

Navigator

Now, next and how for business

Saudi Arabia



Together we thrive

Overview

Growth outlook remains upbeat in the Kingdom

Saudi Arabia's business community remains upbeat against an uncertain geopolitical backdrop. Non-oil initiatives, such as the recent opening of the Kingdom to international tourism¹, will be critical to progress.

State of play

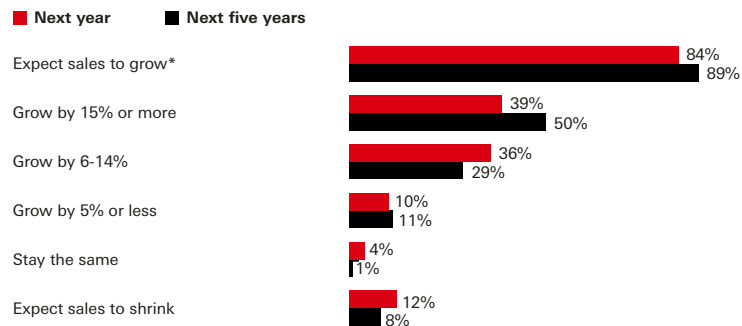
International promise stokes confidence

Saudi Arabian business leaders see major transformation ahead – almost two-thirds expect their businesses to change radically over the next five years. But they are bullish about their ability to weather this disruption: 89% foresee their companies growing over the same period and almost four in 10 Saudi businesses are expecting their businesses to grow by 15% or more in the next year.

Trade prospects beyond the region are fuelling confidence. European markets are already rivalling the Middle East and North African (MENA) region in importance.

Sustainability is also of growing importance. Roughly seven in 10 businesses say they have a role to play in the UN's Sustainable Development Goals (SDG).

Expectations for future business growth



*This is the sum of grow by 5% or less, 6-14%, 15% or more



What you need to know



Most Saudi Arabian businesses (57%) are more optimistic about growth than a year ago – well above the global average (47%).



Confidence about international trade leapt from 74% in 2018 to 87% in 2019.



Top factors contributing to a positive outlook are the opening up of new markets (46%) and government incentives (35%).

What your business can do



Look further afield for growth. Three in 10 Saudi Arabian businesses say this is their strategy.



Transform your supply chain. Saudi firms making changes are seeking more international suppliers (28%) and increasing use of digital/technology (28%).



Develop the skills in your workforce. This is one of companies' top three ways to counter threats.

¹ <https://www.bbc.co.uk/news/business-49848068>

Trade outlook

Businesses find success across continents

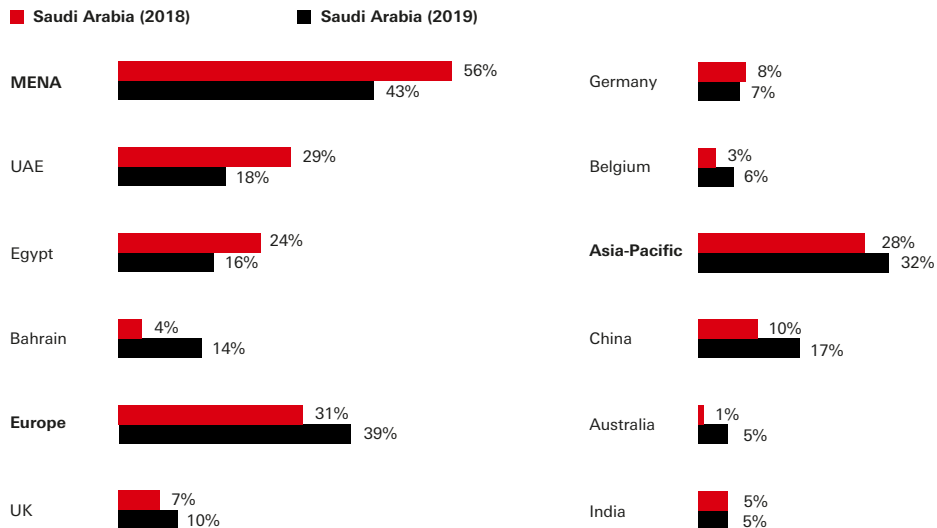
Saudi Arabia's businesses are making bold and significant moves into new territories.

Near neighbours in the MENA region are still Saudi Arabia's top trading partners – for now. That seems set to change over the next three to five years. Europe already rivals MENA's status, and trade with Asia Pacific (APAC) seems poised to overtake both. For the first time, MENA is the top trading region for fewer than half of Saudi Arabian companies (43%, down from 56% in 2018). Meanwhile, the numbers considering medium-term investment in North America have tripled in the space of a year.

Asia Pacific's culture of innovation is a big draw, cited by half of those who see promise in the region. In European and North American markets, the potential for favourable partnerships is the major attraction.

Businesses in Saudi Arabia match their global colleagues in their view that international trade is a force for good. Over the next five years, they believe trade will drive innovation (83%), provide new businesses opportunities (82%), support employment (79%), improve efficiency (79%) and address inequalities (77%).

Current top trading partners



What you need to know

- 1 43% of Saudi Arabian companies now trade with MENA countries, 39% with Europe and 32% with APAC.
- 2 On current trends, APAC will be the top international trading region in three to five years with MENA close behind.
- 3 Trade with North America is growing fastest, up from 9% in 2018 to 23% in 2019.

What your business can do

-  Consider the benefits of international trade. Eight in 10 Saudi Arabian firms believe it can drive innovation.
-  Think beyond traditional markets. APAC is attracting firms through innovation and proven customer demand.
-  Seek out international suppliers. 8% of companies in the Kingdom plan to diversify their supply chains in this way.

Protectionism and geopolitics

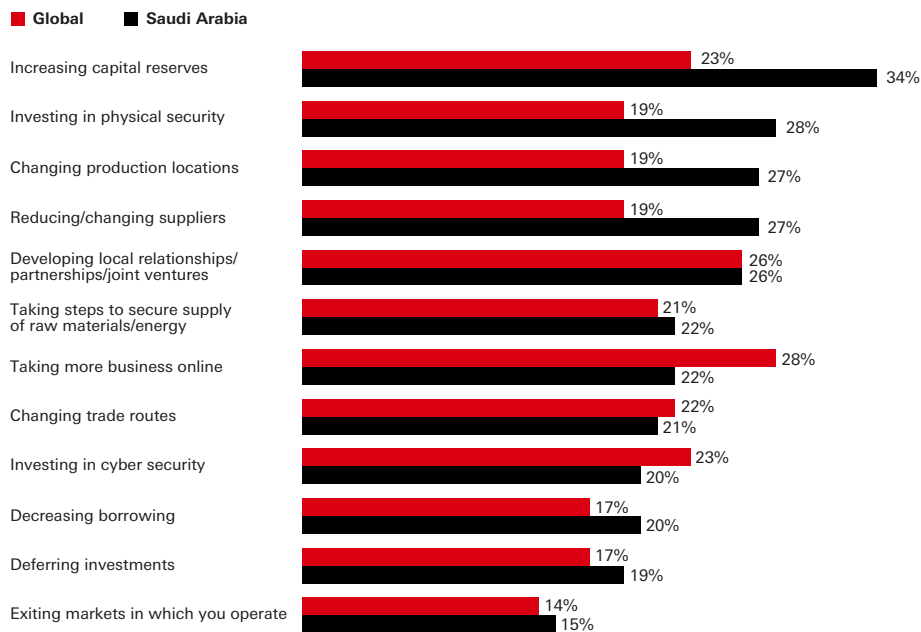
Contrasting strategies to tackle trade challenges

Protectionism is top of mind for many Saudi Arabian businesses. Four-fifths of firms now see their key trading markets becoming more protective, significantly higher than the global average. However, the Kingdom's companies are also more likely than most to feel they are making net gains from this trend, specifically through increased competitiveness. Regulations that make it hard to do business are seen as the biggest negative impact.

The ripples of geopolitics are also creating more turbulence for Saudi Arabian companies than for typical businesses elsewhere. Four in 10 say they feel the impact very strongly. This is broadly comparable to MENA as a whole, but much higher than the global average of 25%.

The Saudi Arabian response to geopolitical instability is often a defensive one. Increasing capital reserves is the most common precaution taken. Other responses include investing in physical security, changing production locations, and reducing or changing suppliers.

Ways in which businesses are coping with geopolitics



What you need to know

- 1 80% of Saudi Arabian businesses say they face protectionism, against 65% worldwide.
- 2 A third of businesses believe protectionism has boosted the competitiveness of their business.
- 3 Three-quarters of businesses experience the impact of geopolitics, and 42% feel it very strongly.

What your business can do



Consider taking business online. A third of Saudi Arabian businesses are pursuing this strategy as a tool against protectionism.



Other strategies include reducing costs and seeking joint ventures with local companies.



Weigh up positive responses to geopolitical turbulence, such as digital business models, as well as defensive measures like changing production sites.

The sustainable future

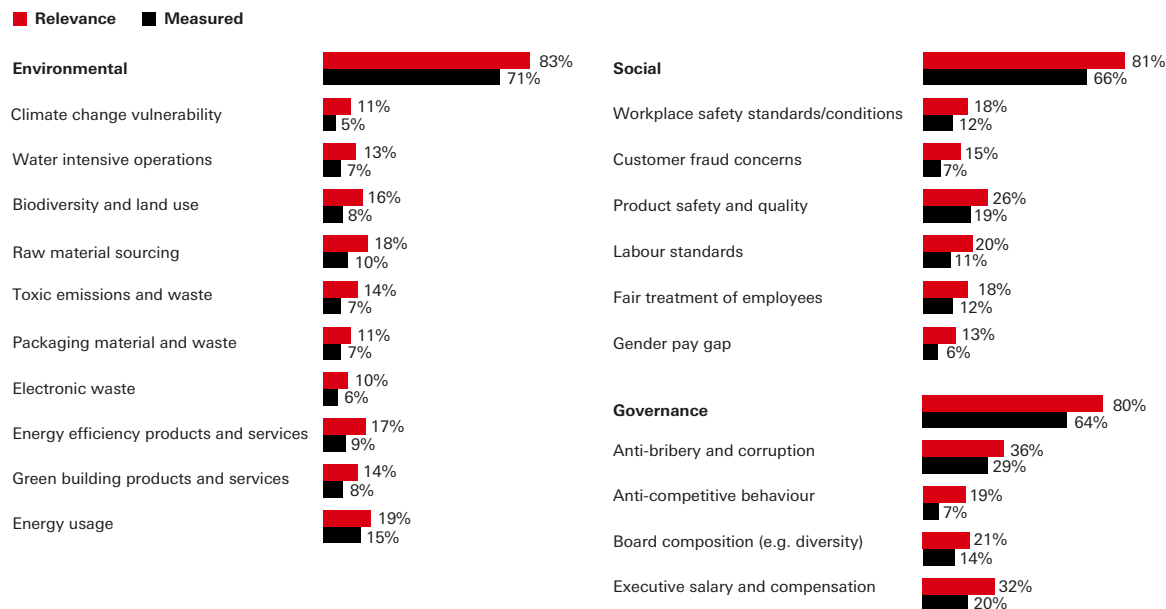
Businesses embrace a higher purpose

Sustainability is becoming an essential goal for businesses worldwide – and Saudi Arabian companies are embracing the positive benefits. On average, they are less likely than their peers across the world to see sustainability as a regulatory requirement. Their motivations are more often linked to the positive consequences of change: three in 10 see it as a way of improving reputation, sales and competitive advantage.

More widely, awareness that business should serve a higher purpose is also strong among Saudi Arabian companies. Over two-thirds believe they have a role to play in meeting the UN's Sustainable Development Goals. For over a third, that role is significant.

Energy efficiency, sustainable production and employee wellbeing are priorities for future investment. Governance issues are important too. For example, the proportion of Saudi Arabian businesses measuring their performance against anti-bribery and corruption targets is twice the global average.

Key ESG metrics considered relevant and measured by businesses



What you need to know



Pressure to become more sustainable comes from competitors, governments and investors – services companies feel particular pressure from the latter two.



Employee resistance is among the biggest challenges to sustainability action, an issue cited by 32% of businesses.



Saudi Arabian companies are particularly strong in provision of employee wellbeing initiatives, such as in-house counselling and mental health coverage under staff health insurance policies.

What your business can do



Invest in educating employees on sustainability issues. Staff resistance to these changes is a particularly big hurdle for Saudi Arabian businesses.



Develop and measure key outcomes. Many businesses are not yet monitoring their performance on issues they acknowledge as relevant.



Invest in employee wellbeing policies. Almost three-quarters of companies see this as critical to business success.

Breakthrough tech

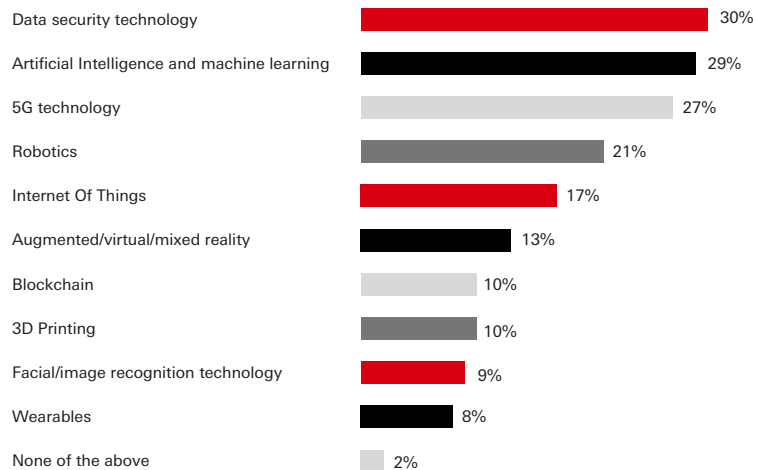
Transformational tech promises business benefits

Technology is disrupting markets worldwide at breakneck pace. For Saudi Arabia's business world, the most important changes over the next five years will be generated by data security technologies, artificial intelligence (AI) and machine learning, and 5G technologies.

Developments in data security can enhance productivity and cut costs, respondents believe. AI is seen as having potential to improve product and service quality, reduce costs and boost productivity. Business leaders believe 5G will have particular benefits in accelerating speed to market and improving service delivery, as well as promoting business transparency.

Saudi Arabian business leaders are less likely than the global average to rate the transformational potential of the Internet of Things, blockchain technology or 3D printing.

Technologies businesses think will be important over the next five years



What you need to know

- 1 Data security, AI and 5G are seen as the most significant technologies over the next five years.
- 2 Businesses believe AI will have the biggest impact in improving product and service quality and reducing costs.
- 3 Saudi Arabian businesses perceive the US as the world's key tech hub, followed by Japan and China.

What your business can do



Cybersecurity is the bedrock for any tech innovation. Invest in staying ahead of the risks.



Seek out tech innovations and partnerships with innovators in the markets that currently lead the field, such as China.



Invest in horizon-scanning for emerging tech opportunities and risks in your sector.

About HSBC Navigator Saudi Arabia

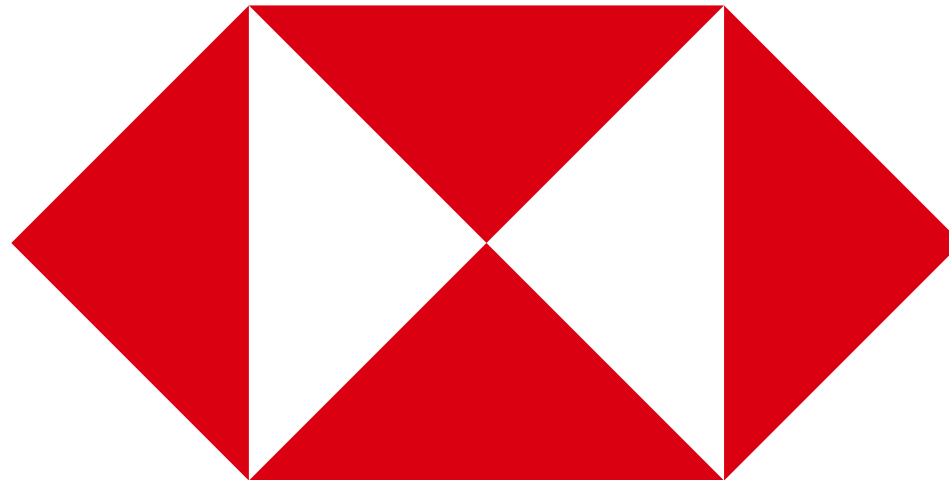
The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, international trade, geopolitics, sustainability, technology and wellbeing. It is compiled from responses by decision-makers at 9,131 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 35 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 150 businesses surveyed in Saudi Arabia. Global results are based on an average of the 35 markets (using weights based on each market's share of world trade). The survey was conducted between August and September 2019. Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

Data visualisations based on the following:

Page 2, 5 & 6: all companies. n=150

Page 3: international operators (trend). n=106

Page 4: companies who are impacted by geopolitics.
n=8629/150



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