

Saudi Arabia's 2013 Budget Continues Focus on Investment

Saudi Arabia released its 2013 national budget, another expansionary plan that highlights the government's intention to stimulate the economy by focusing on an investment program, particularly in education, health, social services, municipal, water and water treatment services, as well as roads and highways. The budget also aims at strengthening financial institutions to enhance long term economic growth and employment opportunities across a variety of sectors. Further, particular attention is given to science, technology, and e-government projects.

With total revenues projected to reach \$330.5 billion (SR1.2 trillion), Saudi Arabia has set a record state budget for 2013 with spending projected at \$218.7 billion (SR820 billion), 19 percent higher than the expenditure planned for 2012. Budget revenues are projected at \$221.1 billion (SR829 billion), leading to a surplus of \$2.4 billion (SR9 billion), the second consecutive year that the Kingdom has budgeted a surplus. The Saudi Government earmarked \$76 billion (SR285 billion) in capital spending, an 8 percent increase compared to 2012.

The 2013 budget continues the same priorities as the previous budget. Education and healthcare remain the primary emphasis of the Kingdom's budget, accounting for 37 percent of total spending. Education continues to receive the largest share of the budget at 25 percent of total spending, considered among the highest in the world, while health and social affairs received 12.2 percent of the expenditure. Municipal services and education received the largest increase in their allocation at 23 and 21 percent, respectively.

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Letter from the Chief Executive Officer and President

It is hard not to be optimistic about the recovery of the U.S. economy. Here at the U.S.-Saudi Arabian Business Council (USSABC), we are seeing the positive effects and impact on the U.S.-Saudi bilateral commercial relationship. Despite months of lackluster and at times abysmal economic reports, the rise in commercial and industrial loans, the stabilization of the U.S. housing market, and promising job growth has given rise to reserved optimism. Although the unemployment rate ranged between 8.1 and 8.3 percent for most of 2012, the underlying trend for the nation's jobless was downward as employers added an average of 151,000 jobs a month.

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King Abdullah Appoints H.R.H. Prince Muqrin as Prime Minister's Second Deputy



H.R.H. Prince Muqrin Bin Abdul Aziz, Second Deputy Prime Minister

Custodian of the Two Holy Mosques King Abdullah has appointed H.R.H. Prince Muqrin Bin Abdul Aziz, Advisor and Special Envoy to the King, as the Second Deputy to the Prime Minister. Traditionally, the person who holds the position is in line for succession to the throne behind H.R.H. Crown Prince Salman Bin Abdul

Aziz, Deputy Prime Minister and Minister of Defense. He becomes the fifth prince in the history of the Kingdom to be named to the post, which has been vacant since H.R.H. Prince Naif was named Crown Prince in October 2011.

Prince Muqrin, born in 1945, received his primary education in Saudi Arabia before joining the Royal Saudi Air Force (RSAF) in 1964. During his time serving in the RSAF, Prince Muqrin attended Britain's RAF College in Cranwell, where he earned a Bachelor's degree in aeronautics in 1968 and the equivalent of a Master's degree in military sciences in 1974. He was appointed as Governor of Hail in 1980, where he served until 1999, when he was named Governor of the Madinah region. He was promoted to Director of the General of Intelligence in 2005, where he played an active role in Saudi relations with Pakistan and Iran, before being appointed as King Abdullah's Advisor in 2012. ■

All GDP components witnessed a positive growth in 2012 with non-oil industrial private sector increasing by 7.5 percent. The private sector contributed 58 percent to the GDP. Sectors with the highest growth rates included transportation, storage, and communications (10.7 percent), construction (10.3 percent), wholesale, retail, restaurants, and hotels (8.3 percent), electricity, gas, and water (7.3 percent), and finance, insurance, and real estate (4.4 percent).

While the 2012 budget originally envisaged revenues of \$187.2 billion (SR702 billion), they actually amounted to \$330.5 billion (SR1.24 trillion). The expenditure, originally estimated at

\$184 billion (SR690 billion), stood at \$227.5 billion (SR853.1 billion), a 23.6 percent above the budgeted level but lower than the average 24 percent of overspending recorded over the last ten years. The budget surplus of \$102.9 billion (SR385.8 billion) was the second largest on record, after \$154.9 billion (SR580.9 billion) in 2008. Additional expenses in 2012 included the payment of the 13th month salary, the increase in the capital and resources of the Real Estate Development Fund and the Saudi Industrial Development Fund, increase in expenditures on the unemployment benefit program, and the increase of wages payments as a result of providing regular civil service jobs to those who held temporary jobs. ■

"LETTER FROM THE CHIEF EXECUTIVE OFFICER AND PRESIDENT" CONTINUED FROM COVER

Consequently, the unemployment rate declined to 7.8 percent in December.

The U.S. is slowly emerging from the worst downturn in 70 years. The International Monetary Fund (IMF) estimates U.S. Gross Domestic Product (GDP) at 2.2 percent for 2012, up from 1.8 percent in 2011. Moreover, U.S. Congress's agreement to avert the fiscal cliff temporarily avoided sudden tax increases and spending cuts. It is expected that the GDP will grow by 2.6 percent in 2013 and 3.2 percent in 2014, with the unemployment rate at 7.2 percent by the end of 2014. Of course, the American economy is not out of the woods yet. At this writing, sequestration and the draconian cuts in government spending are expected to go into effect in one week. The resulting effect to the U.S. economic recovery could be damaging and cause a quick evaporation of any continued optimism.

My enthusiasm about the U.S. economy springs from the progress we see in sectors such as construction, housing, and automotive. Spending in U.S. construction amounted to \$781 billion (SR2.92 trillion) for the first 11 months of 2012, above the \$715.4 billion (SR2.68 trillion) for the same period in 2011. A healthy recovery for the U.S. automotive industry was well underway in 2012 with 14.5 million vehicles sold, a 13 percent increase over 2011. And, the nascent recovery of the housing sector is expected to generate a rise in employment in the construction, real estate, and mortgage finance sectors.

The U.S. remains the world's top trading partner and research and development (R&D) spender. According to the World Trade Organization, (WTO), the U.S. was the world's top exporter of commercial services and the second largest exporter of merchandise in 2011. In terms of imports, the U.S. remained the world's largest purchaser of merchandise and commercial services in 2011. In 2012, U.S. trade in food, capital and consumer goods, automotive vehicles, parts, and engines, as well as insurance and financial services, were major drivers of international commerce in goods and services. Although the availability of 2012 year-end figures is a month or two away, we expect the U.S. will retain these top positions, especially viewed through the lenses of the Eurozone contraction and the slight loss of steam in economies such as China and Brazil.

Looking at global expenditures for Research & Development, U.S. R&D expenditures accounted for 31.1 percent of world's spending total in 2012, the largest in the world. *R&D Magazine* noted that the U.S. spent 2.3 percent of its GDP on R&D each year during 2010-2012. In nominal terms, U.S. R&D spending is expected to reach \$436 billion (SR1.64 trillion) in 2012, up from \$415 billion (SR1.56 trillion) in 2010. Most of the funds are generated by business enterprises with Apple, Google, and 3M, representing the world's top three "Most Innovative" companies in Booz & Company's 2012 Global Innovation 1000 study. The USSABC has noticed a definite up-tick in Saudi interest in new American technological innovations in areas such as industrial processes and controls, evolved and advanced manufacturing systems, and discoveries in new industrial input materials.

Positive developments within the Saudi economy continue to occur at pace. In 2012, real GDP rose to 6.8 percent while nominal GDP reached \$727.3 billion (SR2.71 trillion) with transportation, storage, communications, and construction growing by double digits, the highest growth rates of all economic sectors. The Kingdom's adroit management of its economy continues to be the envy of many nations. In fact, the International Monetary Fund praised Saudi Arabia's "exceptionally strong and buoyant" economic performance, economic policies aimed at investing oil revenues into local projects, and efforts to stabilize the international oil market. The Kingdom also ranked first among G20 members in implementing obligations relative to structural reforms, fiscal discipline, financial institutions reform, and regulation of financial markets. These rankings reflect Saudi Arabia's economic strength, stability, and effectiveness of economic policies at a time when many world economies are still searching for recovery tactics.

How do all these factors influence the Business Council? For the past several years, the USSABC has offered its member and non-member companies an increasing number of business advisory services and unique networking events to take advantage of the significant business opportunities in Saudi Arabia and the U.S. As our Business Council approaches its 20th anniversary later this year in December, we are excited to have recently emerged from a top-to-bottom review of our organization's mission, efficacy of

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programs, events and activities, and strategies for future growth. We collaborated with Booz & Company to conduct an analysis of our organizational strengths and challenges, methods of improving our alignment to the developmental goals of Saudi Arabia, and the impact the USSABC is having on the U.S.-Saudi strategic relationship.

As a result of the strategic review with Booz & Company, and with guidance from our Council's Board of Directors, we have a renewed focus. Over the next five years, the Business Council will concentrate many of its resources in key industrial sectors. Although not to the exclusion of other worthy industry and commercial segments, we will concentrate significant resources on promoting trade and investment opportunities between the U.S. and the Kingdom in the high growth sectors of: *downstream petrochemicals and plastics, healthcare, architecture-construction-engineering power and water, and technical and vocational training*. We will also be forging strategic alliances with a number of key Saudi stakeholders to develop a series of sector-specific programs and

activities including webinars, promotional activities at targeted U.S.-based trade shows, business opportunities forums, and business development missions. The Council will leverage multiple relationships with strategic Saudi partners, USSABC members, top U.S. executives, U.S. state partners, and industry associations towards a higher yield of actual trade and investment deals we continue to facilitate between Saudi and American companies.

As the USSABC is rolling out its new strategic development plan, I welcome the opportunity to hear from you and get your input as to how we can continue to serve the interests of the business relationship between these two great nations. To our members, I can assure you we constantly strive to identify ways in which your company derives benefit from their membership in our Business Council. I wish you a very prosperous year!

Edward Burton
Chief Executive Officer and President ■

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