

To the point!



Cross-Asset- and Strategy-Research

A Postcard from Riyadh

Saudi Arabia is on a long road to modernization

Today I am writing to you from Riyadh, the capital and desert metropolis of Saudi Arabia. I had the pleasure of speaking at one of the Gulf region's leading capital markets conferences on the prospects for emerging markets in general and Saudi Arabia in particular. LBBW was one of the sponsors, reflecting the bank's increasingly global footprint.

What is your first association when you hear Saudi Arabia? I bet many of you will think of a strictly conservative society, fully veiled women, oil and perhaps how Saudi Arabia tried behind the scenes to dilute the final communiqué at the [COP28](#) climate summit in Dubai last December. And who doesn't remember with horror the barbaric murder of dissident journalist Jamal Khashoggi in the consulate in Istanbul five years ago?

Modernization: chimera or reality?

Is this Saudi Arabia really a country from which I should write you a postcard? I admit: I flew to Riyadh with mixed feelings. My last visit was more than five years ago. Back then, everyone was talking about the ambitious national development plan "Vision 2030". It was supposed to propel Saudi Arabia into the modern age. Anyone familiar with the Gulf region knows that such strategies seem to grow there like dates on palm trees. The widespread hype surrounding the new Saudi Arabia initially rolls off Gulf experts like water off a duck's back.

But the country has indeed changed. Never before have I seen unveiled Saudi women in public. Now, yes, they have become quite normal. The [strict ban on alcohol](#) has been relaxed since January. Foreign, non-Muslim diplomats are now allowed to buy 40 liters of spirits, 80 liters of wine or 240 liters of beer per month



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The Al Faisaliyah Center, designed by Norman Foster, was Saudi Arabia's first high-rise building in 2000.

Photo: Safaa Almohandis via Unsplash

in a special, newly opened store in Riyadh. That's also liberalization. Cheers!

Economic diversification has begun

But just as important as more relaxed social norms are the economic advances: today, one woman in three aged 15 or older participates in [the labor market](#). During my last visit in 2017, it was just one in five (Germany 56%). Dependence on oil and gas remains very high, but has fallen significantly (see figure). The non-fossil economy is growing steadily at around 4% per year.

These interim successes are no coincidence. They are the result of an improved regulatory environment, a more open business climate and a digitalization of public administration that sometimes puts Germany's to shame. The [rating agencies](#) are acknowledging the progress with internationally rare upgrades of credit ratings.

Riyadh shows us: Reforms are possible

Why am I writing all this? What does it have to do with us? On the surface, not much. Still, I left Riyadh more optimistic than when I arrived. Also, with a more upbeat view on Germany, and Europe more broadly. After all, if a country with incomparably weaker institutions and a lower degree of economic and social progress or diversity succeeds in reorganizing its economy, then it should certainly be possible on the Rhine and Danube. Germany really has no reason to look to the future with any less confidence than the Saudis. It is a freer, better educated and more prosperous society with companies that often are still the envy of the rest of the world. All Germany lacks is self-confidence and the courage to look ahead! Here is where we can learn from Riyadh. Let's take that lesson to heart!

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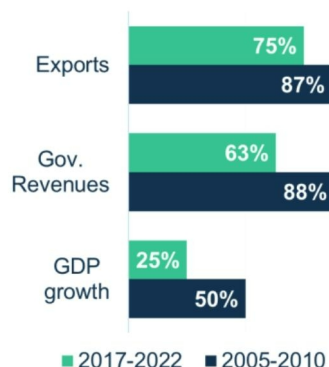
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Oil dependence declines: Share of oil in indicator



Source: [IMF](#), LBBW Research

What Riyadh can do, Germany should be able to do, too!
