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Saudi Arabia's International Competitiveness, Accounting for Geopolitical Risks and the Super-Contango Oil Market

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Abstract

Saudi Arabia's economic performance, its role in the global oil market, and how its actions are perceived by international investors have global consequences. Our objective is to examine Saudi Arabia's international competitiveness, accounting for geopolitical risks, productivity, and the role of oil as a commodity and financial asset. Following Clark and MacDonald (1998, 2000), we develop a vector error correction model (VECM) that accurately reflects Saudi Arabia's economy and employ a behavioral equilibrium exchange rate (BEER) to estimate currency misalignment as a measure of international competitiveness. We find that rather than being driven by endogenous productivity, Saudi Arabia's competitiveness is largely explained by exogenous factors: global demand for oil as both a commodity and a financial asset, and geopolitical events that diminish competition in the global oil market. Saudi Arabia's competitiveness and recovery from the 2020 shocks hinge on the recovery of global demand, the speed of the energy transition, and investors' sentiments with regard to investing in the oil sector. Diversification and investment in human capital to endogenize growth must be addressed with urgency. By engaging in trade wars, Saudi Arabia risks accelerating the stranding of its own resources and assets. The 2020 cooperation between OPEC+ and G20 members to stabilize the oil market is commendable and must continue.

Keywords: Saudi Arabia, competitiveness, contango, geopolitics, oil, productivity**JEL Classification:** F31, F41, F51, Q43[Suggested Citation](#) >[Show Contact Information](#) > Download This Paper (Delivery.cfm/SSRN_ID3681477_code920036.pdf?abstractid=3681477&mirid=1)

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