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[Column] Avoiding the pitfalls of Korea's '80s construction boom in the Middle East

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There's no guarantee that Korea will hit a "jackpot" in the Saudi construction market — and even if it does, there's a dark side to such success



President Yoon Suk-yeol of South Korea walks with Crown Prince Mohammed bin Salman of Saudi Arabia following a signing of agreements and MOUs in Riyadh during a state visit to the Middle Eastern kingdom on Nov. 22. (pool photo)



By Moon Chung-in, Yonsei University professor emeritus

Back in October, South Korean President Yoon Suk-yeol visited the countries of Saudi Arabia and Qatar on a six-day trip to the Middle East.

The South Korean press praised Yoon for his "summit diplomacy" in the Middle East with such language as "Yoon hits business 'jackpot' on visit to Saudi Arabia" and "Signs of a second 'construction boom' in the Middle East." There was reason for such praise: Yoon and his delegation had signed 63 contracts and MOUs worth a grand total of US\$20.2 billion during his state visits to Saudi Arabia and Qatar.

That wasn't the only good news. Yoon and the Saudis also reached a deal to set up a joint crude oil reserve of 5.3 million barrels and agreed to expand bilateral cooperation in various areas, including the defense industry, hydrogen energy, digital technology and smart cities.

Looking back, the boom in the Saudi construction market that began with engineering firm Samhwan Corporation's successful bid on an expressway project near Mecca in December 1973 was a much-needed boost for the Korean economy, which had been shaken by the oil

shock.

Remarkably, Korean construction firms that had accessed the Saudi market as subcontractors for established American companies like Bechtel and Vinnell pushed aside the world's leading general contractors to bring Korea more contracts than any other country in less than five years. But the real game changer was Hyundai Engineering & Construction's (Hyundai E&C) winning bid to build the port facility at Al Jubail, worth US\$970 million, in 1977.

The construction boom in the Middle East galvanized the Korean economy, earning large amounts of foreign currency, sending Korean workers overseas, creating jobs and internationalizing the Korean construction industry.

But the boom had its downsides, too. Facing the Saudi government's adoption of the protectionist "Saudization" policy in the 1980s, Saudi Arabia's fiscal weakness and the contraction of the construction market resulting from falling oil prices, and overheated competition both among Korean companies and between Korean companies and those from other countries, including Turkey, the majority of Korean companies eventually had to pull out of the Saudi market.

Even Hyundai E&C, which had won the contract at Al Jubail, was involved in an unpleasant situation that culminated in a ban on winning tenders in the Saudi market. Then an attempt to diversify in the Iraqi market became a debacle when war broke out, preventing the company from collecting on many of its projects.

In short, shifting sands can change the Saudi market from a "blue ocean" to a "red ocean" in no time at all.

While Korean companies signed a total of 52 documents with the Saudi Ministry of Housing and Ministry of Investment during Yoon's state visit, just eight of those were contracts and the rest were MOUs. While MOUs are useful for getting the ball rolling on cooperation, there's no guarantee they'll reach fruition. Furthermore, the Saudi government has been signing MOUs with companies from other countries on the same agendas, setting the stage for competition.

With the Neom city project, for example, the Saudi government prefers investment from Korean companies, but the goal of Korean companies is to carry out part of the actual construction. That's why companies in Japan and other advanced economies are cautious about participating in Neom. The fact is that a careful and thorough review of profitability is needed before going "all in" with Saudi Arabia.

Business factors aren't the only things that demand our attention. Saudi Arabia is the birthplace of the Sunni sect of Islam. The legitimacy of the Saudi king derives not only from his political status as ruler but also from his religious leadership as an imam and custodian of the holy sites of Mecca and Medina. Islam holds absolute sway in Saudi society.

How are Muslims treated in Korea? An attempt by Muslim students at Kyungpook National University, in Daegu, to construct a mosque near the university aroused hostile opposition from some of the locals, who hung up boiled pig heads outside the construction site. The opposition continued even after courts ruled that the construction project was legal.

From the perspective of countries in the Middle East, that's certain to look like religious discrimination and infringement of human rights. Even Daegu Mayor Hong Joon-pyo came out and criticized the hateful behavior, but the central government took no action. How can Korea maintain smooth relations with Muslim countries in the Middle East, including Saudi Arabia, if Koreans don't respect their culture and religion?

The Yoon administration also needs to take a second look at the costs and benefits of its slogan of "values diplomacy," which places key importance on freedom, human rights and democracy.

Saudi Arabia ranked 150th out of 167 countries on an index of democracy tabulated by the Economist in 2022. That suggests there are severe issues with democracy and human rights there.

Saudi Arabia's reputation for liberty is much the same. Freedom House gave the country an abysmal 8 out of 100 possible points in its 2023 freedom index.

The more the Yoon administration stresses values diplomacy, the more it will undermine efforts to improve relations with Saudi Arabia. Furthermore, Korea's stance is likely to smack of double standards both to the Korean public and the wider world.

Given the president's role as Korea's "No. 1 salesperson," the importance of sales diplomacy can't be overstated. But we need to remember that there's no guarantee that Korea will hit a "jackpot" in the Saudi construction market — and even if it does, there's a dark side to such success.

Furthermore, instead of getting caught up on short-term gains, we need to think about establishing a long-term system of cooperation grounded in mutual understanding and respect.

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