016, US\$3.5 million in 2017 and US\$5.3 million in 2018.<sup>4</sup>

Even though in 2014, a memorandum of understanding (MOU) was inked between Pertamina, Indonesia's state-owned oil and natural gas corporation, and its counterpart Saudi's Aramco to upgrade an oil refinery in Cilacap, the project worth US\$5 billion has not been realised.

Meanwhile, Saudi investment in China has been massive. In August 2017, both countries signed agreements in various sectors, including investment and trade amounting some US\$70 billion. Previously, Aramco, in partnership with ExxonMobil and China Petroleum and Petrochemical Company Limited (Sinopec), has operated Fujian Refining and Petrochemical Company in Fujian and Sinopec Sen Mei Petroleum Company in Fuzhou.

Why is Saudi Arabia's investment in Indonesia so small compared to its investment in China? Also why is China's investment in Indonesia so big?

To address these questions, I draw on the theory of international political economy, particularly economic liberalism and economic nationalism. According to Newmann, countries adopting economic liberalism support the growth of multinational companies (MNC) and foreign investment, among others, by reducing government intervention, such as by streamlining bureaucracy and simplifying regulations. Countries employing economic nationalism, on the other hand, discourage MNC and foreign investment<sup>5</sup>.

Based on this theory, my thesis is that Saudi Arabia's investment in Indonesia is still small because neither country's economy has been fully liberalised. In contrast, due to China's strong economic liberalisation, it is able to receive substantial investments from Saudi Arabia, and in turn invest in large sums in foreign countries such as Indonesia.

China has an open economy, having started its economic liberalisation process back in 1976 when Deng Xiaoping took over Mao Zedong. Deng implemented economic reforms by allowing the growth of private enterprises and a significant opening of the economy through foreign investment and export development.

Following the economic reform, China went from an economy based on central planning and state ownership to a market economy open to world markets. In December 1978, Deng announced an open door policy for foreign investment. China established special economic zones for foreign investment that provided incentives and facilities, as well as reduced bureaucratic regulations and interventions.

In contrast, neither Indonesia nor Saudi Arabia are open economies. President Jokowi himself acknowledges the lack of economic reform in Indonesia with its many rules and regulations hindering foreign investment. The bureaucracy serving foreign investors has not been efficient or effective, tax

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<sup>3</sup> Ibid.

<sup>4</sup> [nswi.bkpm.go.id](http://nswi.bkpm.go.id)

<sup>5</sup> Bill Newmann, "Theories of International Political Economy", accessed 30 December 2019, <http://www.people.vcu.edu/~wnewmann/IPETTheory.365.htm>.

facility and regulations have not been clear for foreign investors, and issues of land ownership and land price are still problematic. Furthermore, a lack of coordination among the ministries and institutes as well as local and central governments are still discouraging foreign companies from entering Indonesia.

Likewise, Saudi Arabia's economy has not been fully liberalised. The Saudi government is still fully controlling the Kingdom's market and economy. Its bureaucracy is still slow and does not serve foreign investors satisfactorily. Its rules and regulations on foreign investment are still not clear and not easily understood by foreign investors. There is also a huge language barrier for foreign investors who struggle to understand the rules and regulations, which are still mostly set out in Arabic, and to communicate with an Arabic-speaking bureaucracy.

However, there have since been significant changes. Both countries have implemented more policies and actions to liberalise their economies and societies.

King Salman and his son Crown Prince Mohammed bin Salman Al Saud have been reforming Saudi Arabia from a conservative country into a moderate country. The Kingdom has lifted the driving ban on women and removed a guardian system that enables Saudi women to travel or obtain passports without male consent. It has enacted anti-harassment law and changed laws regarding custody and alimony. It has permitted women to work in more sectors, such as aviation, security, entrepreneurship, tourism and entertainment.

Saudi Arabia has started to progressively liberalise its economy by allowing Saudi Aramco, the national petroleum company, to sell 1.5 per cent of its shares at a price of US\$8 to US\$8.50 a share in an initial public offering (IPO). Aramco is the world's largest oil company. In 2018, it pumped 10.3 million barrels of crude oil a day and was the world's most profitable company with net income of US\$111 billion.

On 10 December, with Aramco's IPO on the Tadawul (Saudi Stock Exchange), the company raised US\$25.6 billion. With that, the Saudi government is no longer the sole owner of Aramco; it is now open to the public and has to be more transparent. Crown Prince Mohammed bin Salman said it will be transformed from an oil-producing company into a global industrial conglomerate.<sup>6</sup>

Though back in the oil boom periods between the 1970s and 2000s, Saudi Arabia, as a conservative country, never saw Indonesia as a preferred investment destination, things may change with its current economic liberalisation and move to become a more moderate country.

Furthermore, to attract more foreign investors, Indonesia is also currently implementing greater economic liberalisation and reforms. President Jokowi has vowed to simplify regulations by drafting two omnibus laws, one on job creation and the other on taxation. He also streamlined decision making in the bureaucracy and will eliminate Echelon III and IV.

Given the goals of Saudi Arabia to become a more moderate country along with its economic liberalisation efforts, Indonesia, as a moderate Muslim nation also undergoing economic liberalisation,

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<sup>6</sup> "Message from HRH Prince Mohammed Bin Salman Bin Abdulaziz Al-Saud," Vision 2030, Kingdom of Saudi Arabia, accessed 30 December 2019, <https://vision2030.gov.sa/en/vision/crown-message>.

may stand to benefit, and in time to come, hopefully become one of the Kingdom's main investment destinations.

### About the Author

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