South Korea and Saudi Arabia open up a new level of economic partnership

South Korea and Saudi Arabia have had diplomatic relations for more than 60 years, but since 2015, when Crown Prince Mohammed bin Salman became actively involved in state affairs, relations between the two countries have received a new impetus for cooperation, expanding from the traditional sectors of oil trading and construction to developing alternative energy and the military industry. Also, despite criticism of the foreign economic policy of the previous President of South Korea, Moon Jae-in, President Yoon Suk-yeol, elected in March 2022, continues to strengthen relations with the Saudi Kingdom, like his predecessor.

In 2017, both countries launched the Korea-Saudi Vision 2030 cooperation plan, and a joint committee was formed from representatives of relevant government agencies to review partnerships, approve projects and implement plans. South Korea is among eight other countries that are partnering with Saudi Arabia to achieve the Vision 2030 objectives, working on 40 joint projects and initiatives. The areas for cooperation are divided into 5 groups: infrastructure and smart infrastructure, digital transformation and capacity building, healthcare and life sciences, small and medium enterprises.

It is important to note that the interests of Saudi Arabia and the Republic of Korea are currently highly symmetrical. During a visit to Seoul on November 16, 2022, Prince Mohammed bin Salman stressed that Riyadh would continue to strengthen cooperation with Seoul in three strategic areas: energy (hydrogen, carbon capture technologies, nuclear power plants and small modular reactors), infrastructure projects and the defense industry.

Despite having a leading position in the export of crude oil, Saudi Arabia also aims to become the world’s largest exporter of hydrogen and achieve an annual production capacity of 4 million tons by 2030. Therefore, one of the central areas for joint projects is the field of “green” energy. Cooperation with the Republic of Korea, which is also interested in the production and consumption of “green” energy resources, will meet the objectives of both countries in combating climate change. In confirmation of the mutual interest in hydrogen energy at an investment forum in Seoul in mid-November 2022, five South Korean companies, including KEPCO and Samsung C&T, signed a memorandum with Saudi Arabia’s Public Investment Fund (PIF) to build a plant for the production of green hydrogen and ammonia. The cost of the project is $6.5 billion.

This energy project will be implemented during the construction of the city of the future - NEOM. The creation of the agglomeration, estimated at $500 billion, aims to develop green and smart cities covering a total of 26,500 square kilometers in Saudi Arabia’s northwestern Tabuk province near the Red Sea.

In confirmation of the agreements reached earlier between Seoul and Riyadh, on December 1, 2022, the meeting of the Saudi Minister of Municipal, Rural Affairs and Housing Majid Al-Hogail with the South Korean Minister of Land, Infrastructure and Transport Won Hee-ryong was held in the capital of South Korea. As part of his Asian tour, Majid Al-Hogail discussed with his South Korean counterpart the expansion of cooperation in the field of smart cities, the activation of executive programs and the exchange of experience in the municipal sphere.

Furthermore, in addition to projects in Saudi Arabia with the participation of South Korea, an investment contract was signed in Seoul in November by a subsidiary of Saudi Aramco, S-Oil, and three South Korean companies Lotte E&C, Hyundai E&C and Hyundai Engineering related to the design and construction of the Shaheen project in the amount of 7 billion dollars. The project will be located at the existing S-Oil site in Ulsan and will produce about 3.2 million tons of petrochemicals per year by the time of completion in 2026. This project was Saudi Aramco’s largest investment in South Korea and follows on from previous $4 billion projects, thus opening a new stage of cooperation in an already traditional area for both South Korea and Saudi Arabia. In 2021, the Saudi Kingdom became the largest oil exporter to South Korea, accounting for 29.3% of crude oil imported by Seoul.
Contracts in the defense industry are becoming an equally important area for trade relations between South Korea and Saudi Arabia. Due to the fact that the United States has once again threatened to suspend the export of American weapons to Saudi Arabia against the backdrop of OPEC+ policies, Riyadh needs to reduce its dependence on American military equipment. That is exactly why South Korean companies wishing to become leaders in the supply of products of their military-industrial complex are of great interest to Saudi Arabia. South Korea is not only looking to increase exports of finished weapons, but is also offering attractive deal options that involve localized production and maintenance for buyers. In March 2022, Saudi Arabia signed contracts with three Korean defense companies for a total of $989 million, but the details of these contracts were not fully disclosed.

Particular attention is being paid to another energy project in which Saudi Arabia is ready to see South Korea as a possible executor. This is the construction of a nuclear power plant with two reactors with a capacity of 1.4 gigawatts by 2030. However, for several reasons, the Republic of Korea currently does not have certain guarantees that its companies will win the tender. The competitive struggle for the construction of a nuclear power plant in Saudi Arabia and the difficulties faced by the export of nuclear technologies in South Korea will be analyzed by the author in subsequent articles.

Thus, the plans and projects for 2022 have demonstrated that the range of cooperation between Seoul and Riyadh is now no longer limited to hydrocarbons. The two countries are increasingly building up partnerships in new directions. Such a strengthening of relations between South Korea and Saudi Arabia perfectly fits into the foreign economic policy of the Republic of Korea to diversify trade relations. Seoul has something to offer Riyadh, and the commonality of goals and objectives makes the partnership of these two states very promising.

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