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ASSESSING SAUDI VISION 2030: A 2020 REVIEW

By Stephen Grand and Katherine Wolff



المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA



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Stephen Grand and Katherine Wolff

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Cover: A man walks past the logo of Vision 2030 after a news conference, in Jeddah, Saudi Arabia June 7, 2016. REUTERS/Faisal Al Nasser/File Photo.

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EXECUTIVE SUMMARY

When global oil prices collapsed in summer 2014, Saudi Arabia confronted one of the most daunting economic challenges of its modern history. Upon ascending to the throne the following year, King Salman bin Abdulaziz Al Saud and his son Mohammed bin Salman Al Saud (now the crown prince) responded by developing an ambitious economic and social reform plan, Saudi Vision 2030, which was unveiled in 2016 and designed to reduce the country's dependence on oil by facilitating the emergence of a robust private sector.

Saudi Arabia initially decided to evaluate with benchmark goals the first four years of its economic transformation in 2020. With unfortunate timing, the coronavirus pandemic and dramatic shock to oil prices (which occurred just as this publication was going to print) hit Saudi Arabia's economy hard in 2020. The project the Saudi royals took on was never going to be easy, but plummeting oil prices, disruption of global trade and financial markets, a freeze on industries like tourism, and huge lost productivity in the government and private sector spell an uncertain future for the Saudi plan. Even before the pandemic, the government's detention of wealthy Saudi businessmen at the Ritz-Carlton in Riyadh, the murder of journalist Jamal Khashoggi in Istanbul, and increasing tensions with Iran had diverted international attention from the economic reform effort and damaged Saudi Arabia's international reputation.

However, it is perhaps clearer than ever that it remains in the interest of Saudi Arabia and the United States for the economic transformation to succeed. Four years after the Saudi reform program was unveiled, this study seeks to take a comprehensive look at the state of the Vision 2030 effort: What were the objectives of its creators, what has happened so far, to what extent are reforms advancing these initial objectives that the Saudi government set for itself, and what changes need to be enacted for reforms to succeed?¹

Using Vision 2030's own "Key Performance Indicators" (KPIs) where available, economic data on Saudi Arabia, and comparative national surveys, the authors attempt to objectively assess the progress and approach toward this reform program to date. What they find is that the Saudi government has invested a tremendous amount of energy, effort,

and money in the Vision 2030 reforms, with some noteworthy achievements to date: namely in terms of fiscal stabilization and macroeconomic management, the development of capital markets and the banking system, the digitization of government services, and social reforms. In many other areas, however, reform efforts are falling short of their intended objectives, most notably in creating jobs and transforming the private sector into an engine of growth.

“Four years after the Saudi reform program was unveiled, this study seeks to take a comprehensive look at the state of the Vision 2030 effort: What were the objectives of its creators, what has happened so far, to what extent are reforms advancing these initial objectives that the Saudi government set for itself, and what changes need to be enacted for reforms to succeed?”

As for the Saudi government's approach to reform, there is broad recognition that Saudi Arabia must change. However, when the authors spoke to officials in 2018 and 2019, there seemed less of a sense of urgency regarding the pace and a lack of understanding of the depth of the transformation required. The government has concentrated economic and political decision-making at the top and focused its efforts on using institutions like the Public Investment Fund (PIF) to attract foreign investment, so far without great success.

Saudi Arabia now faces another economic crisis, only six years after the 2014 oil price collapse, and it may feel the need to reevaluate some of its Vision 2030 programs.

¹ To note, this is not an assessment of Saudi Arabia's human rights record or political governance. To the extent that this paper does address either of these two issues, it is in the context of how they have affected the economic reform plan. This is an assessment of progress against the Saudi leadership's own vision for itself and of whether that vision provides for a sustainable economic path, not against any number of aspirations held by individual Saudis or the international community.

Saudi Vision 2030 relies on massive government spending and the ability to attract foreign capital, particularly in areas like the PIF-funded megaprojects; both spending and investments are likely to be impacted by the current crisis. The International Monetary Fund (IMF) predicts that Saudi Arabia's economy may contract by 2.3 percent in 2020, and the non-oil GDP may slow by 4 percent. It remains to be seen if Saudi Arabia has the political and fiscal space to both address the crisis at hand and implement an economic reform program amid a potential global recession.²

If there is good news to be found, it is that Saudi Arabia has already identified the fundamental reforms required for the kingdom's long-term economic health, and it has begun the work of implementing many of them. The core tenets of Vision 2030 still ring true: the need for job creation,

bolstering the private sector, diversifying the economy, and investing in sectors where Saudi Arabia can be globally competitive.

In the study's final recommendations, the authors urge the Saudi government to abandon the temptation to micro-manage economic change from on high and to return to the original spirit of the Vision 2030 reforms, which was to find sectors where Saudi Arabia can compete globally, and to enable the entrepreneurial capacities of its citizens. To achieve these goals, Saudi Arabia should turn away from megaprojects and a completely top-down approach, and make serious commitments to education and human capital development, to ceding space in the economy to the private sector, to continuing improvements in the regulatory environment, and finally to greater transparency and rule of law.

² "World Economic Outlook, April 2020: The Great Lockdown," International Monetary Fund, April 2020, <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>.

INTRODUCTION AND SCENE-SETTING

CONTEXT

In summer 2014, Saudi Arabia faced the nightmare scenario that many had long feared. Saudi leaders undoubtedly watched with alarm as the bottom dropped out of the global oil market. The price of oil, which had been \$115 per barrel in June 2014, plunged rapidly, reaching as low as \$28 a barrel in January 2016.³ It finally stabilized at \$68 a barrel in January 2018 after Saudi Arabia and the Organization of the Petroleum Exporting Countries (OPEC) agreed to production cuts in 2017, a drop of 41 percent from its 2014 high.

The impact on Saudi government finances and, by extension, the economy was profound. Government revenue fell precipitously to about \$133 billion (500 billion SAR) in 2016, less than half of the almost \$320 billion (1200 billion SAR) in 2013. Economic growth dipped from 6 percent (annual year-on-year) in the first quarter of 2014 to 2 percent in the third, recovered somewhat in 2015, then was lackluster in 2016, and finally turned negative throughout 2017. Between mid-2014 and 2016, the country's stock market dropped in value by half. As oil revenues fell, the government budget dropped into deficit, reaching 14.8 percent of gross domestic product (GDP) in 2015. Government debt jumped from 1.6 percent of GDP in 2014 to 5.8 percent in 2015 and 13.1 percent in 2016, and continues to increase today (although at 25 percent of GDP, it is still modest by international standards).⁴ Official foreign reserves dwindled from a high of about \$730 billion (2,745 billion SAR) in 2014 to approximately \$600 billion (2,300 billion SAR) at the start of 2016, hovered at the close of 2019 around \$500 billion (1,900 billion SAR), and in March 2020 saw a sharp decline to \$464 billion (1,745 billion SAR).⁵

The full implications of twin shocks in 2020 (an oil price war between Saudi Arabia and Russia and the coronavirus pandemic, both of which occurred as this publication was going to print) are yet to be seen. In April 2020, the IMF predicted a 2.3 percent economic contraction in Saudi Arabia and a 3 percent economic contraction worldwide.⁶ This will significantly impact every aspect of economic life in Saudi Arabia. The government has already signaled that it will cut spending in the 2020 budget, while turning to its reserves and debt markets to fund the budget.⁷ The finance minister indicated that budgets will be cut “sharply” and cautioned Saudis that “the road ahead is long.”⁸

Oil has shaped the modern Saudi state. Since the first major discovery of oil in the kingdom in 1938 and its commercial production following World War II, oil helped fuel a growing Saudi economy and modernize its society. Just before oil prices dropped in 2014, oil revenues were responsible for 90 percent of export earnings, 87 percent of budget revenues, and 42 percent of GDP.⁹ In a little more than half a century, oil wealth has transformed Saudi Arabia into a major regional and global power broker. Adult literacy has reportedly grown to approximately 95 percent of the population today, up from 40 percent in 1972, and nearly 90 percent of the population lives in urban areas now, compared with 20 percent in 1950.

Oil has shaped Saudi politics as well. As one scholar observed: “A pillar of the Saudi social contract has been the allocation of oil rents to the population in exchange

3 In 2014, Saudi Arabia opted to block some calls in OPEC for production cuts. The interpretation at the time was that the Gulf state decided to let the market set a lower price for oil in the short term, thinking it would be able to weather lower prices and retain market share. In 2017, Saudi Arabia reversed its decision and agreed with OPEC to ongoing production cuts. Alex Lawler, David Sheppard, and Rania El Gamal, “Saudis Block OPEC Output Cut, Sending Oil Price Plunging,” Reuters, November 27, 2014, <https://www.reuters.com/article/us-opec-meeting/saudis-block-opec-output-cut-sending-oil-price-plunging-idUSKCN0JA00320141127>; Mark Thompson, “OPEC and Its Allies Agree to Deeper Production Cuts to Prop Up Oil Prices,” CNN, December 6, 2019, <https://www.cnn.com/2019/12/06/investing/opec-production-cuts/index.html>.

4 “Report for Selected Countries and Subjects,” World Economic Outlook Database, International Monetary Fund, April 2018, accessed on February 24, 2020, https://www.imf.org/external/pubs/ft/weo/2018/01/weodata/weorept.aspx?sy=1980&ey=2023&scsm=1&ssd=1&sort=country&ds=.&br=1&c=456&s=NGDP_RPCH%2CPPP%2CPI%2CPIPC%2CLUR%2CGXWDG_NGDP&grp=0&a=&pr.x=30&pr.y=1.

5 Marwa Rashad and Davide Barbuscia, “Saudi foreign reserves fall at fastest for two decades,” Reuters, April 29, 2020, <https://www.reuters.com/article/us-saudi-budget/saudi-foreign-reserves-fall-at-fastest-for-two-decades-idUSKCN22B0W5>; This level is still strong by international standards and is the seventh highest in the world. “International Reserves and Foreign Currency Liquidity,” International Monetary Fund website, accessed on February 24, 2020, http://data.imf.org/?sk=98788e36-230c-46b3-ab14-3c8633f73903&hide_uv=1.

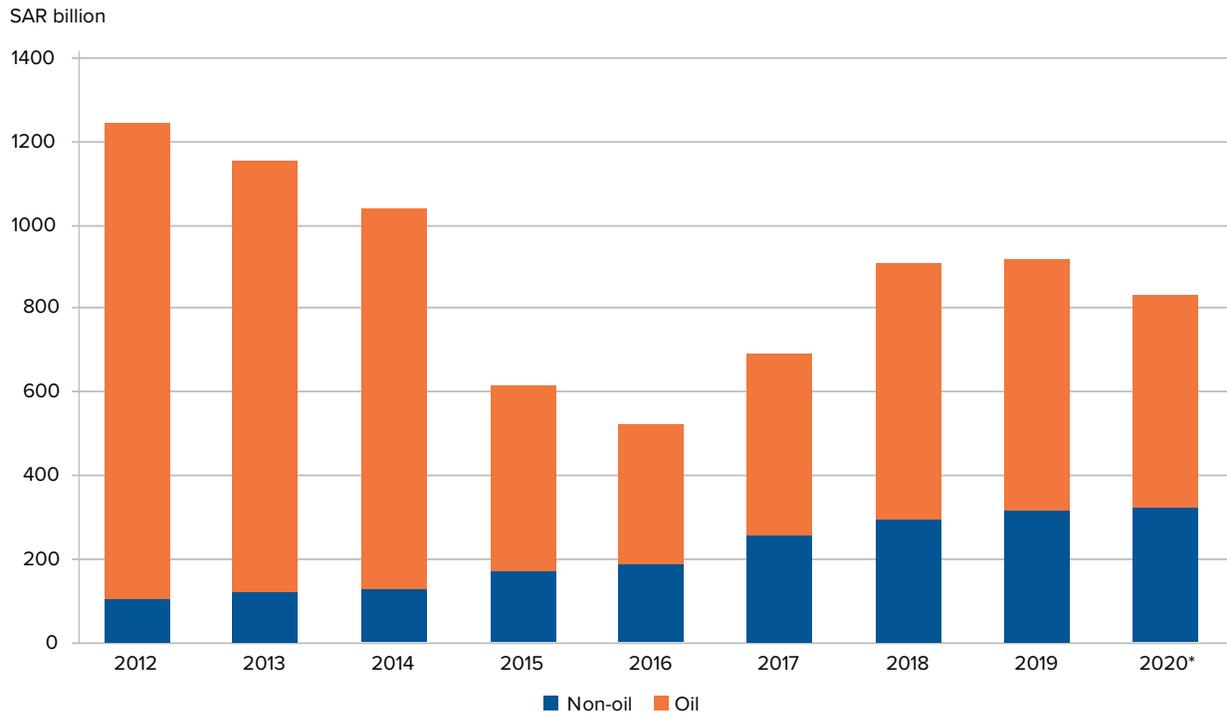
6 “World Economic Outlook, April 2020: The Great Lockdown,” April 2020, <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>.

7 “Saudi government agrees on cutting 5% of 2020 budget,” Reuters, March 18, 2020, <https://www.reuters.com/article/health-coronavirus-saudi-budget/saudi-government-agrees-on-cutting-5-of-2020-budget-idUSL8N2BB9C6>; “Saudi foreign reserves fall at fastest for two decades,” <https://www.reuters.com/article/us-saudi-budget/saudi-foreign-reserves-fall-at-fastest-for-two-decades-idUSKCN22B0W5>; Vivian Nereim, Matthew Martin, and Reema Al Othman, “Saudi Response to Fiscal Shock Centers on Record Debt Plan,” Bloomberg, April 22, 2020, <https://www.bloomberg.com/news/articles/2020-04-22/saudi-arabia-says-it-could-borrow-almost-60-billion-in-2020>.

8 Natasha Turak, “Saudi Arabia hit with Moody’s downgrade, prepares for ‘painful’ measures — but can likely weather the storm,” CNBC, May 4, 2020, <https://www.cnbc.com/2020/05/04/coronavirus-oil-shock-saudi-arabia-gets-downgrade-painful-measures-ahead.html>.

9 “Saudi Arabia,” CIA World Factbook, accessed on March 1, 2020, <https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html>.

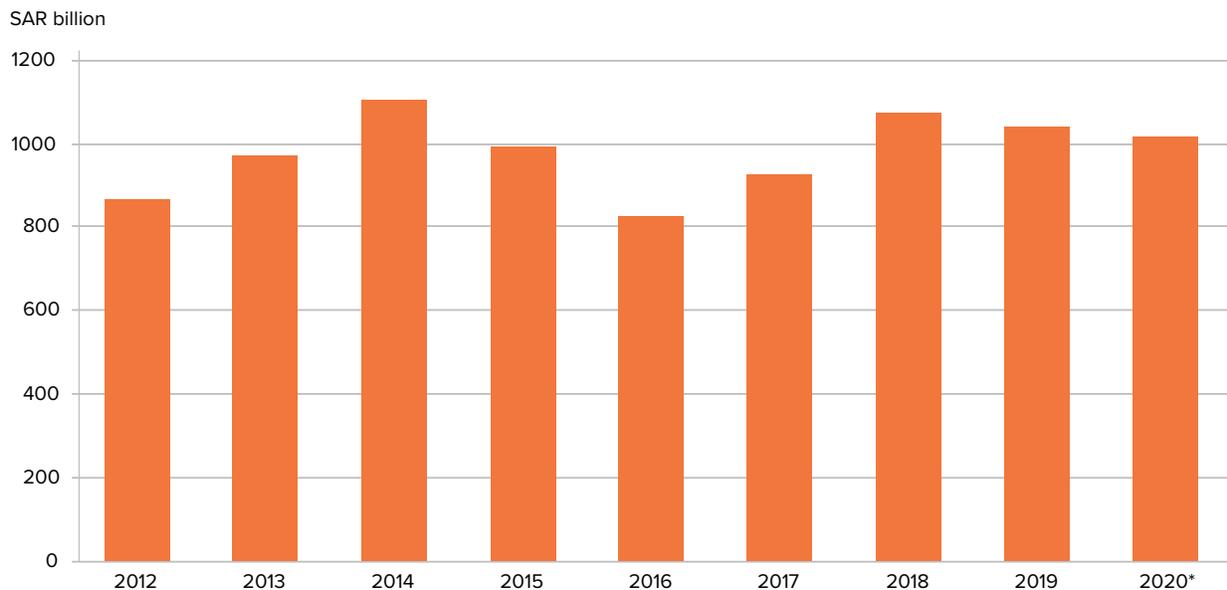
Saudi government revenues



*Projected in the 2020 budget, released in December 2019. Experts have already indicated that revenues are expected to decline drastically in 2020.

Sources: “2020 Saudi Fiscal Budget,” Jadwa Investment, December 10, 2019, <http://www.jadwa.com/en/researchsection/research/economic-research/budget-reports>. “Budget Statement: Fiscal Year 2020,” Ministry of Finance (Saudi Arabia), December 2019, <https://www.mof.gov.sa/en/financialreport/budget2020/Documents/Bud-Eng2020.pdf>.

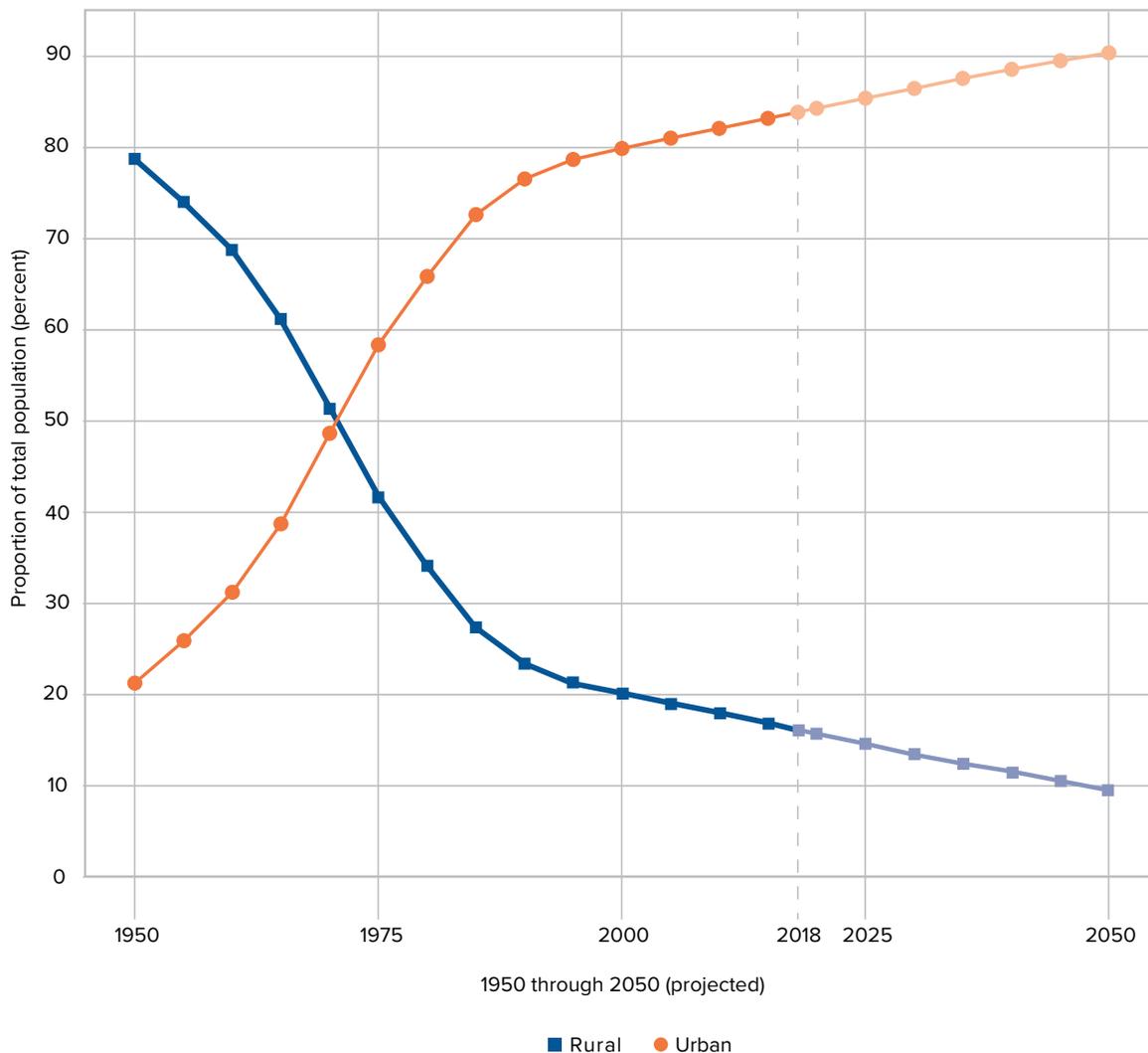
Saudi government expenditures



*Projected in the 2020 budget, released in December 2019. The Ministry of Finance has already indicated that it will reduce expenditures by at least 5 percent in 2020.

Sources: Data drawn from the fifty-second and fifty-fourth annual reports of the Saudi Arabian Monetary Authority, June 2016 and June 2018, respectively (<http://www.sama.gov.sa/en-US/EconomicReports/AnnualReport/Fifty%20Fourth%20Annual%20Report.pdf>, <http://www.sama.gov.sa/en-US/EconomicReports/AnnualReport/Fifty%20Second%20Annual%20Report.pdf>) and “2020 Saudi Fiscal Budget,” Jadwa Investment, December 10, 2019, <http://www.jadwa.com/en/researchsection/research/economic-research/budget-reports>.

Percentage of Saudi population in urban and rural areas



Source: “World Urbanization Prospects: The 2018 Revision, Online Edition,” United Nations, Department of Economic and Social Affairs, Population Division, File 21, 2018, accessed February 24, 2020, <https://population.un.org/wup/Country-Profiles/>.

for loyalty and fidelity to the Saud clan.”¹⁰ The country’s tremendous oil revenues allowed the royal family to build roads, provide education, fund social services, subsidize the price of key staples, and even employ large segments of the population (about two-thirds of working Saudis are employed in the public sector). In return for this largesse, citizens left politics to the royal family.

BROADER TRENDS FACING SAUDI ARABIA

The precipitous drop in oil prices in mid-2014 occurred alongside several broader trends that are not favorable to the kingdom over the long term.

The oil market is likely to be highly volatile in the coming decades and the long-term trend for prices is likely to be downward. The Saudi economy and, by extension, the Saudi state have been highly vulnerable to fluctuations in world oil prices. The government’s coffers have swollen at times when world prices for oil were high and shrunk when they were low. Saudi efforts to stabilize world prices through mechanisms such as OPEC production cuts have become less efficacious over time as more producers have entered the market. The years of \$100 per barrel oil are likely over.

An earlier debate over peak supply has given way to one about peak demand. The question is no longer whether

10 Adel Abdel Ghafar, *A New Kingdom of Saud?*, Brookings Institution, February 14, 2018, <https://www.brookings.edu/research/a-new-kingdom-of-saud/>.



Research at Pacific Northwest National Laboratory (PNNL) includes development of materials and batteries for stationary energy storage applications, as well battery testing. *Photo courtesy of Pacific Northwest National Laboratory.*

the earth will soon run out of oil—new discoveries and technologies have vastly increased known reserves—but when humans will no longer require as much. From 1965 to 1975, global demand for oil increased at a rate of 4.5 percent a year; since 2007, it has grown on average just 1.8 percent.¹¹

According to some estimates, peak demand may not be reached until the 2030–2050 period.¹² However, the oil market is vulnerable to disruption, as we are witnessing now with coal. Either technological innovation (imagine the disruptive effect of a Tesla version of the Model T priced for the masses) or changes in how capital markets perceive long-term risks in the sector (investors begin to demand a higher risk premium on long-term capital projects such as new power plants, either because of regulatory concerns or concerns about long-term returns on investment) could shorten that timeline considerably.

Innovation is now threatening to disrupt energy markets in much the way it has industries including retail, travel, transport, and news and entertainment. The shale revolution may be only a precursor to larger changes ahead. The revolutions in communications and information technology, not to mention other breakthroughs in science, threaten to

change the way we harness, store, distribute, sell, and consume energy. Developments in new drilling technologies, advances in material science, new battery technology, smart electrical grids, innovations in automotive navigation and propulsion systems, and blockchain technology are upending the energy game. At a time when predicting future supply and demand involves increasing uncertainty, the traditional incumbent energy producers face a distinct disadvantage because of their high sunk costs and large vertical organizations that make it harder to adapt quickly to changing market conditions.

Nevertheless, Saudi Arabia does benefit from being the lowest cost producer in the world and likely will be the last producer left pumping. The transition away from oil toward alternative fuels will likely be a long one, and oil will be a part of the mix for a long time to come. And even as we move away from using oil to power our cities and cars, we will still need it to manufacture the petroleum-based chemicals, pharmaceuticals, plastics, and consumer products that we have come to rely upon.

The region is experiencing a demographic youth boom.

The country has a fast-growing population of 34.2 million inhabitants (35 percent of whom are immigrants—expatriates and guest workers who do not qualify as citizens but comprise 80 percent of the private-sector workforce). Like most other countries across the Middle East, it is experiencing a demographic youth bulge because of continued high fertility rates (encouraged by government subsidies for Saudis to have more children), coupled with high infant survival rates due to improvements in health care. The median age of the country is 27.5, with some 60 percent of Saudis now under the age of 30.¹³

As a consequence, hundreds of thousands of young Saudis—up to 280,000 per year—are expected to enter the labor force over the next few years, and the kingdom cannot employ them in the public sector and cannot provide the same levels of social benefits as the previous generation received.¹⁴ While education and literacy are high, the educational system is not providing the skills necessary to secure meaningful work, particularly in the private sector. For most of the country's history, young Saudis could expect to be employed by the state—where wages (and job security) were far greater than the private sector—but the public sector is now too large and

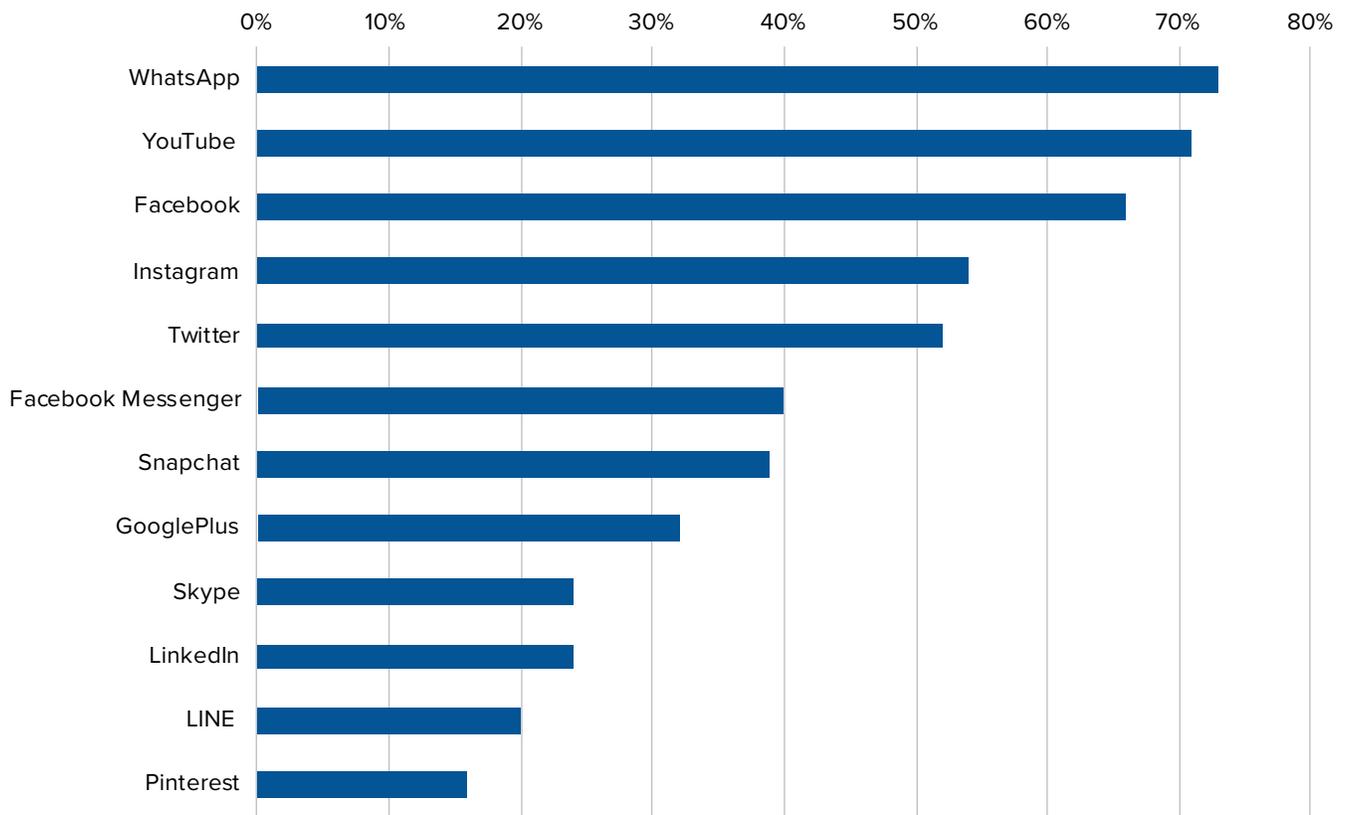
11 Stephen Grand, "Saudi's Vision 2030 Continues to Solicit Concerns," Atlantic Council blog, September 11, 2018, <https://www.atlanticcouncil.org/blogs/menasource/saudi-s-vision-2030-continues-to-solicit-concerns/>.

12 Some experts including the Shell scenarios team predict demand for oil will start to decline between 2025 and 2030. "The Numbers Behind the Sky Scenario," Shell, accessed February 24, 2020, <https://www.shell.com/energy-and-innovation/the-energy-future/scenarios/shell-scenario-sky/interactive-tool.html#iframe=L1dIYkFwcHMvU0tZX2Fzc2V0cy9kYXNoYm9hcmQuaHRtbD9SMVdPUIQxVFBFUzFTT1U=>.

13 "Population Estimates 2018," General Authority for Statistics (Saudi Arabia), accessed February 24, 2020, <https://www.stats.gov.sa/en/43>.

14 "Saudi Arabia: Selected Issues," International Monetary Fund, August 24, 2018, <https://www.imf.org/en/Publications/CR/Issues/2018/08/24/Saudi-Arabia-Selected-Issues-46197>.

Penetration of leading social networks in Saudi Arabia as of third quarter 2017



Source: “Penetration of Leading Social Networks in Saudi Arabia as of Third Quarter 2017,” Statista, January 2018, accessed October 23, 2019, <https://www.statista.com/statistics/284451/saudi-arabia-social-network-penetration/>.

government revenues too constrained for that to continue to be a sustainable practice. Youth unemployment stands at 34.9 percent.¹⁵

The problem is most acute when it comes to women. The youth unemployment rate is 17.5 percent for males, but 59.6 percent for females. The gap in education has narrowed significantly, to the point where the mean years of schooling are now nine years for women and ten years for men, and more women are now enrolled in university than men, yet the gender gap in employment still remains wide.¹⁶ Saudi per capita gross national income for men was \$73,945 (277,370 SAR) in 2017 (adjusted for purchasing power parity in 2011 dollars), as opposed to \$17,422 (65,360 SAR) for women.¹⁷

Citizens throughout the region are demanding more of their governments. Rising educational levels and new communications technologies—from smartphones to satellite television, the Internet to social media—are making citizens (particularly younger ones) more aware of the world around them and how their lot compares with that of counterparts in other countries. The Arab Spring was but one manifestation of this growing demand by citizens in the Arab world and beyond for greater dignity and respect from their governments. Young people appear to want governments that are more inclusive, accountable, and responsive.

Saudi youth are far more educated and connected to the world than their parents’ generation. From 2000 to 2017,

15 This number refers to Saudis aged twenty to twenty-four. “Labour Force, Fourth Quarter 2019,” General Authority for Statistics (Saudi Arabia), accessed April 29, 2020, <https://www.stats.gov.sa/en/814>.

16 *The Global Gender Gap Report 2018*, World Economic Forum, accessed February 24, 2020, <https://www.weforum.org/reports/the-global-gender-gap-report-2018>; “Inequalities in Human Development in the Twenty-first Century: Saudi Arabia,” Human Development Report 2019, United Nations Development Programme (UNDP), accessed February 24, 2020, http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/SAU.pdf.

17 *The Global Gender Gap Report 2018*, <https://www.weforum.org/reports/the-global-gender-gap-report-2018>.

the number of adults (defined here as individuals over 25) with at least some secondary schooling grew to 66.5 percent from 43.3 percent, while mean years of schooling rose to 9.5 years from 6.7 years.¹⁸ Through the King Abdullah scholarship program, hundreds of thousands of young Saudis have had the opportunity to pursue university studies abroad for free.

Advances in education have been matched by comparable advances in communications. Whereas the country had just 6.8 cell phones per 100 people in 2000, that number stood at 148.5 by 2016 (thirty-ninth in the world). Similarly, Internet usage has jumped from negligible levels (a little more than 2 percent of the population) in 2000 to 73.8 percent of the population in 2016 (again, thirty-ninth in the world).¹⁹ Today, nearly 90 percent of Saudi households have access to the Internet and 90 percent of the population is active on social media.²⁰ Saudi youth are also among the world's largest consumers per capita of Facebook and YouTube.

As in other Middle Eastern countries, greater education and global exposure have heightened the youth population's expectations for the future, in terms of the kinds of education they desire, the kinds of employment opportunities they seek, and what they expect from their government.

The social contract that long undergirded the relationship between ruler and ruled in Saudi Arabia is under increasing pressure. As Saudi Arabia discovered oil (in 1938) and then began to produce it (following WWII), the country's leaders built a rentier state around the revenues generated by its extraction, refinement, and export. These revenues became the basis for extensive state spending on employment, social benefits, and defense. By contrast, the nonoil sector generated just 10 percent of government revenues by 2013.²¹ The state employed its oil largesse to buy off key stakeholders (namely, other members of the extended royal family that might challenge its rule) by granting them control of key segments of the economy, while providing the broader Saudi population with social payments, extensive state services, and government employment.

Since that time, the implicit social contract between ruler and ruled within Saudi Arabia has been political quiescence by the latter in return for cradle-to-grave social guarantees by the former. This has meant everything from free prenatal and maternity care to assured government employment for young adults entering the workforce and subsidized prices on key staples like electricity and housing. With oil prices declining and millions of younger Saudis entering the labor market in search of employment, this rentier-state economic model came under stress, and the Saudi state began to struggle to provide such generous and all-encompassing benefits to so many citizens.

Many states in the Arab world (and beyond) are failing or have failed in response to citizens' demands and the rigors of an increasingly competitive global economy. The resulting instability has benefited Iran. Many of the region's other states have proven too brittle, inept, or powerless to be able to meet the basic needs and aspirations of their citizens. In instances where citizens have risen up in protest and the state has responded with violence, civil war has often been the unfortunate result.²² Over the last decade, the region has grappled with four civil wars (one the result not of state breakdown, but of the US invasion of Iraq). Iran has skillfully taken advantage of the resulting political vacuums to advance its interests in the region, often via proxy forces. As a result, Saudi Arabia has felt increasingly encircled by Iran, its chief geopolitical competitor in the region. Already one of the largest arms purchasers in the world, Saudi Arabia has stepped up its defense spending (which now represents 8.8 percent of GDP, the highest level of expenditure as a percent of GDP in the world), as well as its military engagement in the region, in an attempt to counter the Iranian challenge.²³

The increasingly conservative and extreme religious trends within Sunni Islam, which Saudi Arabia long encouraged and sponsored financially, are now proving problematic for the kingdom, domestically, regionally, and internationally. This development is significant because religious authorities have been an integral part of the state from the very founding of the Saudi dynasty by Muhammad Ibn Saud in alliance with the preacher Muhammad ibn Abd-al-Wahhab in the eighteenth century.

18 "Human Development Data," UNDP, accessed February 24, 2020, <http://hdr.undp.org/en/data>.

19 "Human Development Data."

20 "Bulletin of Individuals and Households' ICT Access and Usage Survey: 2018," General Authority for Statistics (Saudi Arabia), accessed February 24, 2020, https://www.stats.gov.sa/sites/default/files/bulletin_of_individuals_and_households_ict_2018.pdf; Irfan Mohammed, "Social Media Usage in Saudi Arabia at Its Peak," *Saudi Gazette*, April 7, 2019, <http://www.saudigazette.com.sa/article/562919/SAUDI-ARABIA/Social-media-usage-in-Saudi-Arabia-at-its-peak-CITC?rss=1>.

21 *Fifty-fourth Annual Report*, Saudi Arabian Monetary Authority, September 4, 2019, <http://www.sama.gov.sa/en-US/EconomicReports/Pages/AnnualReport.aspx>.

22 Tamara Cofman Wittes, *Middle East Strategy Task Force: Politics, Governance, and State-society Relations*, Atlantic Council, November 21, 2016, <https://www.atlanticcouncil.org/in-depth-research-reports/report/middle-east-strategy-task-force-politics-governance-and-state-society-relations/>.

23 Niall McCarthy, "These Countries Have the Biggest Military Budgets as a Percentage of GDP," World Economic Forum with the collaboration of Statista, May 2, 2019, <https://www.weforum.org/agenda/2019/05/the-biggest-military-budgets-as-a-percentage-of-gdp/>.

Following the Iranian Revolution and the seizure by Sunni religious extremists of the Grand Mosque in Mecca in 1979, Saudi leaders became concerned about the kind of religious messianism that was bubbling up in Iran manifesting itself in Saudi Arabia, and they further empowered Saudi religious authorities. What followed was the imposition of even harsher cultural practices at home and an acceleration of the export of their strict, Hanbali school of Sunni Islam throughout the world by financing textbooks, mosques, madrasas, and imams. Saudi youth increasingly chafed at the religious establishment's tight strictures regarding social life. Following the 9/11 attacks on the United States, foreign governments became increasingly critical of Saudi financial support of extremist religious groups. With the proliferation of groups such as al-Qaeda and Islamic State of Iraq and al-Sham (ISIS), there also was a sense that the country's leadership had helped create a Frankenstein that was turning on its master.

Once a great asset, the old style of Saudi decision-making gradually became a liability. Traditionally, Saudi kings, following the death of King Abdulaziz, made major decisions of state in consultation with the other royal princes (first the sons and later including the grandsons of King Abdulaziz). The responsibility for managing particular ministries and sectors of the economy was also divided among the different branches of the family. This deliberative, consensus-based style of leadership ensured a good deal of continuity and conservatism in Saudi policy, which had its merits. Over time, however, the sclerotic, clientelistic nature of the institutions and the mounting age of the involved royals made it more and more difficult to come to a decision.²⁴ At a moment when the challenges that Saudi Arabia was confronting were becoming more and more complex and grave, the royal family was less and less capable of taking decisive measures to address them.

A MOMENT OF CRISIS

All these broad trends—the downward turn in oil markets, a burgeoning youth population, heightened citizen expectations, a fraying social contract, mounting regional instability to the benefit of regional rival Iran, increasingly violent manifestations of religious extremism (namely in the form of ISIS and al-Qaeda), and a dysfunctional domestic decision-making process—seemed to collide around the same time, as oil prices began to tumble in 2014. As the Saudi leadership watched falling oil revenues wreak havoc on the state budget, chipping away at the state's significant official reserves, they were feeling the pinch as well on the expenditure side, as a growing

youth population meant higher spending on social benefits, not to mention the challenge of finding employment for them in an already bloated public sector. King Abdullah had increased some of these social benefits significantly just a few years earlier, in the midst of the Arab Spring, as a way of buying off a restive public as protest movements engulfed countries throughout the region.

By 2014, Saudi officials were still concerned about domestic stability in the face of heightened citizen expectations and discontent. The Arab Spring brought popular protests across the Arab world, with regime change in some states and civil war in others. Iran proved adept at exploiting these civil wars for its own purposes, heightening Saudi Arabia's own sense of insecurity and forcing it to increase military expenditures at a time that it could ill afford to do so. That June, ISIS had taken advantage of the political vacuum created by the civil wars in Syria and Iraq to march into the borderlands between the two countries along the Euphrates and declare an Islamic State within the territory it controlled. Among the Saudi leadership, this must have reinforced concerns, which first surfaced with al-Qaeda's rise, about the kingdom's vulnerability to being overrun itself by home-grown religious extremists. And, as clear as Saudi Arabia's problems may have been at the time to the Saudi leadership, they must also have wondered about their capability of doing anything about them, given the dysfunctional nature of their own decision-making processes.

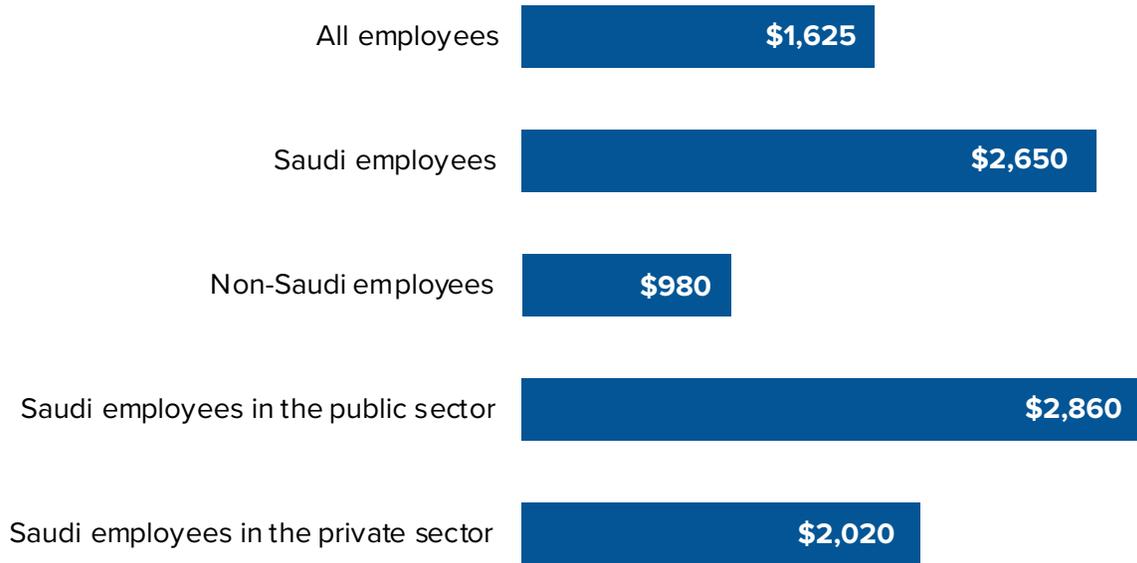
Saudi leaders have recognized the need to diversify the country's economy beyond oil for decades. Beginning in 1970, Saudi Arabia implemented nine successive five-year development plans designed to modernize its economy. The country made important strides during this period—expanding access to education and improving the quality of health care, to give but two examples—but the goal of moving beyond a hydrocarbon-fueled economy proved elusive. The leadership's emphasis on consensus among the major branches of the Al Saud family meant that decision-making was often slow and cautious, while the country's large bureaucracy meant implementation was even more so.²⁵ But the greater impediment was structural: Diversifying away from oil-based products is hard and the Saudi economy has developed no other clear comparative advantage.

Like any other state dependent upon a single natural resource for its economic vitality, Saudi Arabia had found such a transition difficult. In a classic example of what economists refer to as "Dutch disease," the high foreign currency earnings in the Saudi oil sector drove up wages in

24 Steffen Hertog, "Segmented Clientism: The Political Economy of Saudi Economic Reform Efforts," *Saudi Arabia in the Balance: Political Economy, Society, Foreign Affairs*, eds. Paul Aarts and Gerd Nonneman (New York: NYU Press, 2006).

25 Hertog, "Segmented Clientism."

Average monthly pay for workers in Saudi Arabia



Source: Saudi Arabia's General Authority for Statistics, Labor Market, Fourth Quarter, 2019/<https://www.stats.gov.sa/en/814>.

that sector, rendering other parts of the economy uncompetitive in global markets.

There were political challenges associated with transitioning away from oil as well. The fiscal pressures confronting the kingdom presented a profound challenge to the rentier-state model and the implicit social contract that

undergirded it. Citizens had become accustomed to the generous social benefits and employment guarantees long offered by the government. Large segments of the population were likely to oppose changes to the social safety net, cuts in subsidies, increases in the prices of basic commodities, the introduction of taxation, or an end to the guarantee of a public-sector job.

THE ORIGINS OF VISION 2030

The crisis came at a time of transition in the leadership of the kingdom. These developments coincided with the passing of King Abdullah at the age of 90, caused by pneumonia, and the January 2015 ascension to the throne of half brother King Salman, one of the last surviving sons of ibn Saud (King Abdulaziz, the founder of modern Saudi Arabia). He elevated alongside him his son, Mohammed bin Salman, to the position (at the time) of defense minister and secretary general of the Royal Court: Then 29 years old, he had worked in business, providing consulting services to the government and advising his father when he was governor of Riyadh.

King Salman and his son Mohammed bin Salman, often referred to as MBS, came to power determined to steer a new course for the country, while consolidating their grip on power. Above all, they were intent on changing the international image of the kingdom, and they were acutely aware of the need to diversify the economy away from oil, and quickly. As one prominent Saudi observed, things had reached a point where “the status quo was no longer an option.”²⁶

With his father’s backing, MBS’s rise was swift. To his positions as defense minister and secretary general of the Royal Court, he soon added chair of the new Council of Economic and Development Affairs and, several months later, deputy crown prince, and finally, in 2017, crown prince.²⁷

The soon-to-be crown prince took on several large and ambitious projects, of which he quickly became the public face: domestic reform efforts, the Saudi-led coalition’s war in Yemen, and the kingdom’s broader engagement with the world. King Salman and MBS moved rapidly to consolidate power to the benefit of their branch of the family, at the expense of the more traditional power centers within the kingdom—namely the extended royal family and the religious establishment. They brought in a number of new ministers who would play key roles in designing the new economic reform plan, and set to work over the course of 2015, in tandem with an army of well-paid Western consultants, to give it shape.

The father-son team was presented with a rare window for reform. When an economy is performing well, countries rarely can muster the political will for reform. Such an opportunity usually arises only with a change in leadership or in the face of a crisis. In 2015, Saudi Arabia experienced both. The excitement generated by King Salman’s accession to the throne and the sheer depth of the economic crisis generated by the collapse of oil prices the previous year provided the pair the popular support to make dramatic change—a window of opportunity for reform that countries often experience only once in a generation.

In December 2015, McKinsey Global Institute, a research arm of McKinsey and Company (which, along with Boston Consulting Group and Booz Allen Hamilton has advised Saudi leaders for years), released a report analyzing the Saudi economy in the wake of the oil slump.²⁸ The report made dire predictions for Saudi Arabia’s economic future. Even with some policy changes, the consultancy predicted, “unemployment will rise rapidly, household income will fall, and the fiscal position of the national government will deteriorate sharply.” Their recommendation to avoid economic stagnation was a “productivity-led economic transformation.” Broadly, McKinsey identified a pressing need to diversify away from an oil-based economy and “accelerate the shift from its current government-led economic model to a more market-based approach,” with significant government investments mobilized to enable the transformation. The report identified eight sectors (beyond oil) that McKinsey’s researchers found to be promising areas for Saudi Arabia to gain a competitive advantage—sectors that they assessed to be underdeveloped, overly state controlled, or a combination of both. These included mining and metals, petrochemicals, manufacturing, retail and wholesale trade, tourism and hospitality, health care, finance, and construction.

The fiscal downturn that Saudi Arabia was facing, the report assessed, was likely to accelerate if the kingdom did not address the structural flaws underlying its economy—flaws hidden from view when oil prices were \$100 a barrel. The report advocated a three-fold strategy: create jobs and increase workforce productivity, improve the business environment, and simultaneously cut government

26 Author interviews, April 2018.

27 At the same time that MBS replaced Prince Mohammed bin Nayef as crown prince, he also replaced him as chair of the Council of Political and Security Affairs, the body that replaced the Saudi National Security Council in 2015.

28 Gassan Al-Kibsi, Jonathan Woetzel, Tom Isherwood, Jawad Khan, Jan Mischke, and Hassan Noura, *Moving Saudi Arabia’s Economy Beyond Oil*, McKinsey Global Institute, December 2015, <https://www.mckinsey.com/featured-insights/employment-and-growth/moving-saudi-arabias-economy-beyond-oil>.

McKinsey representatives refute any suggestion that the company or its research arm were the author of Saudi Vision 2030, and add: “The MGI report, as with all MGI research is independent and was not commissioned or sponsored in any way by any business, government, or other institution.”



Left: King Salman bin Abdulaziz Al Saud of Saudi Arabia in October 2017. *Source:* President of Russia. Right: Saudi Crown Prince Mohammed bin Salman at a workshop hosted by the World Tourism Organization. *Source:* World Tourism Organization (UNWTO).

spending and increase revenue streams. It estimated this transformation would require \$4 trillion (15 trillion SAR) in investment in the nonoil economy (private and public, international and domestic) in order for the nonoil economy to jump from 10 percent to 70 percent of government revenues by 2030.

Prince Mohammed bin Salman took on the challenge of implementing sweeping economic and social reforms in the kingdom. He commissioned and spearheaded the development of a “Vision 2030” strategic plan that articulated the major elements of the government’s new reform vision. The role cemented his reputation as a reformer in the eyes of the Saudi public (and beyond) and helped him consolidate his own power, as evidenced by his elevation to crown prince in 2017.

Just weeks after the release of the McKinsey report, following a year of steeply reduced government revenue and a warning from the International Monetary Fund (IMF), the Ministry of Finance announced in its 2016 budget a plan to

slash expenditures and bring the fiscal situation under control.²⁹ The budget aligned with many of McKinsey’s recommendations and previewed elements of the coming Vision plan—including preparations to privatize some economic sectors and boost domestic prices for energy, water, and electricity. The proposed budget of \$224 billion (840 billion SAR) represented a 16 percent decrease over 2015.³⁰ In March 2016, the minister responsible for the implementation of tariffs on water was fired after widespread public outcry over the measure.³¹ This was a preview of a “two steps forward, one step back” approach that since then has often accompanied the implementation of controversial social and economic reforms.

In January 2016, then-Deputy Crown Prince Mohammed bin Salman spoke publicly for the first time about aspects of the coming reform plan in an interview with the *Economist*.³² He highlighted the government’s intention to privatize state-owned industries in certain sectors, including health care, education, and military industries, and mentioned the possibility of an initial public offering (IPO)

29 “Saudi Arabia: 2015 Article IV Consultation—Press Release, Staff Report, and Information Annex,” IMF Country Report No. 15/251, International Monetary Fund, September 2015, <https://www.imf.org/external/pubs/ft/scr/2015/cr15251.pdf>; Simeon Kerr, “Set Out Spending Cuts, IMF Tells Saudis,” *Financial Times*, October 21, 2015, <https://www.ft.com/content/c9f50006-77fe-11e5-933d-efcdc3c11c89>.

30 Actual spending in 2016 was 17 percent lower than in 2015, based on numbers provided by SAMA. The discrepancy from projections can be attributed to underspending compared to the 2016 budget, but also to 2015 spending that was higher than projected when the 2016 budget was proposed. Simeon Kerr, “Saudis Unveil Radical Austerity Programme,” *Financial Times*, December 28, 2015, <https://www.ft.com/content/a5f89f36-ad7e-11e5-b955-1a1d298b6250>; “56th Annual Report: 1439H – 2018,” Saudi Arabian Monetary Authority, 2018, accessed March 1, 2020, <http://www.sama.gov.sa/en-US/EconomicReports/AnnualReport/Fifty%20Fourth%20Annual%20Report.pdf>.

31 Katie Paul and Noah Browning, “Saudi Arabia Slashes Ministers’ Pay, Cuts Public Sector Bonuses,” Reuters, September 26, 2016, <https://www.reuters.com/article/us-saudi-economy/saudi-arabia-slashes-ministers-pay-cuts-public-sector-bonuses-idUSKCN11W1VS>.

32 “Transcript: Interview with Muhammad bin Salman,” *Economist*, January 6, 2016, <https://www.economist.com/middle-east-and-africa/2016/01/06/transcript-interview-with-muhammad-bin-salman>.



Khalid Al-Falih, Minister of Energy, Industry and Mineral Resources of Saudi Arabia; Laurence D. Fink, Chairman and Chief Executive Officer, BlackRock, USA; Mohammed Al-Jadaan, Minister of Finance of Saudi Arabia; Andrew N. Liveris, Chairman and Chief Executive Officer, The Dow Chemical Company, USA; Majid Al-Qassabi, Minister of Commerce and Investment of Saudi Arabia, and Philipp Rösler, Head, Regional and Government Engagement, Member of the Managing Board, World Economic Forum speaking during the Session “Saudi Arabia Vision 2030” at the Annual Meeting 2017 of the World Economic Forum in Davos, January 19, 2017. Source: Copyright by World Economic Forum/Manuel Lopez

for Saudi Aramco, the state-owned oil company. His strategy to rejuvenate the economy, as described in the interview, would be to transfer underutilized state assets (the example he provided was beachfront land in Jeddah) to state-owned funds, develop projects based around these assets that could be transformed into companies, and then sell these companies in public offerings.

In April 2016, MBS released “Saudi Vision 2030,” which established the broad strategy and goals for the proposed reform. By the time the vision statement was released, little of its content came as a surprise, but the sheer breadth and audacity of its ambitions for transforming the country captured both domestic and international attention. Reflecting the influence US consultants, the vision statement is broken down into three themes, 96 strategic objectives, and 13 Vision Realization Programs (VRPs). The document set the stage for some of the dramatic social changes and plans for economic diversification that Saudis would see over the coming months and years.³³

Vision 2030 also made Mohammed bin Salman an international celebrity as he made a highly publicized road show

through the United States and Europe in spring 2018 touting its benefits and showcasing the “new” Saudi Arabia that he was creating. He visited leaders in Hollywood, Silicon Valley, Washington, DC, and Wall Street, wowing them with his vision for reform and encouraging them to invest in the kingdom.

The international media hype about a “new” Saudi Arabia did not last long. That October, the Saudi journalist Jamal Khashoggi, who wrote a column for the *Washington Post*, was brutally murdered in the Saudi consulate in Istanbul by government officials closely linked to the crown prince. The news followed several other developments—the heavy-handed crackdown on hundreds of Saudi businessmen the previous November, the arrests and alleged torture of many political and civic activists, the temporary detention of the Lebanese prime minister in Riyadh, and the widespread civilian suffering and death in the war in Yemen—which together served to paint the crown prince and Saudi Arabia in a very different light. Khashoggi’s death (and the subsequent cover up) frightened away foreign investors and cast a pall over its reform efforts that the kingdom has yet to shake fully.

33 “Vision 2030,” Kingdom of Saudi Arabia, 2017, https://vision2030.gov.sa/sites/default/files/report/Saudi_Vision2030_EN_2017.pdf.

WHAT DOES SAUDI VISION 2030 CONTAIN?

Saudi Vision 2030 seeks to build upon three perceived comparative advantages of Saudi Arabia: its central role in the Arab and Muslim worlds as custodian of the Holy Mosques, its financial strength as a potential investment powerhouse, and its geographical position at the crossroads of three continents.³⁴ Capitalizing upon these attributes, Vision 2030 seeks to build not just a thriving economy, but also a more vibrant Saudi society and a higher-performing, modernized government.

For many of these goals, the plan identifies specific government programs that have been established to help achieve them and specific benchmarks, or “Key Performance Indicators” (KPIs), for success. Examples of such KPIs include:

- “to increase our capacity to welcome Umrah visitors from eight million to thirty million every year”;³⁵
- “to have three Saudi cities be recognized in the top-ranked hundred cities in the world”;
- “to increase SME contribution to GDP from 20 percent to 35 percent”;
- “to increase the Public Investment Fund’s assets, from SAR 600 billion to over seven trillion”;
- “to raise our ranking in the Government Effectiveness Index from 80 to 20”; and
- “to rally one million volunteers per year (compared to 11,000 now).”



The Saudi Arabian flag. Source: U.S. Army National Guard/Sgt. 1st Class Jim Greenhill

34 “KSA Vision 2030 Strategic Objectives and Vision Realization Programs,” Kingdom of Saudi Arabia, accessed February 24, 2020, <https://vision2030.gov.sa/sites/default/files/vision/Vision%20Realization%20Programs%20Overview.pdf>.

35 Umrah is often referred to as the minor pilgrimage to Mecca, considered optional for Muslims worldwide. It can be completed at any time, as compared to the Hajj, which is only to be undertaken during a defined period during the last month of the Islamic calendar.

SAUDI VISION 2030 OBJECTIVES	
<p>The first objective of <i>building a more vibrant society</i> envisions:</p>	<ul style="list-style-type: none"> ■ spurring tourism through greater interest in and access to the Holy Mosques as well as other historical cultural sites; ■ creating a home-grown entertainment industry; ■ improving access to and the value of health care services, with a focus on preventative health; ■ encouraging citizens to be more engaged in sports and pursue healthier lifestyles; ■ developing safer, more livable, and more sustainable cities with better infrastructure and services; ■ enhancing environmental sustainability by reducing pollution and protecting the environment; ■ providing greater support to families and improving the moral upbringing of young people; and ■ modernizing the social safety net to provide more targeted support for the poor, the handicapped, and the elderly.
<p>The second objective of <i>building a thriving economy</i> envisions:</p>	<ul style="list-style-type: none"> ■ improving the quality of education and tailoring it to the workforce needs of a modern economy; ■ providing greater opportunities for women and people with disabilities to join the workforce; ■ nurturing a culture of innovation and entrepreneurship and the growth of small- to medium-sized enterprises; ■ creating more attractive working and living conditions for foreign talent; ■ improving the business environment through regulatory reforms, revamping “economic cities,” and establishing new special investment zones; ■ maximizing investment opportunities by making the Public Investment Fund the largest sovereign wealth fund in the world through the sale of state assets; ■ privatizing select industries and attracting foreign direct investment; ■ eliminating many oil subsidies to help modernize the oil sector, while capitalizing upon downstream opportunities in oil and petrochemicals, as well as exploiting the mining of other natural resources; ■ building renewable energy and military industrial sectors and further developing the retail, tourism, and manufacturing sectors; and ■ creating a regional logistical hub, while integrating Saudi Arabia more tightly into the regional and global economies.
<p>The third objective of <i>strengthening government capacity</i> envisions:</p>	<ul style="list-style-type: none"> ■ embracing transparency, while showing zero tolerance for corruption; ■ deepening the communications links between the government and its citizens; ■ developing e-government services and improving the quality of services overall; ■ identifying greater efficiencies in government spending and maintaining fiscal balance; ■ increasing revenues from fees, without introducing income or wealth taxes on citizens; ■ transforming bureaucratic structures in a way that allows for more agile decision-making; ■ creating a more results-oriented culture and introducing feedback to enhance performance and productivity among government entities and employees; ■ ensuring food and water security; ■ enabling citizens to manage their financial planning and encouraging social responsibility; ■ instilling a greater focus on social contributions and economic sustainability among the business community; and ■ developing a more effective nonprofit sector that has deep and measurable social impact.

HOW IS VISION 2030 TO BE IMPLEMENTED?

The Saudi government has established a number of government entities to help implement Vision 2030, from a new Council of Economic and Development Affairs (CEDA) that shapes and periodically refines the overarching strategy, to a Strategic Management Office within that council that translates the Vision 2030 strategy into concrete government programs, to a National Center for Performance Management (Adaa) that monitors progress in implementing those programs by tracking how the programs are reaching their KPIs.³⁶

Vision 2030 is to be achieved through thirteen Vision Realization Programs (VRP). Each VRP is responsible for creating a strategy and set of projects across a number of the ninety-six strategic objectives laid out in the Vision 2030 vision statement. For each VRP, a program committee coordinates activity and charts progress, under the direction of a chairman (typically a minister-level cabinet official) assigned by the CEDA. Each VRP has a detailed delivery plan laying out international benchmarks, program metrics and targets for KPIs, strategic pillars of the program, how the program interacts with other VRPs, a full portfolio of initiatives, the government entities that will take on these projects, a timeline, and a budget.

Ministers and department heads are now responsible for meeting the goals of Vision 2030. The CEDA's Strategic Affairs Office assigns each ministry or implementing agency various KPIs. CEDA and the crown prince are reportedly holding ministries to account for those KPIs, and the implementing agencies have a new awareness of the scrutiny over their programs.³⁷ The new National Center for Performance Measurement, or Adaa, is said to have developed a "dashboard" with over seven hundred indicators to monitor progress.³⁸

As should be evident, Vision 2030 is a far-reaching, multi-dimensional effort that touches upon almost every aspect of Saudi life: how citizens learn and work, cultural and entertainment options available to them, the livability of their communities, how they get from place to place, their charitable activities, and exercise habits. We will focus here on the lines of effort in the Vision 2030 strategy that advance most directly its core mission: diversifying the country away from oil by developing the private sector and increasing private-sector employment. These lines of effort are

Saudi Vision 2030 Vision Realization Programs¹

1. **Financial Sector Development Program***
2. **Fiscal Balance Program***
3. **Hajj and Umrah Program**
4. **Housing Program***
5. **Human Capital Development Program**
6. **National Character Enrichment Program**
7. **National Companies Promotion Program**
8. **National Industrial Development and Logistics Program***
9. **National Transformation Program***
10. **Privatization Program***
11. **Public Investment Program***
12. **Quality of Life Program***
13. **Strategic Partnership Program**

* Of the thirteen total VRPs, the eight marked with an asterisk have detailed information available on the Vision 2030 website about strategy, KPIs, initiatives, and in some case regular updates on progress. For greater detail about the thirteen vision programs, their activities, key acting bodies, representative initiatives, and goals and objectives, see Appendix A on pages 66-71.

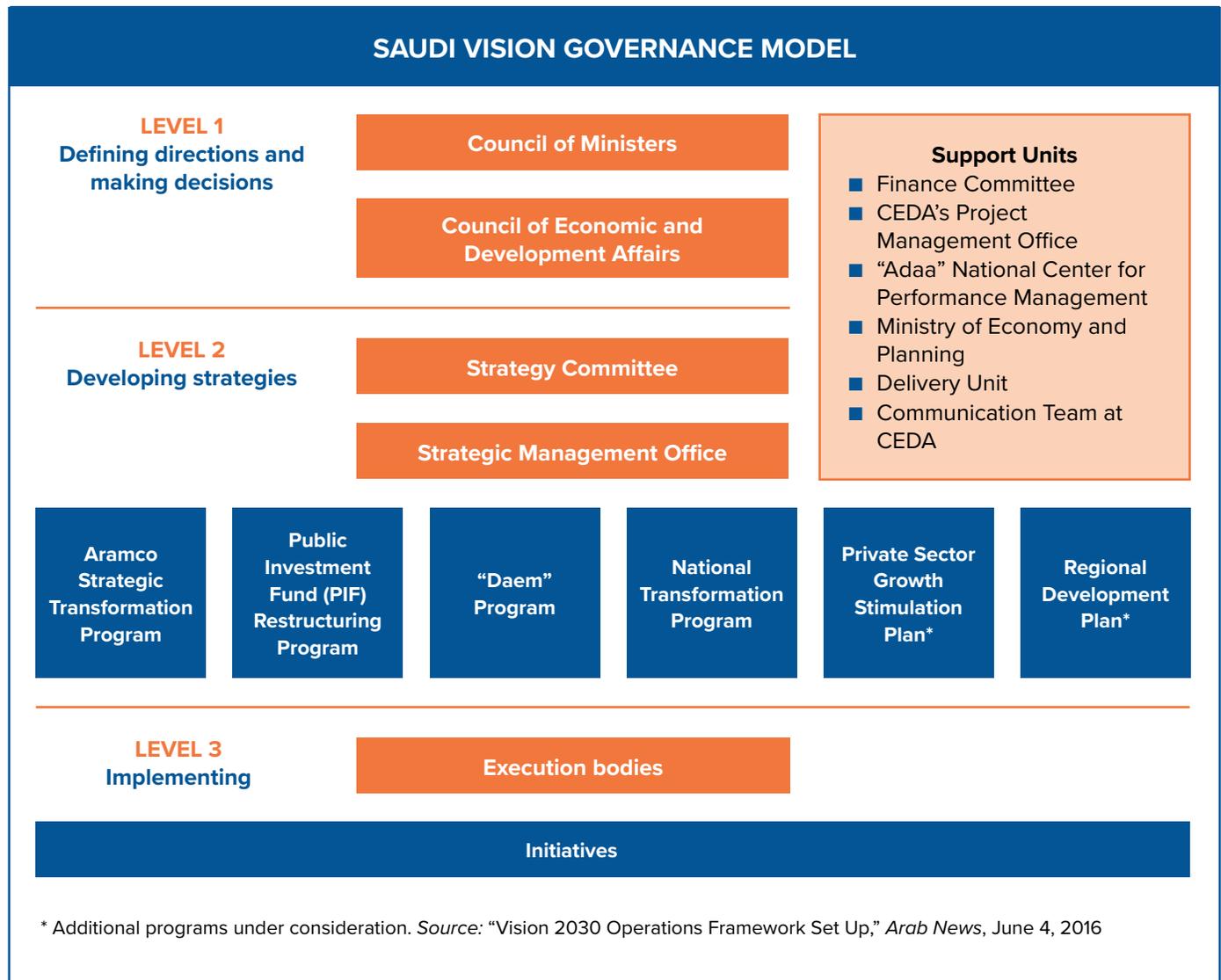
contained mostly within the second objective of *building a thriving economy* and include:

- establishing fiscal balance;
- improving the functioning and capacity of the government;
- achieving greater workforce utilization and employment opportunities, particularly in the private sector, while simultaneously improving the quality of education and tailoring it to workforce needs;

³⁶ "KSA Vision 2030 Strategic Objectives and Vision Realization Programs."

³⁷ Author interviews, March 2019.

³⁸ Gregory Warner, "Episode 821: The Other Davos," *NPR*, January 31, 2018, <https://www.npr.org/sections/money/2018/01/31/582233478/episode-821-the-other-davos>. The National Center for Performance Management ("Adaa"), has a web presence, though the dashboard is not publicly available; "Performance Measurement Operations," accessed February 24, 2020, <https://www.adaa.gov.sa/en/Performance%20Measurement%20Operations>.



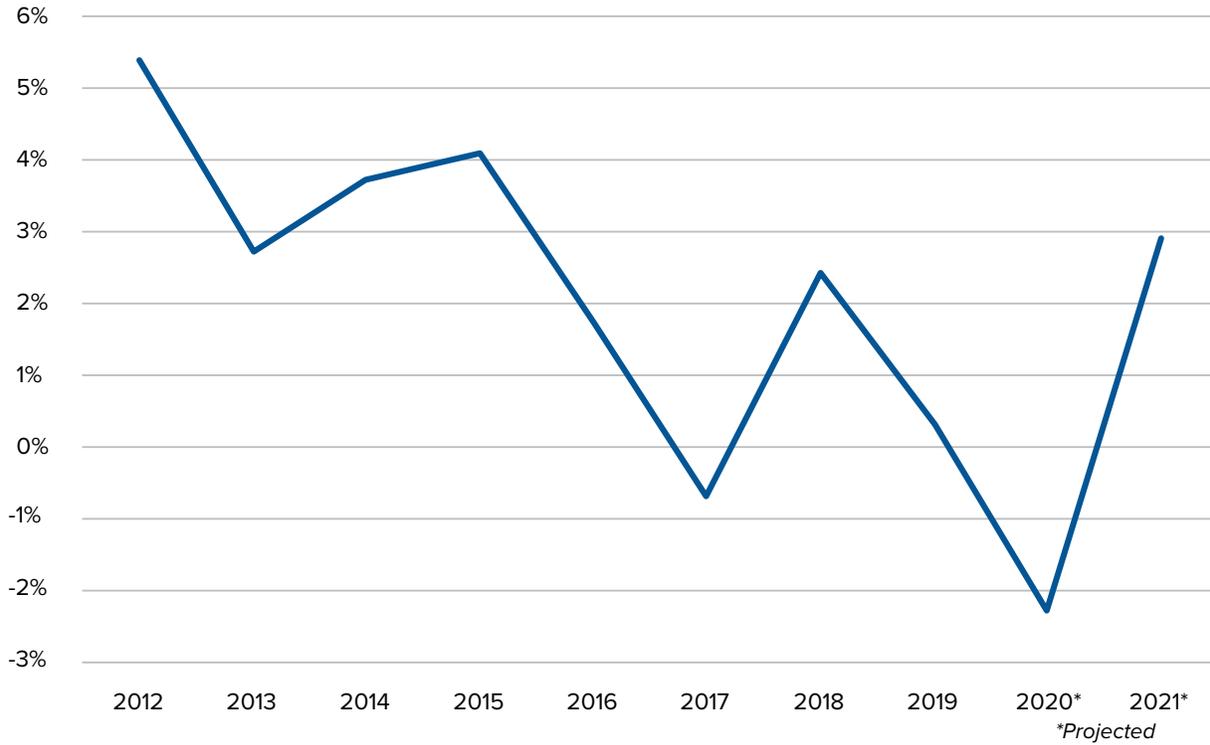
- addressing foreign talent and the dual labor market;
- providing greater opportunities for women;
- improving the business environment through regulatory reforms;
- nurturing a culture of innovation and entrepreneurship and the growth of small- and medium-sized enterprises;
- privatizing select industries and attracting foreign direct investment;
- opening the social sphere to enable new sectors; and
- maximizing investment opportunities by making the Public Investment Fund the largest sovereign wealth fund in the world and developing megaprojects.

In the section below, we describe the nature of these efforts. In a succeeding section, we seek to evaluate their effectiveness.

ESTABLISH FISCAL BALANCE

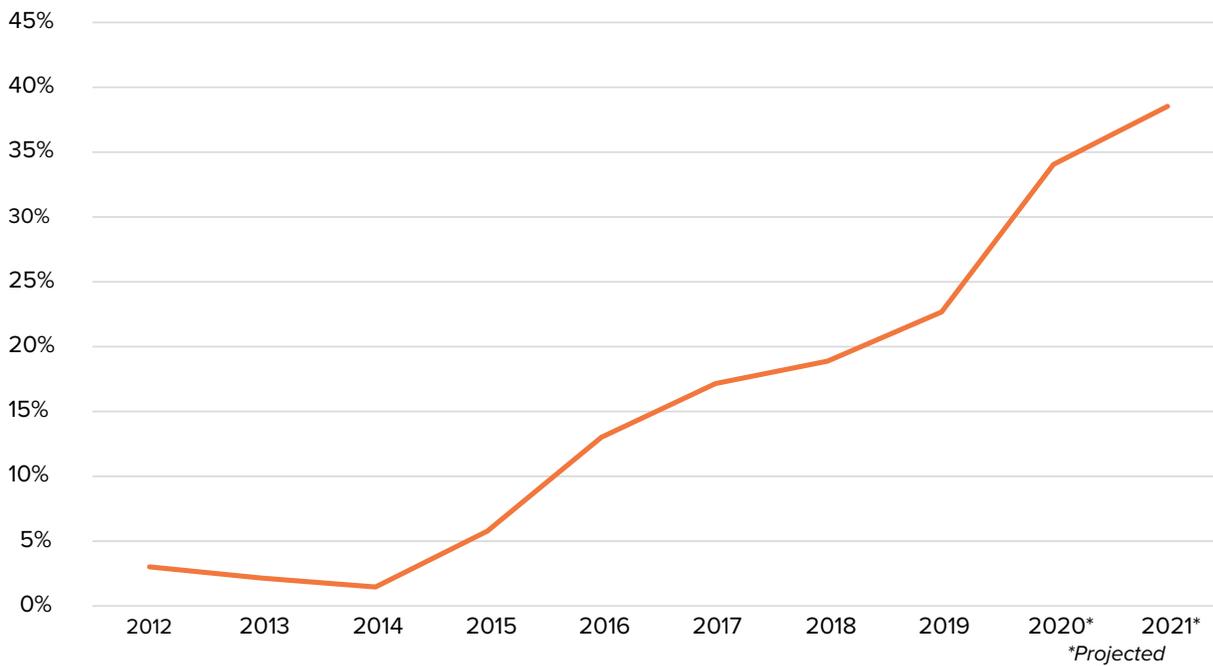
Following the plunge in oil prices in mid-2014, the Saudi government confronted a budget shortfall in 2015 of 15 percent of GDP, which required it to spend down \$116 billion (424 billion SAR) in reserves that year, nearly 16 percent of total official reserves. The most urgent task, therefore, was to stem the bleeding and stabilize the macroeconomic situation. Saudi officials undertook a number of fiscal measures to this end in the immediate aftermath of the economic downturn. They cut government expenditures sharply in 2016 as the kingdom reevaluated its spending priorities and budgeting procedures.

GDP growth



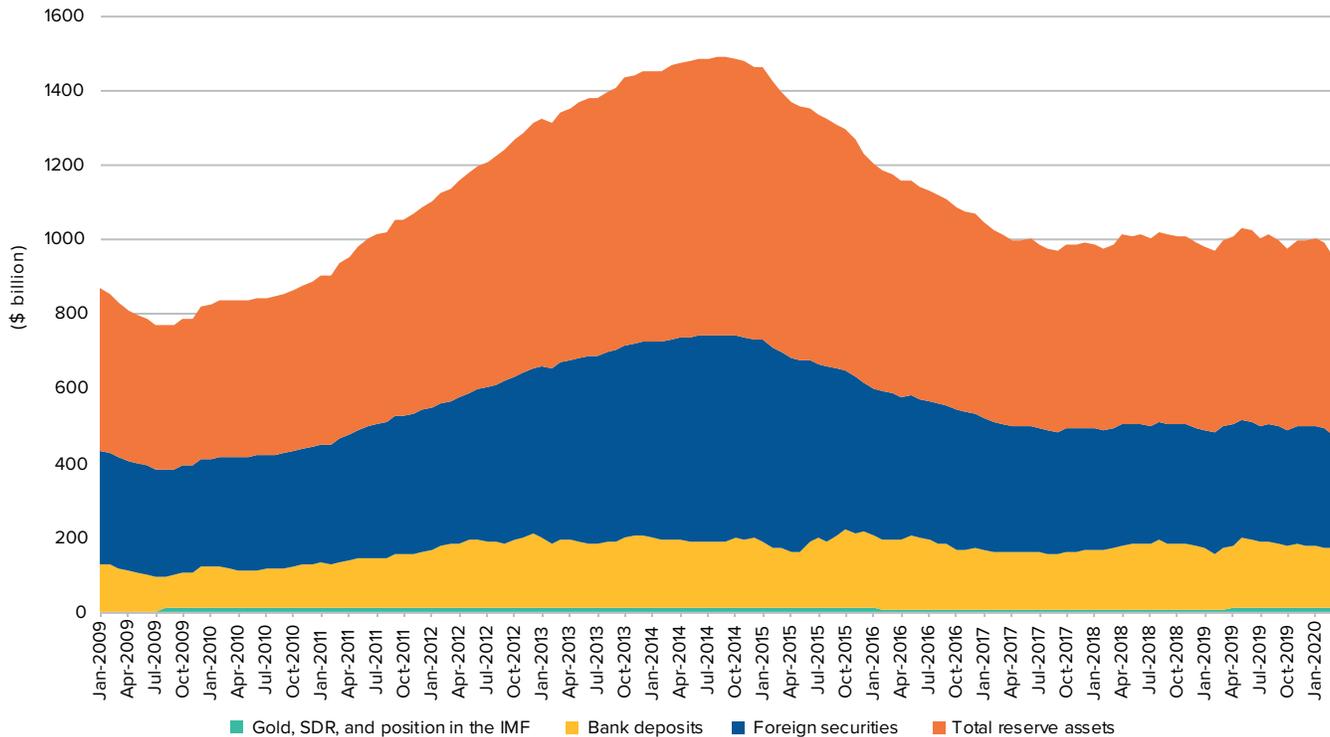
Source: "Real GDP growth" (Saudi Arabia), IMF Datamapper, https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/SAU?year=2020

Public debt to GDP ratio



Source: "Gross Dept Position" (Saudi Arabia), IMF DataMapper, https://www.imf.org/external/datamapper/G_XWDG_G01_GDP_PT@FM/SAU?year=2020.

SAMA total foreign reserves



Source: Saudi Arabian Monetary Authority Monthly Statistics, Monthly Bulletin March 2020, April 28, 2020, <http://www.sama.gov.sa/en-US/EconomicReports/Pages/MonthlyStatistics.aspx>; Jadwa Investment, Saudi Chartbook, February 2020, <http://www.jadwa.com/en/researchsection/research/chart-books>.

Although oil revenues continued to fall through early 2017, the kingdom managed to cut the budget deficit to 4.6 percent by 2018 and to slow the depletion of its foreign reserves, which stabilized in 2018 and rose slightly in 2019. The steps included reining in government expenses in 2016 and testing the waters with international bond sales for the first time (while continuing to draw on domestic debt markets), in concert with a recovery in oil prices.

The spending cuts announced in the 2016 budget remained in force throughout the year and into 2017. Within the first months after Vision 2030’s announcement, the Saudi government reduced wages for ministers, housing and car allowances for members of the advisory body known as the Shura Council, and overtime pay and vacations for all government employees.³⁹ As the government cut spending, the Saudi Arabian Monetary Authority simultaneously embarked on a “supportive monetary policy” and injected nearly \$5.3 billion into Saudi banks, with

the intention of supporting a struggling private sector as it adapted to a severe drawback in government spending on projects and contracts awarded.

By late 2017, oil prices had risen—not to pre-2014 levels, but enough to register growth in government revenues. With the release of the 2018 budget, the Ministry of Finance announced it would ease some austerity measures and increase government spending overall by 5.6 percent, following a severe year for a private sector reliant on government spending and amid economic contraction. The goal of a balanced budget was pushed from 2019 to 2023, which experts (and the IMF) largely agreed the nation could afford for now, given its still low debt-to-GDP ratio and significant (if depleted) foreign reserves. However, the strategy is reliant on borrowing and dipping further into reserves on the assumption of higher future oil prices and is a transitional rather than a sustainable strategy over the long term.⁴⁰

39 Paul and Browning, “Saudi Arabia Slashes Ministers’ Pay,” Reuters, September 26, 2016; John Kemp, “Saudi Arabia Eases Austerity Just as Oil Prices Decline,” Reuters, June 21, 2017, <https://www.reuters.com/article/us-saudi-reform-kemp/saudi-arabia-eases-austerity-just-as-oil-prices-decline-kemp-idUSKBN19D03W>. In early 2017, the government reinstated all wage and benefit allowances that had been removed.

40 “Saudi Arabia: 2019 Article IV Consultation—Press Release; and Staff Report,” IMF Country Report No. 19/290, September 9, 2019, <https://www.imf.org/en/Publications/CR/Issues/2019/09/09/Saudi-Arabia-2019-Article-IV-Consultation-Press-Release-and-Staff-Report-48659>.

The move to expand government spending coincided with the introduction of several new revenue-generating measures: the value-added tax (VAT) in January 2018 at a 5 percent rate and a hike in the expat levy (introduced in July 2017), a monthly fee that businesses pay on each non-Saudi worker employed. Other revenue streams include a tax (introduced in summer 2017) on tobacco, energy drinks, soft drinks, and a December 2019 expansion to cover all drinks with added sugar.⁴¹

The government also began reducing a number of energy subsidies—notably on electricity and gasoline—that burden the budget and distort the domestic energy market.⁴² To protect the most vulnerable parts of the population, the Ministry of Labor and Social Development announced a new social welfare program in December 2017, the Citizens Account program, that replaces the subsidies with monthly cash payments of up to \$100 (SAR 382) for individuals in low- and middle-income households.⁴³ As of February 2019, nearly 3.75 million beneficiaries were receiving support from the program.⁴⁴

In 2020, Saudi Arabia is facing a -2.3 percent GDP growth, and will struggle once again to achieve fiscal balance. It is too early to assess the success of that effort, and to what degree the economic stimulus will be aligned with the goals of Saudi Vision 2030 versus competing for funding.

IMPROVE THE FUNCTIONING AND CAPACITY OF THE SAUDI GOVERNMENT

One of the most visible of the VRPs is the National Transformation Program 2020 (NTP). Under the NTP, twenty-four government agencies that work on economic and development issues are being restructured to have

the institutional effectiveness to reach the goals of Vision 2030. The aim is to strengthen government capacity and efficiency in order to be able to achieve the program's ambitious mandate. Thirty-seven of Vision 2030's ninety-six strategic objectives sit with the NTP, which will be measured through ninety-two main KPIs and 224 sub-KPIs and implemented through 433 initiatives and projects.

Many of the initiatives involve making government services accessible online. The aim is to more effectively provide information to citizens, receive feedback on programs, and streamline services across the government. Adaa, for example, launched a smartphone app to solicit feedback from Saudis on the receiving end of government services and measure citizen satisfaction, and provide easy access to electronic government services.⁴⁵ Similarly, the existing smartphone app Absher has provided Saudis the option to access Department of Motor Vehicle services, request government documents, book appointments, and apply for visas and more since 2015.⁴⁶

To improve the government procurement process, the Ministry of Finance launched the electronic platform Etimad in 2018, for use both by government entities and private-sector contractors.⁴⁷ The platform should “enable government agencies to effectively manage their fiscal resources and govern the accounting cycle, as well as [bolster] transparency,” and potentially provide greater opportunities to smaller contractors.⁴⁸ Legal services—including court summons, online filings, marriage contracts, notarization, mortgage authorization, and real-time online advice—are now available through the Ministry of Justice.⁴⁹ The Saudi Arabian Monetary Authority launched an electronic bill-payment system for companies, and the Ministry of Health offers an app to provide virtual medical

41 “Saudi Arabia’s Excise Tax on Sugary Drinks Won’t Impact Businesses, Investments in Long Term,” *Saudi Gazette*, January 7, 2020, <http://saudigazette.com.sa/article/586450>.

42 “Saudi Arabia Slows Phasing Out of Energy Subsidies,” Reuters, December 20, 2017, <https://af.reuters.com/article/africaTech/idAFL8N1OK2PQ>.

43 The individual entitlement is based on household income, and household transfers are computed based on the number of household members, using an OECD-modified scale (referring to the Organisation for Economic Co-operation and Development). “Saudi Arabia: 2018 Article IV Consultation—Press Release and Staff Report,” IMF Country Report No. 18/263, August 24, 2018, 64, <https://www.imf.org/en/Publications/CR/Issues/2018/08/24/Saudi-Arabia-2018-Article-IV-Consultation-Press-Release-and-Staff-Report-46195>.

44 Beneficiaries include heads of households and individuals, so the actual number of Saudis benefiting from the program exceeds 3.75 million. “3.73 Million Benefit from Saudi Citizen Account Program in February,” *Asharq al-Awsat*, February 22, 2019, <https://aawsat.com/english/home/article/1603381/373-mn-benefit-saudi-citizen-account-program-february>.

45 Noor Nugali, “Smartphone Application Launched to Improve Public Agencies’ Services in Saudi Arabia,” *Arab News*, February 15, 2019, <https://www.arabnews.com/node/1452376/saudi-arabia>.

46 The app came under scrutiny in 2019 when it was found and reported that the app could notify male guardians when one of their female dependents put in a visa application. Defenders of the app maintained that permission from a male guardian was (at the time) required for a woman in Saudi Arabia to travel regardless of the app. “Saudi Arabia’s Absher App: Controlling Women’s Travel While Offering Government Services,” Human Rights Watch, May 6, 2019, <https://www.hrw.org/news/2019/05/06/saudi-arabias-absher-app-controlling-womens-travel-while-offering-government>.

47 “Ministry of Finance Launches Etimad—the Digital Services Platform,” Ministry of Finance (Saudi Arabia), January 20, 2018, https://www.mof.gov.sa/en/MediaCenter/news/Pages/news_20012017.aspx.

48 “Fiscal Balance Program Q1 2019 Quarterly Newsletter,” Kingdom of Saudi Arabia Vision 2030, <https://vision2030.gov.sa/en/programs/FBP>.

49 Abdulaziz Al-Bosaily and Ahmed Almazed, “Saudi Courts Pushing Forward to Go Online,” Clyde & Co., March 12, 2018, <https://www.clydeco.com/insight/article/ksa-courts-pushing-forward-to-go-online>; Adnan Shabrawi, “Justice Ministry Starts Issuing E-marriage Contracts,” *Saudi Gazette*, May 23, 2019, <http://saudigazette.com.sa/article/567084/SAUDI-ARABIA/Justice-Ministry-starts-issuing-e-marriage-contracts>; “Saudi Justice Ministry’s E-services Speed Up Powers of Attorney,” *Arab News*, December 18, 2018, <https://www.arabnews.com/node/1422786/saudi-arabia>; “13,600 Mortgage E-authentications Completed, Saudi Ministry Reports,” *Arab News*, June 26, 2019, <https://www.arabnews.com/node/1516251/saudi-arabia>; Najiz portal, Ministry of Justice website, <https://najiz.moj.gov.sa/Account/Login?ReturnUrl=%2FHome%2FDashboard>.



Screen captures from mobile applications hosted by the Ministry of Finance (Etimad), Ministry of Health (Mawid), and Adaa (Watani) to make government services available online.

consultations and improve communication among networks of medical providers.⁵⁰ In September 2019, the government launched a new e-visa program to attract tourists from forty-nine countries around the world.⁵¹ (Saudi Arabia previously did not have a tourist visa option other than for religious tourists.)

ACHIEVE GREATER WORKFORCE UTILIZATION AND EMPLOYMENT RATES FOR SAUDIS

Over the longer term, the most daunting challenge that the Saudi government faces is finding jobs for a rapidly expanding workforce, without simply expanding the public sector. The number of young Saudis entering the

workforce continues to increase and the Saudi labor force is expected to see between 500,000 and 1.4 million new workers by 2023, assuming the economic participation rate stays low.⁵² In the fourth quarter of 2019, the unemployment rate stood at 12.0 percent.⁵³ Unemployment is highest for young Saudis—the number ranges between 35 percent and 60 percent for women under thirty-five years of age, and from 5 percent to 17 percent for men in the same age range.⁵⁴ While education and literacy rates are high in Saudi Arabia, the overall quality of education needs improvement and the skills mismatch for the private sector is significant. Saudi students rank below the average in international rankings for math and science, and they graduate at higher rates in the humanities and

50 “Saudi Arabia Launches E-invoice Payment Platform for Businesses,” *Saudi Gazette*, June 30, 2019, <http://saudigazette.com.sa/article/570483/BUSINESS/Saudi-Arabia-launches-e-invoice-payment-platform-for-businesses>; Hussein Hazzazi, “‘Med Consult’ App for Patient Safety Launched,” *Saudi Gazette*, March 2, 2019, <http://saudigazette.com.sa/article/560286/SAUDI-ARABIA/Med-Consult-app-for-patient-safety-launched>; Mohammed Al-Kinani, “Saudi Arabia to Set a Global Example in Patient Safety,” *Arab News*, March 2, 2019, <https://www.arabnews.com/node/1460316/saudi-arabia>.

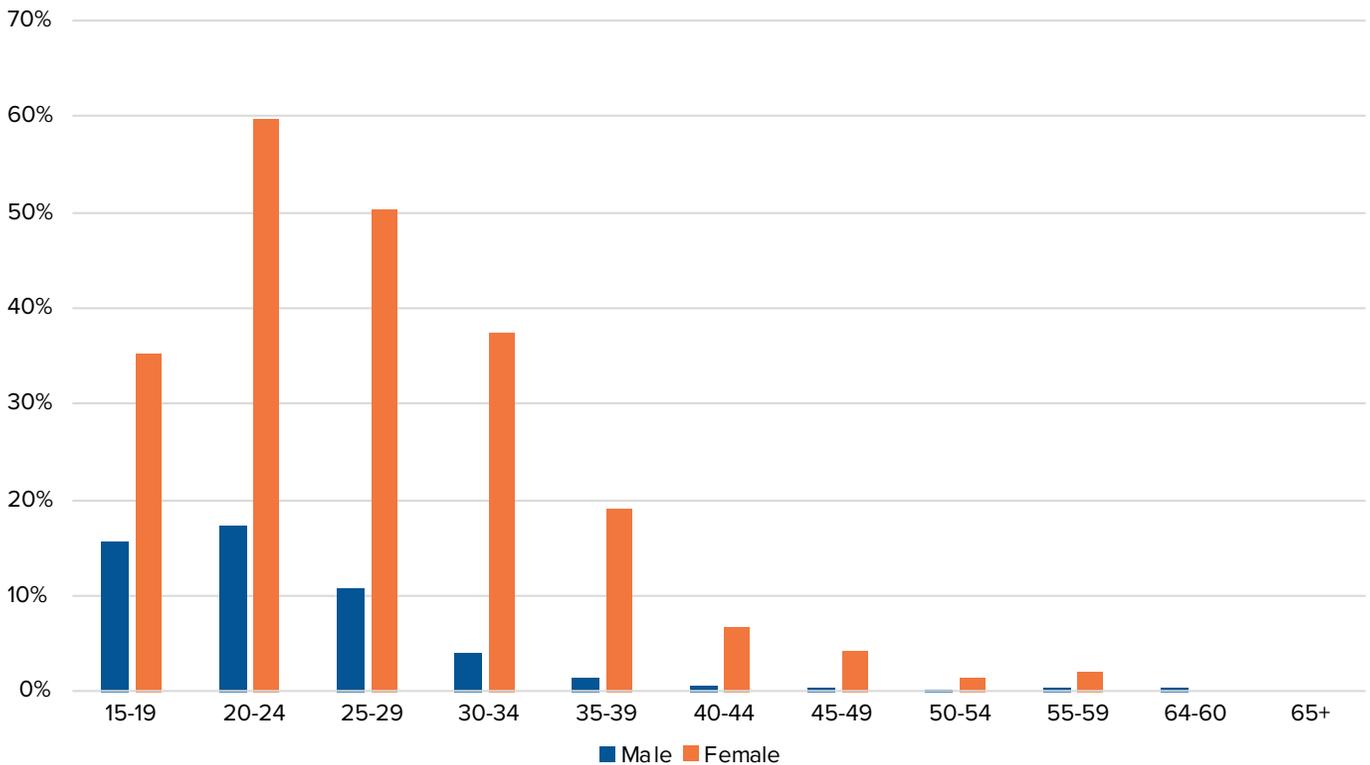
51 Tariro Mzezewa, “Saudi Arabia Invites Tourists: What You Need to Know,” *New York Times*, October 1, 2019, <https://www.nytimes.com/2019/09/27/travel/saudi-tourist-visa-questions.html>.

52 “Saudi Arabia: Selected Issues,” IMF Country Report No. 18/264, August 2018, 30, <https://www.imf.org/en/Publications/CR/Issues/2018/08/24/Saudi-Arabia-Selected-Issues-46197>.

53 As compared to the 2020 goal of an unemployment rate of 10.5 percent. Karen E. Young, “Saudi Arabia’s Crisis Is Economic and Demographic,” remarks from “Saudi Arabia in Crisis,” a Hoover Institution panel, posted on the American Enterprise Institute website on November 8, 2018, <https://www.aei.org/research-products/speech/saudi-arabias-crisis-is-economic-and-demographic/>.

54 “Labor Force, Third Quarter 2019,” General Authority for Statistics (Saudi Arabia).

Unemployment rates for Saudis by age



Source: “Labor Market, Fourth Quarter 2019,” General Authority for Statistics (Saudi Arabia), <https://www.stats.gov.sa/en/814>.

religious studies than any of the science, technology, engineering and mathematics (STEM) fields or vocational programs.⁵⁵

Enhance the Attractiveness of Private-Sector Employment

When young Saudis are surveying their career options, government jobs offer higher wages, easier working hours, and higher social prestige than the private sector. A Saudi man entering the private sector, on average, can expect to earn only 65 percent compared with his public-sector counterparts. Saudi women fare worse: the average wage in the private sector reaches only 45 percent of the public-sector average.

By 2020, the Ministry for Labor and Social Development (MLSD) would like to see 50 percent of job seekers looking to the private sector, one million Saudis having completed job training (from 36,000 in 2016), and 950,000 Saudis having enrolled in technical or vocational training programs (from 104,000 in 2016). To reach these goals, the MLSD laid out plans for a number of new initiatives to: subsidize job training and increase training for new employees using technology; encourage teleworking, flexible staffing, and part-time work in the private sector; create a placement system and other programs to improve labor market efficiency and job matching; expand wage protection and working conditions; and equalize and improve working conditions for women through expanding day-care options, improving access

⁵⁵ In the last Trends in International Mathematics and Science Study (TIMSS), Saudi students were at or near the bottom of the range of average scores. Fourth-grade Saudi students had an average score of 383 compared with the scale “centerpoint,” or mean of overall achievement distribution, of 500; for eighth-grade Saudi students, the average was 368. As a caveat, the study notes “reservations about reliability [of the results] because the percentage of students with achievement too low to estimate exceeds 25 percent.” There are limited statistics available for Saudi educational achievement levels compared to international standards, and this study can be considered indicative rather than conclusive. Stephen Provasnik, Lydia Malley, Maria Stephens, Katherine Landeros, Robert Perkins, and Judy H. Tang, *Highlights from TIMSS and TIMSS Advanced 2015*, National Center for Education Statistics, a unit of the Institute of Education Sciences, US Department of Education, November 29, 2016, <https://nces.ed.gov/pubsearch/pubinfo.asp?pubid=2017002>.

to transportation, and discouraging employment discrimination against women.

Improve the Quality of Education and Workforce Training

Under Vision 2030, the Ministry of Education is tasked with improving education standards and outcomes.⁵⁶ One KPI is to have five universities in the top two hundred by 2030. Many Saudis working in elite professions or with access to the means to pay for schooling were educated abroad and share a concern that the public school system in Saudi Arabia is not up to rigorous international standards, particularly in primary and secondary education.⁵⁷ This fear appears valid based on international test scores.⁵⁸ The MLSD is working closely with the Ministry of Education to modernize and improve school curricula, create a centralized database to track students' educational progress, and expand business, economics, STEM, and vocational study programs.⁵⁹ The Ministry of Education is focused on improving the teacher workforce and the educational environment, updating curricula, better aligning the education system with labor-market needs, and increasing private-sector involvement in education and training (including attracting private-sector investments in school construction).

Vocational and technical programs, as offered through the Technical and Vocational Training Corporation and through other state entities (including the General Entertainment Authority and the crown prince's MiSK Foundation), span a wide variety of job types, from marketing and human resources to industrial engineering and information technology.⁶⁰ The planned entertainment city, Qiddiya, which is expected to open in 2023 and employ 17,000 people, has its own training program as well—fulfilling the mandate for employers to provide job training for employees.⁶¹

Attract Foreign Talent

In addition to improving the quality of education and training for its Saudi workforce, Vision 2030 recognizes that

economic transformation requires luring foreign talent and know-how to Saudi Arabia. It proposes measures to improve the living and working conditions of expatriates to make the country a more attractive destination for highly skilled workers. While Saudi Arabia is already able to offer high wages to high-skilled foreign workers, many foreigners are deterred by the country's restrictive social code. Many of the recent announcements meant to draw in tourists—including the loosening of the dress code of abayas for foreign women—may also appeal to high-skilled foreign workers. The Saudi General Investment Authority also announced a new residency scheme for high-skilled workers that reduces the bureaucratic burden, offers the ability to own property, and allows workers to serve as their own employment sponsor in exchange for a sizable fee.⁶²

Address the Dual Labor Market

These policies to attract high-skilled expats conflict at times with another longstanding effort by the government to increase jobs for Saudi nationals through the “Saudization” of the workforce. Saudization aims to employ more Saudis in jobs currently filled by expatriate workers by closing the gap in cost for employers between expatriates and nationals. Expatriate workers from South Asia and other Arab countries dominate the Saudi labor force—and the private sector in particular—because of their willingness to work for lower wages, for longer hours, often under subpar working conditions.⁶³ Non-Saudis make up around 60 percent of employed people in Saudi Arabia, and 80 percent of employees in the private sector. Many expatriates work in construction, as drivers or domestic workers, and in other positions that Saudis, so far, have been reluctant to fill.

The Nitaqat program, a primary engine of Saudization, was enacted in 2011 by King Abdullah. The program requires companies to employ a certain ratio of Saudi workers to expatriates (with the quota dependent on the size of the company, the industry, etc.). Companies that fail to comply receive a poor rating in the Nitaqat system and face barriers to operation: the inability to secure new foreign visas,

56 “Education and Vision 2030,” Saudi Ministry of Education website, <https://www.moe.gov.sa/en/Pages/vision2030.aspx>.

57 Author interviews, March 2018.

58 *Highlights from TIMSS and TIMSS Advanced 2015*.

59 *Saudi Arabia Labor Market Report 2016*, Ministry of Labor and Social Development, July 2016.

60 “2,258 Saudi Graduates Offered On-job Training,” *Saudi Gazette*, March 18, 2019, <http://saudigazette.com.sa/article/561489/SAUDI-ARABIA/2258-Saudi-graduates-offered-on-job-training>; “Saudi Arabia Launches Adult Courses to Wean Kingdom Off Expats,” *Arabian Business*, June 15, 2017, <https://www.arabianbusiness.com/saudi-arabia-launches-adult-courses-wean-kingdom-off-expats-677785.html>; “Saudi Technical and Vocational Training Program Aims to Empower Youth,” *Arab News*, November 17, 2018, <https://www.arabnews.com/node/1406491/saudi-arabia>; “GEA-MiSK Training Program Launched to Prepare Saudi Students for Job Market,” *Arab News*, May 10, 2019, <https://www.arabnews.com/node/1494991/saudi-arabia>; “MiSK Academy Launches 14 Programs to Train Young Saudis,” *Arab News*, September 2, 2019, <https://www.arabnews.com/node/1548401/saudi-arabia>.

61 Lojien Ben Gasseem, “Developers Reveal More Details about Qiddiya, the Saudi Entertainment Supercity,” *Arab News*, July 25, 2019, <https://www.arabnews.com/node/1530496/saudi-arabia>.

62 Ahmed Al Omran, “Saudi Arabia Woos Foreign Workers with New Residency Scheme,” *Financial Times*, May 15, 2019, <https://www.ft.com/content/266c9940-772c-11e9-bbad-7c18c0ea0201>; “Saudi Arabia Launches Special Residency Scheme for Expats,” Reuters, June 23, 2019, <https://www.reuters.com/article/us-saudi-expats/saudi-arabia-launches-special-residency-scheme-for-expats-idUSKCNITOOBM>.

63 The average Saudi man in the private sector earns 60 percent more than a non-Saudi man. “Saudi Companies Pay 59% Less for Same Job in Public Sector,” *Saudi Gazette*, June 23, 2019, <http://www.saudigazette.com.sa/article/569742/SAUDI-ARABIA/Saudi-companies-pay-59-less-for-same-job-in-public-sector>.



Riyadh, Saudi Arabia. Source: Wikimedia Commons/lawepw ([https://commons.wikimedia.org/wiki/File:Riyadh,_Saudi_Arabia_\(2048x1367\)_36864830374.jpg](https://commons.wikimedia.org/wiki/File:Riyadh,_Saudi_Arabia_(2048x1367)_36864830374.jpg))

a freeze on expansion, and lack of access to other ministry services. After the implementation deadline in 2013, 200,000 out of a total of two million companies closed due to their inability to afford Saudization. The program has been phased in over several years, and new phases typically bring about higher nationalization quotas and harsher punishments for failure to comply.⁶⁴

The Saudi government has also implemented Saudization by directive in the case of certain sectors. Specific kinds of work have been restricted to Saudi employees only. Again, this is not a new policy, but it is one that has been expanded since the start of Saudi Vision 2030. Certain jobs in the retail sector, the hospitality and tourism sector, nongovernmental organizations, and grocery stores have

undergone or are being considered for partial or total Saudization in the coming years.⁶⁵

On top of the Nitaqat quotas, Saudi Arabia in July 2017 implemented a new expat levy, or a monthly fee, on non-Saudi workers. Under the new scheme, Saudi companies and foreign workers each bear a fee. Companies pay a fee per non-Saudi employee, and companies that employ more Saudis pay a lower fee on each expatriate worker compared to those that employ fewer Saudis. Under the same program, foreign nationals must pay a fee on each dependent they sponsor. The expat levy was introduced in 2012, and in 2017 the government raised the fees for companies and introduced the fee paid by workers on foreign dependents. The fees on companies and workers have in-

64 P. K. Abdul Ghafour, "Nitaqat: 200,000 Firms Closed Down," *Arab News*, August 05, 2014, <https://www.arabnews.com/news/featured/611896>.

65 "Saudization in 12 Retail Sectors; Inspections Begin in 12 Days," *Saudi Gazette*, August 29, 2018, <http://saudigazette.com.sa/article/542169>; "41 Job Types Designated as Saudi-only," *Arab News*, December 16, 2018, <https://www.arabnews.com/node/1421836/saudi-arabia>; Abdul Rahman Al-Misbah, "Saudization of Groceries 'to Save SR6bn in Remittances,'" *Saudi Gazette*, December 29, 2018, <http://saudigazette.com.sa/article/551231>; "Labor Ministry: 100% Saudization of 20 Hospitality Jobs as of Next Year," *Saudi Gazette*, July 26, 2019, <http://saudigazette.com.sa/article/573105>.

creased gradually from 2017 to 2020.⁶⁶ In addition to serving as a new revenue stream (estimated at \$7.5 billion in 2018 and \$15 billion in 2019), the program hopes to incentivize further Saudi employment in the private sector. The IMF assesses that, when fully implemented (planned for the end of 2020), the expat fee will account for 20 percent of the wage gap between Saudi and non-Saudi workers.⁶⁷

Ostensibly, the two policies are targeted toward different segments of the labor market. Saudi Arabia wants to attract high-skilled workers from around the world to help it develop new industries beyond oil that will eventually provide more employment for Saudis. At the same time, it wants to displace many of the low-skilled migrants, largely from South Asia and the rest of the Middle East, now resident in Saudi Arabia and fill their positions with Saudis. But the distinctions are less clear in reality, as the Pakistani store owner, the Egyptian engineer, and the Indian restaurateur contribute their own expertise and entrepreneurial talents, not to mention disposable income, to the Saudi economy.

Provide Greater Workforce Opportunities for Women

A core tenet of Vision 2030 is that the kingdom will never reach its full potential without the workforce engagement of half its population: Saudi women. As a corollary, the more restrictions are lifted on women, the more they can participate freely in the consumer economy. One of the Vision 2030 benchmarks is to increase the number of women participating in the workforce to 25 percent by 2030, from 19 percent in 2016.⁶⁸ The primary sectors for women's employment are those that are most easily segregated. Education is the leading sector for women, with the sector of health and social professions second.⁶⁹

Efforts to bring more women into the Saudi labor force are not new; many of them began under King Abdullah, particularly starting in 2011. King Abdullah's initiatives included allowing women to work as cashiers and "feminizing" shops selling women's apparel, introducing unemployment benefits for Saudis, criminalizing domestic violence, opening the first gender-mixed university, appointing women

to the Shura Council and allowing women to participate in municipal elections, and sending young Saudi men and women abroad to study through an expansive scholarship program.⁷⁰

Under Vision 2030, many of the social reforms expanding opportunities for Saudi women are meant to increase the number of women in the workforce—some explicitly and others as a secondary goal.

The Ministry for Labor and Social Development launched a new initiative in January 2019 to encourage more women to feel comfortable in the workplace—in addition to the gender discrimination protection mentioned previously, the Ministry focuses on "creating an appropriate working environment for women." This effort involves requiring guarantees that there will never be one woman working a shift alone with a team of men, the availability of private spaces for women to work if they request it, adequate security systems, curfews for women in certain industries, and the exclusion of women from some work tasks deemed physically dangerous.⁷¹ While a non-Saudi audience might see these as restrictions, one of the barriers to women entering—and equally importantly, staying in—the workforce is the discomfort many families have about their daughters or wives in a gender-mixed and potentially "unsafe" working environment.⁷² The program is designed to overcome this obstacle and encourage women and their families to feel more comfortable about women moving into the workforce.

In August 2019, in the same week that the Saudi government announced women could travel without the permission of a male guardian, the Ministry of Labor announced updated regulations to prevent gender discrimination in hiring, unified the retirement age for men and women, and offered stronger job protections for women who are pregnant or on maternity leave.⁷³

IMPROVE THE BUSINESS ENVIRONMENT

A central tenet of Vision 2030 is to improve the business environment as a means of encouraging the development

66 "Saudi Arabia Implements Expat Levy," PricewaterhouseCoopers, <https://www.pwc.com/m1/en/services/tax/me-tax-legal-news/2017/saudi-arabia-implements-expat-levy.html>.

67 "Saudi Arabia: Selected Issues," IMF Country Report, 2018, 34.

68 This number was revised downward in 2018, from 30 percent in 2016 and 28 percent in 2017. Young, "Saudi Arabia's Crisis Is Economic and Demographic."

69 "Saudi Arabia: Selected Issues," IMF Country Report, 2018, 32. Other areas are opening up to women, some for the first time, and some are seeing expansion including criminal law, military service, banking and financial services, architecture, and computer engineering, just to name just a few.

70 Katherine Zoepf, "Shopgirls," *New Yorker*, December 16, 2013, <https://www.newyorker.com/magazine/2013/12/23/shopgirls>.

71 Lojien Ben Gasseem, "Initiative Launched to Ensure Better Working Conditions for Saudi Women," *Arab News*, January 20, 2019, <http://www.arabnews.com/node/1438811/saudi-arabia>.

72 Sarah Hassan, "Saudi Women Join the Workforce as Country Reforms," CNN, February 7, 2018, <https://www.cnn.com/2018/02/06/middleeast/saudi-women-in-the-workforce/index.html>.

73 Aseel Bashraheel and Rawan Radwan, "Saudi Women Hail Axing Travel Restrictions, Welcome Steps toward Equality," *Arab News*, August 3, 2019, <https://www.arabnews.com/node/1534671/saudi-arabia>; "Double Delight for Saudi Women as Labor Ministry Scraps Retirement Age Rule," *Saudi Gazette*, August 2, 2019, <http://saudigazette.com.sa/article/573828/SAUDI-ARABIA/Double-delight-for-Saudi-women-as-labor-ministry-scraps-retirement-age-rule>.

of the private sector. The public sector, particularly the oil sector, continues to dominate the Saudi economy. Nearly every one of the Vision Realization Programs seeks to play a role in growing the nonoil economy. By 2030, the Saudi government hopes to see the private-sector contribution to GDP grow to 65 percent from 40 percent when the program was announced in 2016.⁷⁴

One of the barriers to private-sector development and investment is the country's underdeveloped regulatory infrastructure. It takes too long to start a business, getting access to credit is difficult, paying taxes is cumbersome, moving goods across borders can be painstakingly complicated, and resolving insolvency when a customer can no longer pay its bills daunting.⁷⁵

The government has sought to make improvements in the business and regulatory environment. Saudi Arabia's bankruptcy law went into effect in August 2018.⁷⁶ The new legal environment allows for and regulates procedures "such as settlements and liquidation, for individuals as well as local and foreign companies."⁷⁷ So far three cases are reported to have been settled under the new law and up to a dozen others are in progress, with more expected in 2020.⁷⁸

In March 2019, an updated competition law was approved, which came into effect in September 2019. It prohibits unfair competition practices, creates a committee to settle disputes, and introduces new penalties for violators to be determined by the courts.⁷⁹ The operating authority,

renamed the General Authority for Competition, has gained greater independence and enforcement powers to take action under the new law, with more flexibility in how it enacts punishments.⁸⁰ Notably, however, the law does not apply to state-owned enterprises. In July 2019, the government approved a new public procurement law, which establishes a more centralized process that should increase efficiency and fairness in the awarding of government contracts and boost the participation of SMEs, local companies, and companies listed on the Saudi stock market.⁸¹ The government also has approved updated commercial mortgage, commercial franchise, and companies laws.⁸² To interpret and apply the raft of new and upcoming regulations, the government has made numerous judicial reforms, including the introduction of specialized commercial courts and appeal chambers.⁸³ The Saudi Center for Commercial Arbitration opened in 2016, and commercial courts were launched in September 2017.⁸⁴ Since then, judicial training courses have taken place, labor courts have opened, and digitization efforts have been undertaken including digital notarization services.⁸⁵ Importantly, Saudi courts are starting to enforce judgments by foreign courts and arbitration centers against Saudi companies.⁸⁶

NURTURE A CULTURE OF ENTREPRENEURSHIP AND SUPPORT SME GROWTH

The contribution of small- and medium-sized enterprises to nonoil GDP was 20 percent when Vision 2030 was announced in 2016, and the goal is to raise that number to 35

74 The baseline of a 40 percent contribution by the private sector to GDP growth is a number provided by the Saudi government in its Vision 2030 planning documents.

75 *Doing Business 2020: Economy Profile, Saudi Arabia*, World Bank Group, <https://www.doingbusiness.org/content/dam/doingBusiness/country/s/saudi-arabia/SAU.pdf>.

76 Jeremy Lawrence, "Saudi Arabia's Bankruptcy Law Comes into Effect," *Arabian Business*, August 19, 2018, <https://www.arabianbusiness.com/latest-news/402961-saudi-arabias-bankruptcy-law-comes-into-effect>.

77 Tom Arnold, Reem Shamseddine, and Katie Paul, "In Boost to Reform, Saudi Arabia's Cabinet Approves Bankruptcy Law," Reuters, February 18, 2018, <https://www.reuters.com/article/us-saudi-bankruptcy/in-boost-to-reform-saudi-arabias-cabinet-approves-bankruptcy-law-idUSKCN1G20PJ>.

78 Stephen Kalin, "Saudi Arabia's New Bankruptcy Law Faces Key Test in the Courts," Reuters, October 24, 2019, <https://www.reuters.com/article/us-saudi-bankruptcy/saudi-arabias-new-bankruptcy-law-faces-key-test-in-the-courts-idUSKBN1X318P>.

79 Alain Sfeir and Shahd Makhafah, "Saudi Arabia Issues a New Competition Law," Clyde & Co, April 2, 2019, <https://www.clydeco.com/insight/article/saudi-arabia-issues-a-new-competition-law>.

80 Sarah Algethami, "Saudi Competition Czar to Wield Greater Power under Revamped Law," Bloomberg, March 11, 2019, <https://www.bloomberg.com/news/articles/2019-03-11/saudi-competition-czar-to-wield-greater-power-under-revamped-law>.

81 "Saudi Arabia Approves New Tendering and Procurement Law," Reuters, July 16, 2019, <https://www.reuters.com/article/saudi-arabia-procurement-lawmaking/saudi-arabia-approves-new-tendering-and-procurement-law-idUSL8N24H5ZN>; Muhammad Anum Saleem, "Understanding Saudi's New Tenders and Procurement Law: What Are the Main Changes?," *Gulf Business*, July 20, 2019, <https://gulfbusiness.com/understanding-saudis-new-tenders-procurement-law-main-changes/>.

82 "Saudi Arabia: The Kingdom of Saudi Arabia's New Commercial Mortgage Law Of 2018," STA Law Firm, posted on Mondaq platform, March 19, 2019, <https://www.mondaq.com/saudi-arabia/Finance-and-Banking/790224/The-Kingdom-Of-Saudi-Arabia39s-New-Commercial-Mortgage-Law-Of-2018>; "Shoura to Vote on Commercial Franchise Law," *Saudi Gazette*, March 21, 2019, <http://saudigazette.com.sa/article/561730>; "Saudi Arabia's New Franchise Law," Baker McKenzie, October, 2019, <https://www.bakermckenzie.com/en/insight/publications/2019/11/saudi-arabias-new-franchise-law>; Tim Burburry and Timm Smith, "Ten Reasons Why International Investors Should Be Excited about Saudi Arabia's New PSP (PPP) Law," King & Spalding, March 11, 2019, <https://www.kslaw.com/blog-posts/ten-reasons-why-international-investors-should-be-excited-about-saudi-arabias-new-psp-ppp-law>.

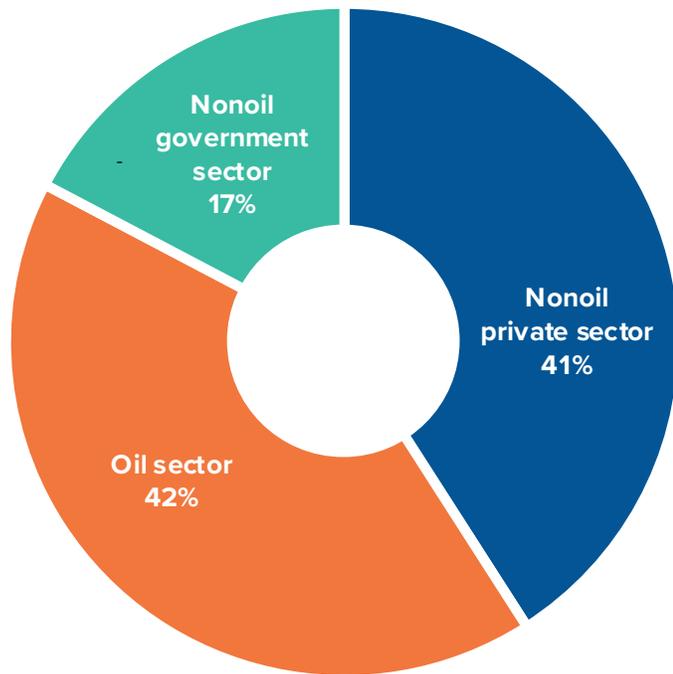
83 "Saudi Judiciary Moves with Huge Milestones This Year," *Saudi Gazette*, September 1, 2019, <http://www.saudigazette.com.sa/article/576064/SAUDI-ARABIA/Saudi-judiciary-moves-withhuge-milestones-this-year>.

84 Mohammad al-Sulami, "Saudi Legal Reforms Lead to Business Surge, Says Justice Ministry," *Arab News*, August 7, 2018, <https://www.arabnews.com/node/1352676/saudi-arabia>.

85 "Saudi Judiciary Moves with Huge Milestones This Year."

86 Andrew Torchia, "Saudi Arabia's Legal Revamp Offers Hope for Cautious Investors," Reuters, September 27, 2018, <https://www.reuters.com/article/us-saudi-economy-court-analysis/saudi-arabias-legal-revamp-offers-hope-for-cautious-investors-idUSKCN1M7157>.

Contribution of the private, oil, and government sectors to GDP by share



Source: “Quarterly GDP at Constant Prices for 2010-2019”, General Authority for Statistics (Saudi Arabia), accessed May 6, 2020, <https://www.stats.gov.sa/en/823>.

percent by 2030. SMEs employ some 4.5 million people in Saudi Arabia, but their contribution to nonoil GDP is well below potential when Saudi Arabia is compared with its global peers.⁸⁷

In an effort to increase SME financing, the Saudi government has launched a \$53 billion private-sector stimulus program that reimburses business fees to some SMEs during their initial years of operation, provides financing to

struggling companies, and offers a number of early-stage financing programs. The Kafalah program, for example, is an SME loan-guarantee program to encourage financial institutions to invest in small businesses. While the program is not new, Vision 2030 injected new funds and new energy into the organization.⁸⁸ The government also launched the Saudi Venture Capital Company, with approximately \$1 billion in capital, to invest in early- and growth-stage companies and in other Saudi venture capital (VC) firms.⁸⁹ The Public Investment Fund similarly announced a \$1 billion “Fund of Funds” to invest in VC firms and private equity funds supporting SMEs.⁹⁰

Beyond funding and financing, the SME authority (Monshaat) has initiatives to streamline the administrative and regulatory hurdles to starting and managing an SME. The authority launched a support center, Meras, to digitize and provide resources to make it possible to set up a business in as little as one day.⁹¹ The MiSK Foundation has partnered with 500 Startups, a San Francisco-based venture capital fund, to launch an accelerator program for Middle Eastern high-tech entrepreneurs.⁹² The Saudi Arabian General Investment Authority has improved the wait time required to acquire a license as a foreign investor or an entrepreneur, and the Saudi Arabian Monetary Authority and Capital Market Authority launched “sandbox” regulatory environments to benefit innovation and investment in Saudi Arabia.⁹³

PRIVATIZE SELECT INDUSTRIES AND ATTRACT FOREIGN DIRECT INVESTMENT

The Saudi government regards privatization, either through public-private partnerships or the sale and lease of state-owned assets, as another mechanism to grow the private sector, attract foreign investment, and boost nonoil revenues. In April 2018, the Privatization Vision Realization Program was announced, which the government anticipates could generate \$10 billion in nonoil revenues and 12,000 jobs by 2020.⁹⁴ Some privatization appears aimed at increasing the assets of the Public Investment Fund in

87 “SMEs and Vision 2030,” Jadwa Investment, March 2019, <https://www.jeg.org.sa/sites/default/files/library/files/SMEs%20and%20Vision%202030.pdf>; the employment of 4.5 million in the nation is out of a total 12.8 million employed persons.

88 Halah al-Shathri, “Kafalah Program for SMEs Signs Agreement with Saudi Finance Company,” *Arab News*, March 29, 2019, <https://www.arabnews.com/node/1463441/saudi-arabia>.

89 “Saudi Venture Capital Company Commits to Invest over \$133 Million in Six Local VC Funds,” MENA Bytes, April 25, 2019, <https://www.menabytes.com/svc-133-million/>.

90 Katie Paul, “Saudi Sovereign Fund Creates \$1.07 Billion “Fund of Funds” to Back SMEs,” Reuters, October 9, 2017, <https://www.reuters.com/article/saudi-fund-funds/saudi-sovereign-fund-creates-1-07-bln-fund-of-funds-to-back-smes-idUSL8N1MK3XH>.

91 Osama Ashri, “On the Fast Track: Saudi Arabia’s Entrepreneurship Ecosystem,” *Entrepreneur*, July 17, 2019, <https://www.entrepreneur.com/article/336766>.

92 Caitlin Glazebrook, “500 Startups and MiSK Innovation to Launch Second Batch of the MiSK 500 Accelerator Program,” 500 Startups blog, July 9, 2019, <https://500.co/500-startups-misk-innovation-to-launch-second-batch-of-the-misk-500-accelerator-program/>.

93 A “sandbox” regulatory environment is set up to allow the introduction of new regulations or regulatory systems with a few companies or entities, to test the feasibility in a larger market. Usually, the objective is to allow for greater innovation and creativity. Ivo Jenik and Kate Lauer, “Regulatory Sandboxes and Financial Inclusion,” Consultative Group to Assist the Poor, October 2017, <https://www.cgap.org/sites/default/files/Working-Paper-Regulatory-Sandboxes-Oct-2017.pdf>; <https://www.entrepreneur.com/article/338516>.

94 “Saudi Privatization Program Targets \$11 Billion Non-oil Revenues by 2020,” Reuters, April 24, 2018, <https://www.reuters.com/article/us-saudi-privatisation/saudi-privatization-program-targets-11-billion-non-oil-revenues-by-2020-idUSKBN1HV2PS>.

particular, including the IPO for Aramco. Saudi airports were also targeted for privatization in 2017, with the understanding that ownership of the airports would be transferred to the Saudi Civil Aviation Holding Company, which would then be transferred to the PIF. So far this transfer of ownership has not taken place.⁹⁵

Companies slated for corporatization and partial privatization in 2020 include the Saudi Professional Football League, flour mills at General Silos and Flour Mills Organization, the production sector at the Saudi Saline Water Conversion Corp., the Ras al-Khair desalination and power plant, a number of Saudi ports, and some services in the transportation sector. The government also has identified the health care, education, and postal sectors for possible privatization projects.⁹⁶

The National Industrial Development and Logistics Program, which had been expected to ramp up in 2020 after significant investment in 2019, will facilitate the development of key sectors, including the automotive, pharmaceutical, medical-supply, and military manufacturing industries as well as mining, energy, and logistics sectors. The focus will be on introducing high-end technology and improving the regulatory environment.

To increase foreign portfolio investment in the country, the Saudi stock exchange (Tadawul) is seeking to build more advanced capital markets. The exchange is training Saudi companies to orient themselves toward investor relations, which often requires them to become more transparent, efficient, and globally minded. As of March 2019, the exchange had nearly two hundred listings, including heavyweights like Saudi Basic Industries Corp. (SABIC) and Saudi Telecom, and even its first fitness company.⁹⁷ It has been negotiating with the world's major emerging markets funds over its inclusion in their indices. In June 2019, the government removed the cap on foreign ownership of publicly traded companies.

OPEN THE SOCIAL SPHERE

Since the announcement of Vision 2030, Saudi Arabia has seen a succession of big headlines and quick wins in the social sphere. The impact of these changes, particularly

for women, is palpable—and can be seen when visiting the kingdom. Some of these announcements have been implemented through the Quality of Life Program, and most have come from the crown prince himself.

Many of these changes have a distinctly economic effect, if not purpose. Lifting social and workforce restrictions on women has the potential to enhance the labor force and create a more welcoming atmosphere for tourists, considered a new sector for development; and encouraging concerts, cinema, sports, and other entertainment creates the possibility of new sectors for a Saudi audience as well.

Relax Social Restrictions on Women and Gender Mixing

One of the first, and most significant moves, made by the crown prince was to curtail the enforcement powers of the religious police, an 80-year-old institution that has been responsible for policing gender segregation in public spaces, dress codes for women and men, and more broadly “the promotion of virtue and the prevention of vice.” As of April 2016, the religious police were stripped of their authority to “pursue, arrest, or detain” members of the public, treat individuals in a rough or heavy-handed manner, or work outside of regular office hours.⁹⁸ Skepticism surrounded the move, but it has remained in place and allowed for real changes. Now it is not uncommon to encounter gender mixing and music in public spaces. A flood of public debate and controversy has accompanied such changes, but there is no longer the fear of often-harsh enforcement by the religious police.

Perhaps the most widely publicized achievement of Vision 2030 so far came in June 2018, when the first Saudi women received their driver's licenses and took to the road. The ban on women driving was officially lifted on June 24, after the change was announced in September 2017. Following the announcement, driving schools for women opened, ride-hailing applications began recruiting women to drive for their services, and driving simulators popped up in public places like shopping malls.⁹⁹

In August 2019, the crown prince announced that a collection of restrictions on women—most notably the ban on women obtaining a passport or traveling without her male

95 “All Saudi Airports to Be Privatized This Year,” *Arab News*, August 9, 2017, <https://www.arabnews.com/node/1141841/saudi-arabia>.

96 In February 2020, Saudi Arabia completed the first privatization of a government-owned health care entity, the Saudia Medical Services Company. Nada al-Rifai, “Saudi Arabia Completes Privatization of its First Government-owned Healthcare Entity,” *Zawya*, February 4, 2020, https://www.zawya.com/mena/en/markets/story/Saudi_Arabia_completes_privatization_of_its_first_govtowned_healthcare_entity-ZAWYA20200204124215/.

97 Author interviews, March 2019.

98 Sewell Chan, “Saudi Arabia Moves to Curb Its Feared Religious Police,” *New York Times*, April 15, 2016, <https://www.nytimes.com/2016/04/16/world/middleeast/saudi-arabia-moves-to-curb-its-feared-religious-police.html>.

99 Holly Ellyatt, “‘No More a Passenger’: Driving Schools for Women Take Off in Saudi Arabia,” *CNBC*, March 8, 2018, <https://www.cnbc.com/2018/03/08/saudi-arabia-driving-schools-for-women.html>; <https://www.cnbc.com/2017/11/17/women-in-saudi-arabia-preparing-to-drive-and-to-make-money-from-it.html>; Sarah Aziza, “Saudi Arabia’s Ban on Woman Drivers Comes to an End,” *Atlantic*, June 23, 2018, <https://www.theatlantic.com/international/archive/2018/06/saudi-arabia-women-driving-salman-crackdown-activists/563579/>.

HOUSING PROGRAM

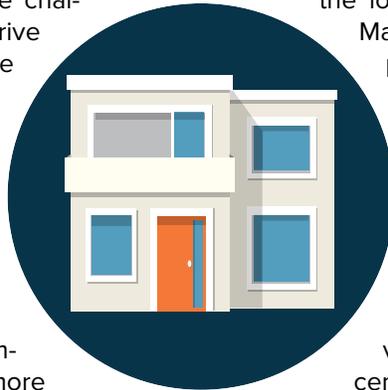
The Housing Program is a key pillar of Vision 2030 and meant to safeguard the well-being and prosperity of Saudi citizens. It is not a program highly touted by the crown prince to international audiences, but it is critical to his domestic constituency. In Gulf states, housing subsidies for nationals are a long-time benefit, and in Saudi Arabia, affordable housing remains a concern, especially among young Saudis.¹

Its first two KPIs are illustrative of the challenges that the program faces: to drive down the average residential unit price from nine times average annual income per capita to five, and to raise homeownership rates from 50 percent to 70 percent. As more and more young Saudis reach an age where they would like to start families and purchase homes, finding affordable housing is a challenge closely linked to the difficult task of finding employment. Housing could become more out of reach as the kingdom endeavors to shift more Saudis from public- to private-sector employment, where wages are typically lower than in government jobs.

The program aims to address these challenges on both the supply side and the demand side, with plans to increase access to financing by implementing mortgage guarantees and offering new housing finance products, while simultaneously creating more efficient systems for housing builders and developing Ministry of Housing lands.

The program has created the Saudi Real Estate Refinance Company, which is owned by the Public

Investment Fund, to provide greater liquidity to lenders to support home financing.² The company has introduced new housing products, such as long-term, fixed-rate mortgages, previously unavailable to Saudi customers. In March 2019, the company completed a \$200 million Islamic bond issuance. At the same time, the company purchased mortgages valued at \$200 million from local banks and mortgage-financing companies, as part of its mandate to provide liquidity in the local market.³ The housing minister in March 2019 reported that, when complete, the new mortgage system will comprise eighteen different entities offering housing finance for Saudis. The Real Estate Development Fund (REDF), designed to provide housing loans to lower- and middle-income Saudis, is an important piece of the financing puzzle. The housing minister reported that the REDF provided subsidized financing for 81 percent of total mortgage contracts in 2018, compared to just 2 percent in 2017.⁴



In April 2019, King Salman announced \$8 billion in new development projects, which will include housing, along with health care, education, public transportation, and state services.⁵ The 2019 budget made room for greater capital expenditure (on projects like housing development) to spur nonoil sector growth.⁶ The kingdom also is turning to international partners. During the crown prince's visit to China in February 2019, Saudi Arabia's National Housing Company (NHC) and China's State Construction Engineering Corporation (CSCEC) signed a joint agreement valued at \$666.7 million to develop 5,590 residential units on Ministry of Housing land north of Riyadh.⁷

- 1 Karen E. Young, "A Home of One's Own: Subsidized Housing as a Key Lever of Gulf Domestic Policy," blog post, the Arab Gulf States Institute in Washington, June 15, 2018, <https://agsiw.org/a-home-of-ones-own-subsidized-housing-as-a-key-lever-of-gulf-domestic-policy/>.
- 2 Colon Foreman, "Providing Liquidity for the Saudi Housing Market," MEED, April 16, 2019, <https://www.meed.com/providing-liquidity-saudi-housing-market/>.
- 3 "Saudi Real Estate Firm to Buy Mortgages Worth \$200 Million," *Arab News*, April 27, 2019, <https://www.arabnews.com/node/1488891/business-economy>.
- 4 "REDF: 258% Growth in Mortgage Financing for January," PR Newswire, March 7, 2019, <https://www.prnewswire.com/ae/news-releases/redf-258-growth-in-mortgage-financing-for-january-300808549.html>.
- 5 "Saudi King Launches \$8 Billion in Development Projects in Capital," Reuters, February 13, 2019, <https://www.reuters.com/article/us-saudi-economy/saudi-king-launches-8-billion-in-development-projects-in-capital-idUSKCN1Q22G7>.
- 6 Vivian Nereim, "Saudi Arabia's Quarterly Budget Deficit Widens to \$8.9 billion," Bloomberg, July 31, 2019, <https://www.bloomberg.com/news/articles/2019-07-30/saudi-arabia-s-quarterly-budget-deficit-widens-to-8-9-billion>.
- 7 Jack Ball, "Saudi, China's CSCEC Ink \$660 Million Riyadh Housing Deal," *Arabian Business*, February 24, 2019, <https://www.arabianbusiness.com/construction/413907-saudi-chinas-cscec-ink-6667m-riyadh-housing-deal>.



Female racing driver Aseel Al Hamad celebrated the end of the ban on women drivers. Aseel, the first female board member of the Saudi Arabian Motor Federation, had never driven on a track in her home country before. *Source:* Jaguar MENA (<https://www.flickr.com/photos/jaguarcarsmena/42259294604/in/album-72157698317336905/>)

guardian's permission—would be lifted.¹⁰⁰ Women can now report the birth of a newborn child, the death of a family member, and marriage or divorce; formerly only men could formally report these family events.¹⁰¹ Restrictions remain on a woman's ability to file a lawsuit, marry, live on her own, open a bank account, leave prison or a government-run shelter, or to broadly act in "filial disobedience" against her guardian.¹⁰²

Promote Entertainment and Sports

Vision 2030 commits enormous resources to creating entertainment offerings as part of public life in Saudi Arabia. In 2016 the General Entertainment Authority (GEA) began

its work to build an entertainment sector essentially from scratch, with plans for cinemas, concerts, theme parks, water parks, street festivals, an opera house, and an entire "entertainment city." The GEA has been enormously productive—as of March 2019 it had overseen over 6,000 total "event days" (up from 67 its first year) for 27 million attendees. Saudi Arabia has hosted concerts, a Comic-Con event, and the country's first monster truck rally. In 2018, the kingdom once again had cinema screenings, featuring "The Emoji Movie" and "Black Panther," after decades without movie theaters.¹⁰³ The GEA announced last year that it expects to invest \$64 billion in entertainment infrastructure over the next ten years.¹⁰⁴ The GEA envisions investment creating more than two hundred thousand jobs and adding

100 Stephen Kalin, "Cleared for Takeoff: Saudi Women Start Exercising Their Newest Right," Reuters, August 22, 2019, <https://www.reuters.com/article/us-saudi-women/cleared-for-takeoff-saudi-women-start-exercising-their-newest-right-idUSKCN1VC1XI>.

101 Anas al-Yusuf, "Saudi Women Can Obtain Passports without Male Guardians' Permission," *Saudi Gazette*, August 1, 2019, <http://saudigazette.com.sa/article/573746/SAUDI-ARABIA/Saudi-women-can-obtain-passports-without-male-guardians-permission>.

102 Marwa Rashad, "Saudi Arabia Women's Rights Reforms May Still Be Thwarted by Custom," Reuters, August 5, 2019, <https://www.reuters.com/article/us-saudi-women-guardianship/saudi-arabia-womens-rights-reforms-may-still-be-thwarted-by-custom-idUSKCN1UV1Q4>; Umberto Bacchi, "Factbox: Travel Yes, Marry No—What Saudi Women Still Can't Do," Reuters, August 2, 2019, <https://www.reuters.com/article/us-saudi-women-travel-factbox/factbox-travel-yes-marry-no-what-saudi-women-still-cant-do-idUSKCN1US22X>.

103 Katie Paul, "Quietly at First, Music Comes Back to Saudi Arabia," Reuters, January 31, 2017, <https://www.reuters.com/article/saudi-entertainment-music-int/quietly-at-first-music-comes-back-to-saudi-arabia-idUSKBN15F23B>.

104 "Saudi Arabia Eyes Billions of Dollars in Entertainment Investments," Reuters, January 22, 2019, <https://www.reuters.com/article/us-saudi-entertainment/saudi-arabia-eyes-billions-of-dollars-in-entertainment-investments-idUSKCN1PG2NY>.



Moroccan singer Aziza Jalal performs at the “Winter at Tantora Festival” at the Maraya Concert Hall in Saudi Arabia in December 2019. *Source:* Wikimedia/Nabil2019 (https://commons.wikimedia.org/wiki/File:Aziza_Jalal_2019_%D8%B9%D8%B2%D9%8A%D8%B2%D8%A9_%D8%AC%D9%84%D8%A7%D9%84.jpg)

\$133 billion (SAR 500 billion) to the GDP over the next ten years.¹⁰⁵

Another celebrated moment was the first football match attended by Saudi women, held in January 2018 in the King Abdullah Sports City Stadium in Jeddah.¹⁰⁶ This event was part of the General Sports Authority’s (GSA) wider effort at women’s engagement in sports. The GSA’s mission, as part of the Quality of Life Program, is to build a sporting economy from the ground up—to include professional sports leagues and sports for entertainment, as well as greater physical activity for all Saudis, regardless of age or gender.

Since the announcement of Vision 2030, the kingdom has hosted major international football, tennis, handball,

racings, boxing, and golf events, and announced \$650 million for sports clubs in Saudi Arabia to develop infrastructure, diversify participation, and increase attendance and engagement with the events.¹⁰⁷ Other GSA achievements include the licensing of women’s gyms, the announcement of physical education for girls in public schools, and the introduction of women to Saudi Arabia’s Special Olympics team.¹⁰⁸

REPURPOSE THE PUBLIC INVESTMENT FUND AND DEVELOP MEGAPROJECTS

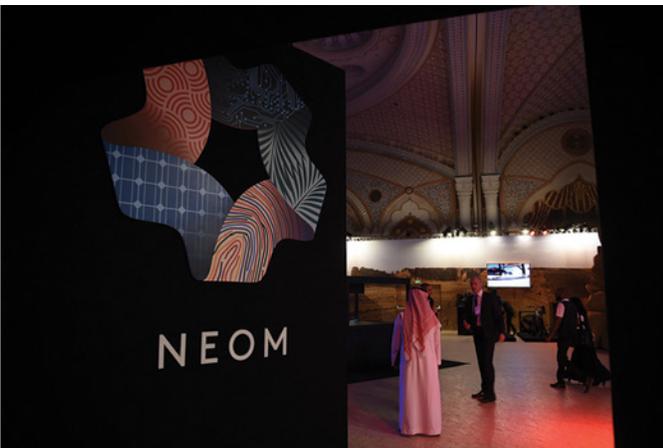
To finance many of Vision 2030’s most ambitious projects, the government is relying on the revitalized Public Investment Fund (PIF). That is the case with the biggest

¹⁰⁵ Author interviews, February 2019; the contribution to the annual GDP is SAR 18 billion, according to a government announcement cited in “Saudi Arabia Eyes Billions of Dollars in Entertainment Investments.”

¹⁰⁶ Kareem Shaheen, “Saudi Football Stadium Welcomes Women for First Time,” *Guardian*, January 12, 2018, <https://www.theguardian.com/world/2018/jan/12/saudi-football-stadiums-prepare-welcome-women-first-time>.

¹⁰⁷ John McAuley, “Saudi Arabia Provides \$650 Million Boost to Sports Sector as Part of Vision 2030,” *National*, July 22, 2019, <https://www.thenational.ae/sport/other-sport/saudi-arabia-provides-650m-boost-to-sports-sector-as-part-of-vision-2030-1.889250>.

¹⁰⁸ Madeline Holcombe and Yousuf Basil, “Saudi Arabia to Issue Licenses for Female-only Gyms,” *CNN*, February 19, 2017, <https://www.cnn.com/2017/02/13/middleeast/saudia-arabia-women-gyms-trnd/index.html>; “Saudi Arabia to Introduce Physical Education for Schoolgirls,” *Reuters*, July 11, 2017, <https://www.reuters.com/article/us-saudi-education-women/saudi-arabia-to-introduce-physical-education-for-schoolgirls-idUSKBN19WIDM>; Jennifer Bell, “Meet the Saudis Making History at the Special Olympics,” *Arab News*, March 14, 2019, <https://www.arabnews.com/node/1466371/saudi-arabia>.



Displays at the Future Investment Initiative in October 2017, the first flagship annual conference hosted by the Public Investment Fund, advertise plans for NEOM and the Qiddiya Entertainment City. Hosted by King Salman and Crown Prince Mohammed bin Salman, notable attendees included Softbank CEO Masayoshi Son, Virgin Group founder Richard Branson, US Secretary of the Treasury Steven Mnuchin, then-IMF chief Christine Lagarde, and BlackRock CEO Larry Fink. *Source:* Flickr/BreakingTravelNews/Mark Hakansson (<https://www.flickr.com/photos/breakingtravelnews/albums/72157688343050424>).

megaprojects under the reform program—including NEOM, the Red Sea luxury tourism development, and the Qiddiya Entertainment City outside of Riyadh. The PIF has become a key financial instrument for Vision 2030 and the crown prince, who serves as its chairman. The PIF supports many of the kingdom’s most prominent, future-oriented projects and, through its investments abroad, now conducts public diplomacy on behalf of the country.

When it began in 1971, the PIF was a development fund that provided financing and investments primarily to public enterprises. The fund’s new mandate (since the launch of Vision 2030) is to become one of the largest sovereign

wealth funds (SWF) in the world, but to play a very different role than traditional SWFs, which primarily help diversify a country’s oil wealth to stabilize its economy in the face of fluctuating energy prices. Increasingly, SWFs are assisting oil-dependent economies in diversifying not just their finances but the structure of their economies. However, the PIF goes above and beyond other funds in the region in terms of the aggressiveness of its domestic and international investment strategies.¹⁰⁹ Notably, the PIF does not at this time contribute to government revenues; its spending, investments, and returns are not accounted for in the government budget, and its financial activities are not reported in a transparent manner.¹¹⁰

109 Stephen Roll, *A Sovereign Wealth Fund for the Prince: Economic Reforms and Power Consolidation in Saudi Arabia*, Stiftung Wissenschaft und Politik, July 2019, accessed March 1, 2020, <https://www.swp-berlin.org/en/publication/a-sovereign-wealth-fund-for-the-prince/>; Bina Hussein, *Sovereign Investors: A Means for Economic Diversification?* Atlantic Council, January 8, 2019, accessed March 1, 2020, <https://www.atlanticcouncil.org/in-depth-research-reports/report/sovereign-investors-a-means-for-economic-diversification/>.

110 Roll, *A Sovereign Wealth Fund for the Prince*, 16.

In 2017, the PIF launched:	
Initiatives to open and develop new sectors	<ul style="list-style-type: none"> ■ Saudi Arabian Military Industries (SAMI), a national military industries company;¹ ■ Saudi Entertainment Ventures Co. (SEVEN), with \$2.67 billion initial funding;² ■ Saudi Real Estate Refinance Co., to provide liquidity for lenders to support home financing;³ ■ Saudi Investment Recycling Co.;⁴ ■ Tarshid, the National Energy Services Company, to improve energy savings across public buildings with \$500 million in initial funding;⁵ ■ \$1.07 billion “Fund of Funds” to invest in VC and private equity firms that provide capital to SMEs;⁶ ■ Solar Energy Plan 2030, a joint project with SoftBank Vision Fund, to develop the kingdom’s solar energy sector, led by a 3-gigawatt (GW) solar generation project in 2018;⁷
Initiatives to develop real estate and infrastructure projects and companies	<ul style="list-style-type: none"> ■ New Jeddah Downtown project, totaling an anticipated \$5 billion over ten years;⁸ ■ Rou’a al-Haram and Rou’a Almadinah projects to increase capacity for religious tourism;⁹
Gigaproject initiatives	<ul style="list-style-type: none"> ■ Qiddiya Entertainment City project, later incorporated as the Qiddiya Investment Company (wholly owned by the PIF);¹⁰ ■ Red Sea Project, to develop the Red Sea coastline into a luxury tourism destination (managed by a PIF subsidiary, the Red Sea Development Company);¹¹ and ■ NEOM, a planned, futuristic, “smart city” and tourist destination in the northwest corner of Saudi Arabia, expected to attract \$500 billion in investment, in part from the PIF, over the coming years.¹²
<p>1 “Key Element of Vision 2030 Realized with Launch of New Saudi Arabian National Defense Company,” Public Investment Fund, May 17, 2017, https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=17; “UPDATE 2-Saudi Arabia Launches Military Industries Company,” Reuters, May 17, 2017, https://www.reuters.com/article/saudi-security-arms/update-2-saudi-arabia-launches-military-industries-company-idUSL8N1J5ZG.</p> <p>2 “Public Investment Fund to Launch Entertainment Investment Company,” Public Investment Fund, September 19, 2017, https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=22; “Saudi PIF Entertainment Company Plans to Build Leisure Complex in Riyadh,” Reuters, January 2, 2019, https://www.reuters.com/article/us-saudi-entertainment/saudi-pif-entertainment-company-plans-to-build-leisure-complex-in-riyadh-idUSKCN1OW11X.</p> <p>3 “The Public Investment Fund Launches the Saudi Real Estate Refinance Company (SRC),” Public Investment Fund, October 9, 2017, https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=30.</p> <p>4 “The Public Investment Fund to Establish Recycling Sector Company,” Public Investment Fund, October 15, 2017, https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=28.</p> <p>5 “The Public Investment Fund Establishes Super Energy Service Company—‘Super Esco,’” Public Investment Fund, October 8, 2019, https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=29.</p> <p>6 “Public Investment Fund Launches ‘Fund of Funds,’” Public Investment Fund, October 8, 2017, https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=27.</p> <p>7 “Public Investment Fund to Partner with Softbank Vision Fund to Create the ‘Solar Energy Plan 2030,’” Public Investment Fund, October 24, 2017, https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=33.</p> <p>8 “Public Investment Fund to Lead Development of New Jeddah Downtown,” Public Investment Fund, September 26, 2017, https://www.pif.gov.sa/en/Pages/News11.aspx.</p> <p>9 “Public Investment Fund Prepares to Launch ‘Rou’a al-Haram’ Company,” Public Investment Fund, October 1, 2017, https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=25; “Public Investment Fund to Launch ‘Rou’a Almadinah’ Company,” Public Investment Fund, October 1, 2017, https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=26.</p> <p>10 “World-class Entertainment Park Coming Up in al-Qiddiya,” <i>Saudi Gazette</i>, October 26, 2017, http://saudigazette.com.sa/article/520308; “Establishment of Qiddiya Investment Company,” Qiddiya, May 21, 2018, https://qiddiya.com/en/media/press-office/establishment-of-qiddiya-investment-company/.</p> <p>11 “The Red Sea Development Company,” Red Sea Development Company, https://www.theredsea.sa/en/project/vision-and-pif.</p> <p>12 “HRH the Crown Prince Mohammed bin Salman Announces: NEOM—The Destination for the Future,” Public Investment Fund, October 23, 2017, https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=31.</p>	

The main objectives of the PIF Vision Realization Program are fourfold: 1) to grow the assets of the fund to be one of the largest in the world, targeting \$600 billion by 2020; 2) to use the PIF to “unlock new sectors”; 3) to build global strategic partnerships; and 4) to promote high-tech innovation through investment in research and development and advanced technology sectors.¹¹¹

Assets

The PIF’s funding comes from several sources. Oil revenues beyond those required to balance the budget go to the fund (rather than the Saudi Arabian Monetary Authority, SAMA), as does the nearly \$30 billion raised by Saudi Aramco’s first IPO on the Saudi stock exchange (and any future listings). The cash savings from economic reforms including the energy price reform are reportedly directed to the PIF, and the fund receives some inflows from SAMA and state oil revenues.¹¹² In 2018, the PIF entered commercial debt markets with a loan for \$11 billion from banks.¹¹³ The PIF’s sale of its shares in SABIC to Saudi Aramco will inject \$70 billion into the fund, and the fund took out a second bank loan of \$10 billion to be paid back as the SABIC deal is completed.¹¹⁴

‘Unlocking New Sectors’

The PIF has aggressively pursued its mandate to “unlock new sectors,” develop real estate, infrastructure projects

and companies, and especially to launch “gigaprojects.”¹¹⁵ The crown prince targeted 50 percent of investments for domestic projects, as part of the Vision 2030’s overall goal to expand and increase the role of the private sector.¹¹⁶

The PIF has entered a number of high-profile deals since Vision 2030’s launch. In 2016, the PIF announced it would contribute \$1.1 billion to create the al-Sanaeeq Fund to develop Saudi VC companies and support investments in SMEs. It also invested \$500 million in the e-commerce platform Noon.com.¹¹⁷ But 2017 was the landmark year for inaugurating new Saudi projects. The pace of announcements and the scale of the projects was key to the goal of establishing Vision 2030 as a transformational reform effort that could capture the attention of the international media and international investors.

The pace slowed in 2018 and 2019, but new project announcements and implementation updates for projects launched in 2016-2017 continued. The Ministry of Energy, for example, has since announced a more modest energy plan that aims for 40 GW of solar capacity, rather than 200 GW, by 2030.¹¹⁸ New projects have focused on developing specific tourism sites, including Amaala, an ultraluxury “wellness” resort in a nature reserve on the Red Sea; the Wadi al-Disah Development Project, a sustainable tourism project in the same nature reserve as Amaala; and the first commercial helicopter company in Saudi Arabia, with initial capital of \$151 million.¹¹⁹

- 111 “The Public Investment Fund (2018–2020),” Saudi Vision 2030, 2017, https://vision2030.gov.sa/sites/default/files/attachments/PIF%20Program_EN_0.pdf.
- 112 Anjil Raval, “Oil Cash Set to Boost Saudi Arabia’s Sovereign Wealth Fund,” *Financial Times*, March 9, 2018, <https://www.ft.com/content/aff55882-2372-11e8-add1-0e8958b189ea>; Andrew Torchia, “The Mysterious (and Continuing) Fall in Saudi Foreign Reserves,” Reuters, June 27, 2017, <https://www.reuters.com/article/uk-saudi-economy-reserves-analysis/the-mysterious-fall-in-saudi-foreign-reserves-idUKKBN19I17R>; Philip Cornell, “The Saudi Public Investment Fund: The Emerging Financial Vehicle behind Vision 2030,” Atlantic Council, March 30, 2018, <https://www.atlanticcouncil.org/commentary/the-saudi-public-investment-fund-the-emerging-financial-vehicle-behind-vision-2030/>.
- 113 This is an unusual move for a SWF. See Rory Jones, “In Rare Step, Saudi’s Sovereign-Wealth Fund Raises \$11 Billion Loan,” *Wall Street Journal*, September 17, 2018, <https://www.wsj.com/articles/in-rare-step-saudis-sovereign-wealth-fund-raises-11-billion-loan-1537170690>.
- 114 Previously it was announced that Aramco’s ownership would be transferred to the PIF as well, which would send dividends to the fund, but the crown prince has since said that ownership of Aramco will remain with the Saudi government; Davide Barbuscia and Saeed Azhar, “UPDATE 1-Saudi Arabia’s Public Investment Fund Signs \$10 Billion Loan,” Reuters, October 30, 2019, <https://www.reuters.com/article/saudi-investment-pif/update-1-saudi-arabias-public-investment-fund-signs-10-bln-loan-idUSL8N27F5LJ>; Stephanie Flanders et al., “Saudi Crown Prince Discusses Trump, Aramco, Arrests: Transcript,” Bloomberg, October 5, 2018, <https://www.bloomberg.com/news/articles/2018-10-05/saudi-crown-prince-discusses-trump-aramco-arrests-transcript>.
- 115 “The Public Investment Fund (2018–2020),” Saudi Vision 2030.
- 116 As of October 2018, MBS said that domestic investments were slightly more than 50 percent of overall investments, compared to international ventures, and that the PIF hoped to invest more internationally in 2019 to rebalance. It is not clear that plans for more overseas investments have materialized. Saeed Azhar, “Saudi Arabia’s Hometown Ambitions Could Clip Wealth Fund’s Wings,” Reuters, June 28, 2019, <https://www.reuters.com/article/us-saudi-pif-investment-insight/saudi-arabias-hometown-ambitions-could-clip-wealth-funds-wings-idUSKCN1TT0OE>; Saeed Azhar, Nafisa Eltahir, and Tuqa Khalid, “Factbox: Saudi Sovereign Fund’s Strategy in Focus,” Reuters, June 28, 2019, <https://www.reuters.com/article/us-saudi-pif-investment-factbox/factbox-saudi-sovereign-funds-strategy-in-focus-idUSKCN1TT0ON>.
- 117 “The Saudi Arabian Public Investment Fund Announces 50% Equity Stake in New E-commerce Platform,” Public Investment Fund, November 13, 2016, <https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=13>; “Saudi State Fund to Invest in E-commerce Venture,” Economist Intelligence Unit, November 15, 2016, <https://www.eiu.com/industry/article/814818265/saudi-state-fund-to-invest-in-e-commerce-venture/2016-11-15>.
- 118 Phred Dvorak and Rory Jones, “SoftBank’s Bid to Build a Solar-Power Empire Founders,” *Wall Street Journal*, August 10, 2019, <https://www.wsj.com/articles/softbanks-bid-to-build-a-solar-power-empire-founders-11565409688>.
- 119 “Saudi’s Amaala Resort Will Have ‘Its Own Regulatory Structure’, Target UHNWIs: PIF” (referring to ultra-high net-worth individuals), *Arabian Business*, July 1, 2019, <https://www.arabianbusiness.com/travel-hospitality/423142-saudis-amaala-resort-will-have-its-own-regulatory-structure-target-uhnwis-says-pif>; Danelle Wyper, “Red Sea Riviera Plans Gather Momentum,” MEED, April 7, 2017, <https://www.meed.com/amaala-red-sea-riviera/>; “PIF Announces ‘Wadi Al Disah Development Project’ In Mohammed Bin Salman Natural Reserve,” Public Investment Fund, November 19, 2018, <https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=49>; “PIF Announces ‘Wadi Al Disah Development Project’ in Mohammed bin Salman Natural Reserve,” *Saudi Gazette*, November 20, 2018, <http://saudigazette.com.sa/article/548538/Gallery/Video/PIF-announces-ldquoWadi-Al-Disah-Development-Project-rdquo-in-Mohammed-bin-Salman-Natural-Reserve>; “Public Investment Fund Announces Launch of the Helicopter Company,” Public Investment Fund, March 10, 2019, <https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=52>.

DIRECT PIF INVESTMENTS IN SAUDI COMPANIES, BY ECONOMIC SECTOR*



*Includes regional companies



Source: “The Public Investment Fund Program (2018–2020),” Public Investment Fund Program, 35, https://vision2030.gov.sa/sites/default/files/attachments/PIF%20Program_EN_0.pdf.

Photo: King Abdullah Financial District, in the capital, Riyadh, Saudi Arabia. Shutterstock/Mohammed Younos.

NEOM is the PIF's most ambitious venture. The \$500 billion development is intended to span a massive 10,000 square miles across the borders of Saudi Arabia, Jordan, and Egypt. It encompasses a number of smaller projects: twelve cities and towns by the coast, six or seven more inland, an industrial zone, tourist areas, a port, innovation centers, three domestic airports, and one international airport.¹²⁰ The crown prince envisions the area as an independent economic zone powered by renewable energy with "more robots than humans," completely automated smart-city infrastructure (including security systems), and a drone- and pedestrian-friendly city design. It will have its own parallel legal system that is to be attractive to business owners and investors, and the crown prince hopes NEOM will generate \$100 billion annually by 2030.¹²¹

Many of the PIF's other big investments are in tourism and entertainment as well. The PIF has plans for an estimated 900,000 houses and hotel rooms by 2030 across twenty projects, and the government is working simultaneously to make Saudi Arabia more attractive to visitors to fill those rooms.¹²²

Beyond these new ventures, the PIF is a significant and long-time investor in Saudi banks and in mining, food, cement, technology, and industrial investment companies. The PIF intends to become a more active investor in those companies.¹²³

Overall, the PIF is estimated to have spent \$22 billion on new and existing projects in 2018, including awarding contracts valued at \$15.3 billion.¹²⁴ Most of these domestic investments, particularly the entertainment and tourism

megaprojects, are meant to drive foreign investment and create thousands of jobs in the short term, and to be privatized and contribute to both PIF's assets and the private sector in the medium to long term.

Global Strategic Partnerships and Overseas Investments

The PIF has developed a number of high-profile strategic international partnerships and has invested large amounts of cash in prominent high-tech companies around the globe.

The SoftBank Vision Fund Initiative is the first major international partnership that the PIF announced. It is a joint fund (announced in October 2016) to invest in technology companies, with the PIF contributing \$45 billion and SoftBank \$28 billion over the next five years.¹²⁵ However, the PIF is reportedly not participating in the second SoftBank vision fund, after having planned to invest \$45 billion.¹²⁶

Shortly after the onset of the coronavirus pandemic and the corresponding economic slowdown, the Public Investment Fund made large investments in companies that were especially affected, including Carnival Cruise Line, oil companies Royal Dutch Shell and Total, entertainment group Live Nation, and English Premier League football club Newcastle United.¹²⁷

Other global partnerships include:

- **US Infrastructure Investment Program:** The PIF invested \$20 billion in a joint venture between the PIF and US private equity firm the Blackstone Group that aims to raise a total of \$40 billion for infrastructure investment in the United States.¹²⁸

120 "NEOM, An Accelerator of Human Progress," 2019, <https://www.neom.com/about/#international>; Flanders et al., "Saudi Crown Prince Discusses Trump, Aramco, Arrests: Transcript," Bloomberg; Aria Bendix, "Saudi Arabia Wants to Build a \$500 Billion Megacity That's 33 Times as Large as New York City. Now It's on Shaky Ground after a Saudi Journalist's Death." Business Insider, October 22, 2018, <https://www.businessinsider.com/jamal-khashoggi-saudi-arabia-neom-megacity-2018-10>.

121 Justin Scheck, Rory Jones, and Summer Said, "A Prince's \$500 Billion Desert Dream: Flying Cars, Robot Dinosaurs and a Giant Artificial Moon," *Wall Street Journal*, July 25, 2019, <https://www.wsj.com/articles/a-princes-500-billion-desert-dream-flying-cars-robot-dinosaurs-and-a-giant-artificial-moon-11564097568>; Glen Carey, Vivian Nereim, and Christopher Cannon, "Sun, Sea and Robots: Saudi Arabia's Sci-Fi City in the Desert," Bloomberg, October 26, 2017, <https://www.bloomberg.com/graphics/2017-neom-saudi-mega-city/>; Richard Wachman, "Robots to Roam \$500 Billion Saudi City," *Arab News*, October 24, 2017, <https://www.arabnews.com/node/1182556/saudi-arabia>; "NEOM Airport Welcomes Its First Saudi Arabian Airlines Flight," *Arab News*, January 11, 2019, <https://www.arabnews.com/node/1433471/saudi-arabia>.

122 Azhar, Eltahir, and Khalid, "Factbox: Saudi Sovereign Fund's Strategy in Focus."

123 Roll, *A Sovereign Wealth Fund for the Prince*.

124 Colin Foreman, "Saudi Arabia's Public Investment Fund Will Spend \$22bn on Projects in 2018," MEED, December 20, 2017, <https://www.meed.com/saudi-arabias-public-investment-fund-will-spend-22bn-projects-2018/>; Dominic Dudley, "Saudi Arabia to Ease Off on Austerity Next Year After Economy Shrinks in 2017," Forbes, December 20, 2017, <https://www.forbes.com/sites/dominicdudley/2017/12/20/saudi-arabia-budget-economy-shrinks/#50167229338c>.

125 Mayumi Negishi and Nicolas Parasie, "How SoftBank and Saudi Arabia Settled Their Differences to Birth the World's Biggest Tech Fund," *Wall Street Journal*, May 19, 2017, <https://www.wsj.com/articles/behind-the-long-painful-birth-of-the-worlds-biggest-tech-fund-1495214782>; "Softbank Group Corp. to Establish SoftBank Vision Fund With a Strategic Partnership with the Public Investment Fund of Saudi Arabia," Public Investment Fund, October 13, 2016, <https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=12>.

126 Laurie Clarke, "SoftBank's \$108 Billion Vision Fund 2 Is on Shaky Ground," *Wired*, January 16, 2020, <https://www.wired.co.uk/article/softbank-vision-fund-2>; Riad Hamade, Matthew Martin, and Archana Narayanan, "Saudi Arabia Doubles Down on SoftBank Bet With Extra \$45 Billion," Bloomberg, October 5, 2018, <https://www.bloomberg.com/news/articles/2018-10-05/saudi-arabia-doubles-down-on-softbank-bet-with-extra-45-billion>.

127 Arash Massoudi and Anna Nicolaou, "Saudi wealth fund builds \$500m Live Nation stake," *Financial Times*, April 27, 2020, <https://www.ft.com/content/ad8ea498-6982-478d-a16e-3948b8963076>.

128 "Blackstone to Launch \$40 Billion Infrastructure Investment Vehicle and New Infrastructure Business," Public Investment Fund, May 19, 2017, <https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=19>; Kate Kelly and Landon Thomas Jr., "Big Payoff After Blackstone Courted a Saudi Prince," *New York Times*, May 25, 2017, <https://www.nytimes.com/2017/05/25/business/dealbook/blackstone-saudi-arabia-investments-infrastructure.html>.

- Russian Direct Investment Fund Initiative: The PIF has reportedly contributed close to \$2.5 billion to a \$10-billion fund for joint Russian-Saudi projects;¹²⁹
- China's National Energy Administration: The PIF signed a memorandum of understanding (MOU) with China's National Energy Administration to cooperate on renewable energy projects, but no dollar amount was announced;¹³⁰
- Egyptian Joint Funds: The PIF and the Egyptian International Cooperation Ministry set up a \$16-billion joint investment fund, with promises to develop an electricity plant and agriculture and infrastructure projects,

Beyond strategic partnerships, the PIF has also made investments in and signed contracts with major entertainment and technology funds:¹

- **Posco:** The PIF purchased a 38 percent stake in the South Korean steel company's engineering and construction division at \$1.1 billion in 2015;²
- **Uber Investment Initiative:** The PIF purchased a 5 percent stake at \$3.5 billion in 2016 in the US company;³
- **AMC:** An MOU was signed in 2018 with the US company to open between 50 and 100 cinemas in Saudi Arabia;⁴
- **Six Flags:** An MOU was signed with the US company in 2018 to open a Six Flags theme park in Saudi Arabia;⁵
- **AccorInvest:** The PIF and a consortium of investors purchased a 57.8 percent stake in the real estate financing company from France's AccorHotels for \$5.33 billion in 2018;⁶
- **Lucid Motors:** The PIF invested \$1 billion in 2018 to launch the California-based company's first electric vehicle;⁷
- **Tesla:** The PIF invested between \$1.7 billion and \$2.9 billion in the US electric-car company over 2018 to own between 3 and 5 percent;⁸
- **Magic Leap:** The PIF invested \$400 million in the US augmented reality company in 2018;⁹ and
- **Oyo:** An MOU was signed in 2019 with India's largest hospitality company.¹⁰

- 1 The PIF had previously been in talks to invest in US companies Endeavor and Virgin Galactic, but discussions on both deals halted after the murder of Jamal Khashoggi.
- 2 "Public Investment Fund Acquires 38 Percent Stake in Posco Engineering Unit," Public Investment Fund, July 21, 2015, <https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=8>.
- 3 "Saudi Arabian Public Investment Fund Invests \$3.5 Billion in Uber," Public Investment Fund, June 30, 2016, <https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=10>; Douglas MacMillan, "Uber Raises \$3.5 Billion From Saudi Fund," *Wall Street Journal*, June 1, 2016, <https://www.wsj.com/articles/uber-raises-3-5-billion-from-saudi-fund-1464816529>.
- 4 "PIF's Development Investment Entertainment Company (DIEC) Signs Agreement with AMC," Public Investment Fund, April 3, 2018, <https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=39>.
- 5 "PIF Announces Agreement with Six Flags in Connection with the First Six Flags-Branded Theme Park in the Kingdom of Saudi Arabia, Advancing Strategic Development of the Entertainment Sector," Public Investment Fund, April 3, 2018, <https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=40>.
- 6 "PIF Partners with Global Investor Groups to Acquire 55% Stake in AccorInvest," Public Investment Fund, October 2, 2018, <https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=36>.
- 7 Azhar, Eltahir, and Khalid, "Factbox: Saudi Sovereign Fund's Strategy in Focus"; "The Public Investment Fund Executes Investment Agreement with Electric Automotive Manufacturer 'Lucid Motors,'" Public Investment Fund, September 16, 2018, <https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=46>.
- 8 Arash Massoudi and Richard Waters, "Saudi Arabia's Sovereign Fund Builds \$2-Billion Tesla Stake," *Financial Times*, August 7, 2018, <https://www.ft.com/content/42ca6c42-a79e-11e8-926a-7342fe5e173f>; the PIF sold 99.5 percent of its stock in Tesla in the fourth quarter of 2019; Yun Li, "Saudi Arabia Fund Dumped Nearly All of Its Tesla Shares in the Fourth Quarter before the Rally," CNBC, February 4, 2020, <https://www.cnbc.com/2020/02/04/saudi-arabia-fund-dumped-nearly-all-of-its-tesla-shares-in-the-fourth-quarter-filing-shows.html>.
- 9 "PIF Invests \$400 Million in Magic Leap, Inc.," Public Investment Fund, March 7, 2018, <https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=37>.
- 10 Azhar, Eltahir, and Khalid, "Factbox: Saudi Sovereign Fund's Strategy in Focus"; "The Public Investment Fund Announce [sic] the Signing of MOU with Indian Hospitality Company OYO," Public Investment Fund, February 19, 2019, <https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=50>.

129 Andrey Ostroukh, "Saudi Arabia to Invest up to \$10 Billion in Russia," *Wall Street Journal*, July 6, 2015, <https://www.wsj.com/articles/saudi-arabia-to-invest-up-to-10-billion-in-russia-1436198674>; "Saudi Arabia, Russia Fund 'to Invest over \$2bn This Year,'" *Arab News*, June 5, 2019, <https://www.arabnews.com/node/1506886/business-economy>.

130 "The Public Investment Fund Announces the Signing of an MOU with the National Energy Administration in the People's Republic Of China," Public Investment Fund website, February 21, 2019, <https://www.pif.gov.sa/en/MediaCenter/Pages/NewsDetails.aspx?NewsID=51>; "Saudi's Wealth Fund Signs Renewables Agreement with China—SPA," Reuters, February 22, 2019, <https://www.reuters.com/article/asia-saudi-china-renewables/saudis-wealth-fund-signs-renewables-agreement-with-china-spa-idUSD5N1ZA01J>.

followed by an agreement for a \$10-billion joint fund to develop NEOM in 2018;¹³¹

- Saudi-Jordanian Investment Fund: The PIF has partnered with the Jordanian Investment Fund for a combined \$3 billion fund (with 90 percent from the PIF and 10 percent from Jordanian banks) to better enable Saudi investments in Jordanian infrastructure, tourism, and energy projects;¹³²
- French Private Equity Investment Initiative: The PIF agreed to invest \$2 billion in French private equity funds and \$3 billion in the French credit insurer Coface.¹³³

FINANCING VISION 2030

Saudi Arabia continues to rely on oil revenues and has started generating new revenue through the VAT and expat levy. However, to fund the massive development and social-welfare projects the state is contemplating, it also must bring in new sources of financing for the government, the Public Investment Fund, and state-owned enterprises. To finance the Vision 2030 project, the kingdom initiated debt sales and bank loans, sought to attract greater foreign investment for its projects, and, perhaps most notably, promised a partial public offering of 5 percent of Saudi Aramco, the state-owned oil company.

The partial IPO of Saudi Aramco received global attention and intense speculation. Crown Prince Mohammed bin

Salman promised in 2016 the eventual sale of 5 percent of what would later be shown, based on its first international prospectus, to be the world's most profitable company.¹³⁴ MBS planned to gain \$100 billion from the sale, assuming a \$2 trillion valuation, which he could then put toward some of his most ambitious projects—such as NEOM.¹³⁵

One major hurdle was preparing the necessary financial statements to list on an international bourse.¹³⁶ Ahead of its bond sale in April 2019, Aramco disclosed details about its production and profits for the first time, and is now required to provide regular financial reports as long as it holds the bonds.¹³⁷ The crown prince's own expectations for the sale and valuation proved to be another hurdle.

In December, after years of delay, Aramco announced it would proceed with a 1.5 percent listing on the Saudi stock exchange, Tadawul, in what was the world's largest ever IPO. The move is reported to have net the PIF nearly \$30 billion.¹³⁸ It took little time for rumors to resurface about an international listing to follow. However, the domestic listing may not have helped Aramco's case.¹³⁹ Soon after the listing opened, Aramco stock (briefly) achieved its promised \$2 trillion valuation with an influx of interest that experts have attributed to government interference.¹⁴⁰ An inflated price, and the reminder that the government is hardly a neutral actor in the process, may cause foreign investors to shy away from a future international listing.

- 131 Ali Abdelaty, "Egypt, Saudi Arabia Sign 60 Billion Saudi Riyal Investment Fund Pact," Reuters, April 9, 2016, <https://www.reuters.com/article/us-egypt-saudi-idUSKCN0X60VQ>; Sam Meredith, "Saudi Arabia and Egypt Agree to a \$10 Billion Deal to Build a New Mega-city," CNBC, March 5, 2018, <https://www.cnbc.com/2018/03/05/saudi-arabia-and-egypt-agree-to-a-10-billion-deal-to-build-a-new-mega-city.html>.
- 132 "The Public Investment Fund Program (2018–2020)," Public Investment Fund Program, 79, https://vision2030.gov.sa/sites/default/files/attachments/PIF%20Program_EN_0.pdf; "Joint \$3 Billion Fund to Serve Two Kingdoms—Saudi Official," *Jordan Times*, March 28, 2017, <http://jordantimes.com/news/local/joint-3b-fund-serve-two-kingdoms-%E2%80%9494-saudi-official>.
- 133 Azhar, Eltahir, and Khalid, "Factbox: Saudi Sovereign Fund's Strategy in Focus."
- 134 Stanley Reed, "Saudi Aramco Is World's Most Profitable Company, Beating Apple by Far," *New York Times*, April 1, 2019, <https://www.nytimes.com/2019/04/01/business/saudi-aramco-profit.html>; "Saudi Aramco IPO: World's Most Profitable Company to Go Public," BBC, November 3, 2019, <https://www.bbc.com/news/business-50070823>.
- 135 "Full Transcript of Prince Mohammed bin Salman's al-Arabiya Interview," *Al Arabiya*, April 25, 2016, <https://english.alarabiya.net/en/media/inside-the-newsroom/2016/04/25/Full-Transcript-of-Prince-Mohammed-bin-Salman-s-Al-Arabiya-interview.html>; Flanders et al., "Saudi Crown Prince Discusses Trump, Aramco, Arrests: Transcript," Bloomberg. Note that banks and experts estimate the valuation at between \$1.2 trillion and \$1.5 trillion, which would net up to \$75 billion. Javier Blas, "Aramco's Accounts Show \$2 Trillion Valuation Remains a Challenge," Bloomberg, April 1, 2019, <https://www.bloomberg.com/news/articles/2019-04-01/aramco-s-accounts-show-2-trillion-valuation-still-a-challenge>; Alex Lawler, Marwa Rashad, and Saeed Azhar, "Exclusive: Saudi Aramco Valuation Gap Persists as IPO Talks Resume—Sources," Reuters, August 7, 2019, <https://www.reuters.com/article/us-aramco-ipo-exclusive/exclusive-saudi-aramco-valuation-gap-persists-as-ipo-talks-resume-sources-idUSKCN1UX1PD>.
- 136 Ellen R. Wald, "Remember That Aramco IPO? Prince Mohammed Does," *Forbes*, Jun 17, 2019, <https://www.forbes.com/sites/ellenwald/2019/06/17/remember-that-aramco-ipo-prince-mohammed-does/#1813a16333e3>; Wald is a senior fellow at the Atlantic Council.
- 137 Stanley Reed, "Saudi Aramco Says It's 'Ready' for I.P.O. as It Reports Half-Year Earnings," *New York Times*, August 12, 2019, <https://www.nytimes.com/2019/08/12/business/saudi-aramco-earnings.html>.
- 138 Dmitry Zhdannikov, "Aramco IPO Proceeds to Fund Saudi Industry, Including Defense: Finance Minister," Reuters, January 21, 2020, <https://www.reuters.com/article/us-davos-meeting-saudi/aramco-ipo-proceeds-to-fund-saudi-industry-including-defense-finance-minister-idUSKBN1ZK1RC>; Randolph Bell, "The Aramco IPO Isn't Quite Enough to Realize MBS's Diversification Ambitions," Atlantic Council blog, December 30, 2019, <https://www.atlanticcouncil.org/blogs/energysource/the-aramco-ipo-isnt-quite-enough-to-realize-mbss-diversification-ambitions/>.
- 139 Benoit Faucon, Summer Said, and Rory Jones, "Saudi Aramco Sounds Out Investors on Fresh International IPO," *Wall Street Journal*, December 10, 2019, <https://www.wsj.com/articles/saudi-aramco-sounds-out-investors-on-fresh-international-ipo-11576004672>.
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Between the government, the PIF, Aramco, and other state-owned enterprises, Saudi Arabia has raised over \$100 billion in international bonds and loans since 2016.¹⁴¹ In October 2016, the government presented its first international offer in an attempt to partially finance its deficit, and sold \$17.5 billion in debt in the largest-ever emerging market bond sale.¹⁴² Since then, the government has sold international bonds totaling some \$60 billion, with sales twice a year.¹⁴³ Beyond international markets, Saudi Arabia has offered billions of riyals in a monthly issuance of domestic sukuk, or financial certificates, since 2015.¹⁴⁴

The so-called Ritz-Carlton crackdown on wealthy businessmen in November 2017 also generated substantial revenue for the government. In the ensuing months, nearly 400 individuals were summoned on behalf of the crown prince, and 87 reached settlement agreements that net the government \$170 billion in “properties, companies, and cash,” by the time the initiative concluded in January 2019.¹⁴⁵ While the move was reportedly intended to crack down on corruption, it also likely had the unintended effect of shaking investor confidence and contributing to massive capital flight.¹⁴⁶

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- 143 Zahraa Alkhalisi, “Saudi Arabia Borrows \$9 Billion with First Islamic Bond Sale,” CNN, April 14, 2017, <https://money.cnn.com/2017/04/13/news/economy/saudi-arabia-islamic-bond/index.html>; Nicolas Parasie, “Saudi Arabia Sells \$12.5 Billion of Bonds,” *Wall Street Journal*, September 27, 2017, <https://www.wsj.com/articles/saudi-arabia-launches-12-5-billion-bond-sale-1506532475>; “Saudi Arabia Raises \$11bn in Biggest EM Bond Sale of 2018,” *Arabian Business*, April 11, 2018, <https://www.arabianbusiness.com/bonds/393973-saudi-arabia-raises-11bn-in-biggest-em-bond-sale-of-2018>; Sandrine Bradley, “Kingdom of Saudi Arabia Closes US\$16bn Loan—LPC,” Reuters, April 1, 2018, <https://www.reuters.com/article/saudi-arabia-loan/kingdom-of-saudi-arabia-closes-us16bn-loan-lpc-idUSL5N1RE028>; Archana Narayanan and Allan Lopez, “Saudi Arabia Raises \$2 Billion in Islamic Bond Sale,” Bloomberg, September 12, 2018, <https://www.bloomberg.com/news/articles/2018-09-12/saudi-arabia-is-said-to-start-2-billion-islamic-bond-sale>; Nicolas Parasie and Margot Patrick, “Saudi Arabia Sells More Than \$7 Billion in Bonds,” *Wall Street Journal*, January 9, 2019, <https://www.wsj.com/articles/saudi-arabia-is-raising-money-again-with-international-bonds-11547034391>.
- 144 Davide Barbuscia and Rashmi Aich, “Saudi Arabia Further Extends Debt Curve with New 30-year Sukuk,” Reuters, April 25, 2019, <https://www.reuters.com/article/saudi-debt/saudi-arabia-further-extends-debt-curve-with-new-30-year-sukuk-idUSL5N227170>.
- 145 “Saudi Arabia Ends Major Anti-corruption Campaign,” BBC, January 31, 2019, <https://www.bbc.com/news/world-middle-east-47065285>; Benoit Faucon, Summer Said, and Asa Fitch, “‘A Saudi Luxury Prison’: How the Kingdom Squeezed Billions from Billionaires,” *Wall Street Journal*, February 11, 2018, <https://www.wsj.com/articles/a-saudi-luxury-prison-how-the-kingdom-squeezed-billions-from-billionaires-1518350401>.
- 146 Karen E. Young, “Saudi Arabia’s Problem Isn’t the Canada Flight, It’s Capital Flight,” American Enterprise Institute, August 17, 2018, <http://www.aei.org/publication/saudi-arabias-problem-isnt-the-canada-flight-its-capital-flight/>.

HOW IS VISION 2030 FARING?

It is early to analyze the progress of Vision 2030. First announced in April 2016, much of the initial effort around Vision 2030 went into defining and refining its programmatic elements and creating the government structures to implement it. The government has announced numerous reform-related initiatives, but fewer things have been implemented. To date, the “deliverables” remain limited. As Saudi government officials have repeated, 2017 and 2018 were for organizing, and 2019 was the start of implementation of Vision 2030; 2020 is the check-in point set for many interim goals. At the time of publishing, most of the data for 2019 and 2020 was not yet available and cannot be the basis for analysis. Furthermore, Saudi officials have not yet clarified how the economic impact of the coronavirus and oil price collapse of 2020 will affect its Vision 2030 goals and ambitions.

Nonetheless, the Saudi government has set ambitious targets (KPIs) in many areas that are to be evaluated in 2020. These targets are part of its Vision Realization Programs and are often based on 2016 baselines. It is reasonable to explore, four years into reform efforts, progress toward meeting those 2020 targets, as well as broader economic and social indicators. Such an exercise can provide hints of the general direction of reform efforts, as well as the general strengths and weaknesses of these efforts to date, while at the same time establishing a methodology for continuing to evaluate reform efforts over the longer term.

The section that follows, therefore, evaluates Saudi Arabia’s progress in terms of the strategic lines of effort described in the last section. Where feasible, it examines the government’s own self-developed metrics for success, the so-called key performance indicators. Eight of the thirteen Vision Realization Programs have published their strategic objectives online, as well as in most cases the various initiatives that will be undertaken to achieve them and the main indicators and subindicators (KPIs) for measuring progress—a level of transparency and accountability that is new for Saudi Arabia.¹⁴⁷ While all the programs have established, and most have posted online, their KPIs for 2020, very few have made public their progress to date in meeting these targets, though the government clearly monitors such progress internally. For this reason, the analysis that follows also provides a more in-depth qualitative narrative of the government’s progress to date in each

area and examines broader social and economic measures of progress, including global indicators developed by the World Bank, IMF, and other internationally recognized data sources.

Each part of the analysis starts with a look at the KPIs, where available, measuring progress in that particular line of effort. The analysis includes a narrative account of the Saudi government’s efforts in this area, its general approach, and successes and failures. Finally, it covers broader social and economic indicators of success or failure in the area.

ESTABLISH FISCAL BALANCE

The Saudi government’s short-term handling of macroeconomic policy following the collapse of oil prices in mid-2014 merits praise. After watching oil revenues plummet, the budget tilt heavily into deficit, and foreign exchange reserves fall, Saudi policy makers did manage, through prudent fiscal policy, to begin to stabilize the macroeconomic situation. They reined in government spending while developing several new sources of government revenue, gradually bringing the national budget back on a trajectory toward balance, thereby stemming the outflow of foreign exchange reserves. With the help of the IMF, the Saudi government developed a framework for medium-term budgetary planning, which, at the end of 2019, had it on course to balance the budget by 2023, until the pandemic struck.¹⁴⁸ While a balanced budget is not necessary in economic terms, the building up of a cushion would help guard against future crises.

Prior to the pandemic, the economic climate in Saudi Arabia had turned somewhat more positive as oil prices had made a modest recovery. Not only was the government on a path toward a balanced budget, but unemployment was down. In the fourth quarter of 2019, it declined to 12.0 percent for nationals, its lowest level since 2015. Inflation was under control and, in fact, was slightly negative in 2019.

After a contraction of 0.7 percent in 2017, the economy grew 2.2 percent in 2018, and was forecast to grow 1.9 percent in 2019 before continued uncertainty in oil markets and heightened tensions with Iran prompted the IMF to

¹⁴⁷ Author interviews, March 2019.

¹⁴⁸ “Saudi Arabia: 2019 Article IV Consultation—Press Release; and Staff Report,” IMF Country Report No. 19/290, 5.

E-Participation Framework

- E-information: Enabling participation by providing citizens with public information and access to information without or upon demand
- E-consultation: Engaging citizens in contributions to and deliberation on public policies and services
- E-decision-making: Empowering citizens through co-design of policy options and co-production

Source: United Nations E-Government Survey 2018, page 211, https://publicadministration.un.org/egovkb/Portals/egovkb/Documents/un/2018-Survey/E-Government%20Survey%202018_FINAL%20for%20web.pdf.

revise that forecast downward to just 0.2 percent.¹⁴⁹ The economic growth that has occurred since the mid-2014 downturn appears to be tied in part to oil prices and in part to an infusion of government spending in the form of resumed subsidies, cost-of-living adjustments for government employees, social spending, targeted support for the private sector, and large-scale capital expenditure.¹⁵⁰ Fiscal stimulus is not inappropriate so long as it is targeted efficiently—to compensate those impacted most by subsidy cuts, to channel capital to promising new private ventures, and to fund sound long-term capital investments. At the end of 2019, the IMF predicted a stabilization in oil prices and a return to 2.2 percent growth in 2020.¹⁵¹ As of April 2020, the IMF has revised that prediction to -2.8 percent in 2020, and with a return to 4 percent growth in 2021.

Importantly, the government has made little progress yet in reducing the public wage bill. Government spending still goes disproportionately to public-sector wages. In 2015, the wage bill was around 45 percent of overall government expenditure; by the end of 2019, it reached 48 percent.¹⁵²

The modest uptick in energy prices (prior to 2020) aided macroeconomic stabilization by boosting government revenues significantly, thereby providing policy makers much greater room to maneuver. At the same time, it generated concern that reform efforts could stall as the sense of crisis ebbs. Historically, Saudi leaders have pushed reform when oil prices were low, only to abandon those plans when high oil prices returned. Writing about GCC countries as a whole, the World Bank cautions that “higher than expected oil and gas revenues could reduce the pressure for governments to reform.”¹⁵³ Perhaps we will see a return to the urgency of reform in 2020.

IMPROVE THE FUNCTIONING AND CAPACITY OF THE SAUDI GOVERNMENT

The National Transformation Program, the largest of the Vision Realization Programs and one that focuses on improving the functioning of the national government, does not publish metrics regarding the current status of its KPIs, but a few of the indicators that it established are linked to international surveys and indices.

For example, for the strategic objective to “develop e-government,” the NTP set a KPI based on Saudi Arabia’s ranking in the United Nations E-Government Survey. The baseline set was from 2016, when Saudi Arabia ranked forty-fourth of 193. The 2020 target established was thirty of 193. In 2018, the survey placed the country at the fifty-second spot of 193; and among GCC members, Saudi Arabia was ranked only above Oman. While Saudi Arabia no doubt continues to make strides in introducing e-governance platforms, other countries are clearly advancing more rapidly. The Saudi government seems highly unlikely to achieve its 2020 target in this area.¹⁵⁴

For the strategic objective to “ensure government entities’ response to customers’ feedback,” the NTP chose the E-Participation Index, a subset of the above-mentioned UN survey, as a metric. The baseline score in 2016 was .71 and the kingdom ranked thirty-ninth of 139. The target for 2020 is to advance to a ranking of thirty of 139. In the 2018 index,

149 “IMF Executive Board Concludes 2019 Article IV Consultation with Saudi Arabia,” IMF press release, July 18, 2019, <https://www.imf.org/en/News/Articles/2019/07/18/pr19287-saudi-arabia-imf-executive-board-concludes-2019-article-iv-consultation-with-saudi-arabia>; actual GDP growth for 2019 was slightly higher than anticipated by the IMF, estimated at between 0.3 and 0.4 percent.

150 Vivian Neriem, “Saudi Arabia’s Quarterly Budget Deficit Widens to \$8.9 billion,” Bloomberg, July 31, 2019, <https://www.bloomberg.com/news/articles/2019-07-30/saudi-arabia-s-quarterly-budget-deficit-widens-to-8-9-billion>.

151 “World Economic Outlook, Global Manufacturing Downturn, Rising Trade Barriers,” International Monetary Fund, October 2019, <https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019>.

152 The 2019 budget had planned for the wage bill to drop to 41.2 percent of annual expenditures. In 2020, the wage bill is expected to remain flat in absolute terms at 504 billion SAR, making up 49 percent of total government expenditures. “Saudi Arabia’s 2020 Fiscal Budget,” Jadwa Investments, December 2019.

153 Tehmina Shaikat Khan and Harun Onder, “Staying the Course on Reforms—In Focus: Water for Prosperity and Development,” World Bank Gulf Economic Monitor,” World Bank, 3 (2018): 6, <http://documents.worldbank.org/curated/en/248661541781145130/Staying-the-Course-on-Reforms-In-Focus-Water-for-Prosperity-and-Development>.

154 The NTP set a second target of improving its ranking in the Global Open Data Index from 74 of 94 in 2016 to 60 of 94 in 2020. Saudi Arabia does not appear in the latest Global Open Data Index (2016/17), and the index no longer appears to be compiled.

the Saudi score was unchanged at .71, but its rank declined to sixty-seventh of 193. That shift reflects both the broader number of countries involved and the fact many countries have made significant progress in e-participation in recent years. Regionally, the kingdom was toward the head of the GCC pack in 2016, behind only the United Arab Emirates and Bahrain, but has fallen toward the bottom and is tied now with Qatar, with Kuwait at the back of the pack. The E-Participation Index is a composite of three scores: e-information, e-consultation, and e-decision-making. Saudi Arabia scores well on e-information (76.67 percent) and impressively well on e-consultation (82.61 percent), but, perhaps unsurprisingly, less well on e-decision-making (54.55 percent).¹⁵⁵

For the strategic objective for “transparency across government entities,” the NTP set the goal of moving Saudi Arabia from a rank of fifty-seventh of 180 in Transparency International’s Corruption Perceptions Index for 2017 to fortieth of 180 in 2020. In Transparency’s 2018 survey, Saudi Arabia’s rank was fifty-eighth of 180. Saudi Arabia seems unlikely to hit its 2020 target.

A broader measure is the World Bank’s Global Governance Indicators. The World Bank scores countries on six dimensions of governance. Over the last four years, Saudi Arabia has seen some advances, but also declines against these indicators. Saudi Arabia’s scores have declined when it comes to political stability, held more or less steady when it comes to regulatory quality and rule of law, and improved slightly when it comes to government effectiveness, the control of corruption, and voice and accountability. See the figure on the next page for greater detail.

ACHIEVE GREATER WORKFORCE UTILIZATION AND EMPLOYMENT RATES FOR SAUDIS

Saudi Arabia made some progress against lagging employment in 2019, as the unemployment rate has seen a slow decline from a high of 12.8 percent at the end of 2017 to 12.0 percent in the fourth quarter of 2019. Saudi policies to fight unemployment are a mixed bag: Saudization policies and slow GDP growth are working against hiring in the private sector, and education and training programs have yet to show measurable results; however, Saudi Arabia is on track to meet its targets for greater female participation in the workforce.

The IMF’s prediction of stabilization in oil prices and progress in developing the nonoil GDP could have led to

continued improvement in 2020, and a potential recovery in 2021 is still within sight. However, Vision 2030’s original goal to achieve 7 percent unemployment by 2030—much less 10.5 percent in 2020—seems a long way off.

Enhance the Attractiveness of Private-Sector Employment

While the government has made efforts to create favorable conditions in the private sector—enacting flexible staffing and teleworking policies, creating an online job-seekers platform, and expanding wage protection and equalizing working conditions—there is little evidence so far that more Saudi job seekers are turning to the private sector. While the Saudization ratio in the private sector increased marginally through the first three quarters of 2019, total private-sector employment and wages for Saudis both fell slightly in the same period—and the total number of private-sector jobs for foreign and domestic workers dropped by more than 200,000—as government-employment numbers and wages both increased (marginally).¹⁵⁶ Even taking a longer view, the number of Saudis employed in the private sector has increased by only 36,000 since 2015.

Improve the Quality of Education and Workforce Training

The government’s efforts to improve the educational quality and workforce training for Saudis are difficult to judge. As described in the last chapter, the Ministry of Education has announced a number of measures to upgrade the quality of education, particularly at the primary and secondary level, as has the Ministry for Labor and Social Development to improve training opportunities—all to prepare young Saudis for the workplace needs of the twenty-first century. However, there are few KPIs or international indicators with which one might measure success in this area.

As noted previously, Saudi students rank below the average in international rankings for math and science.¹⁵⁷ The 2019 Trends in International Mathematics and Science Study (TIMSS) is expected to appear in fall 2020, so there is no update in this regard.

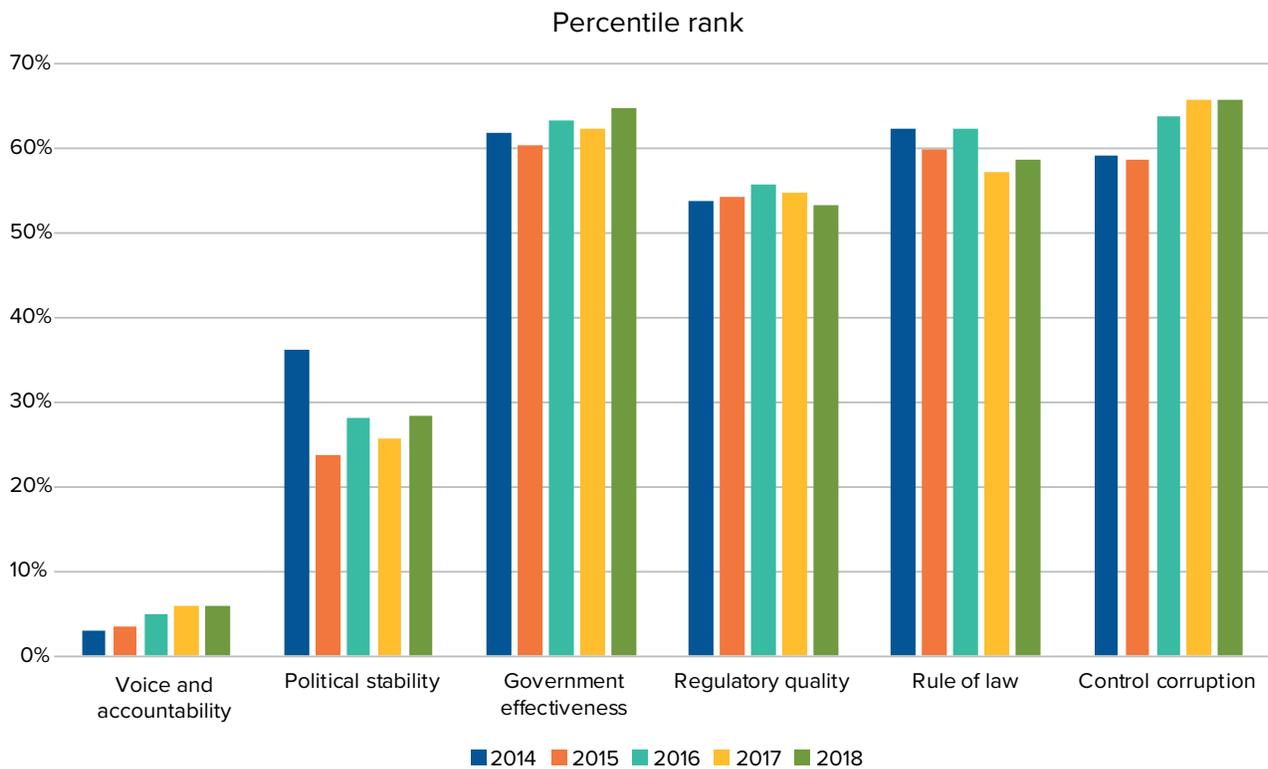
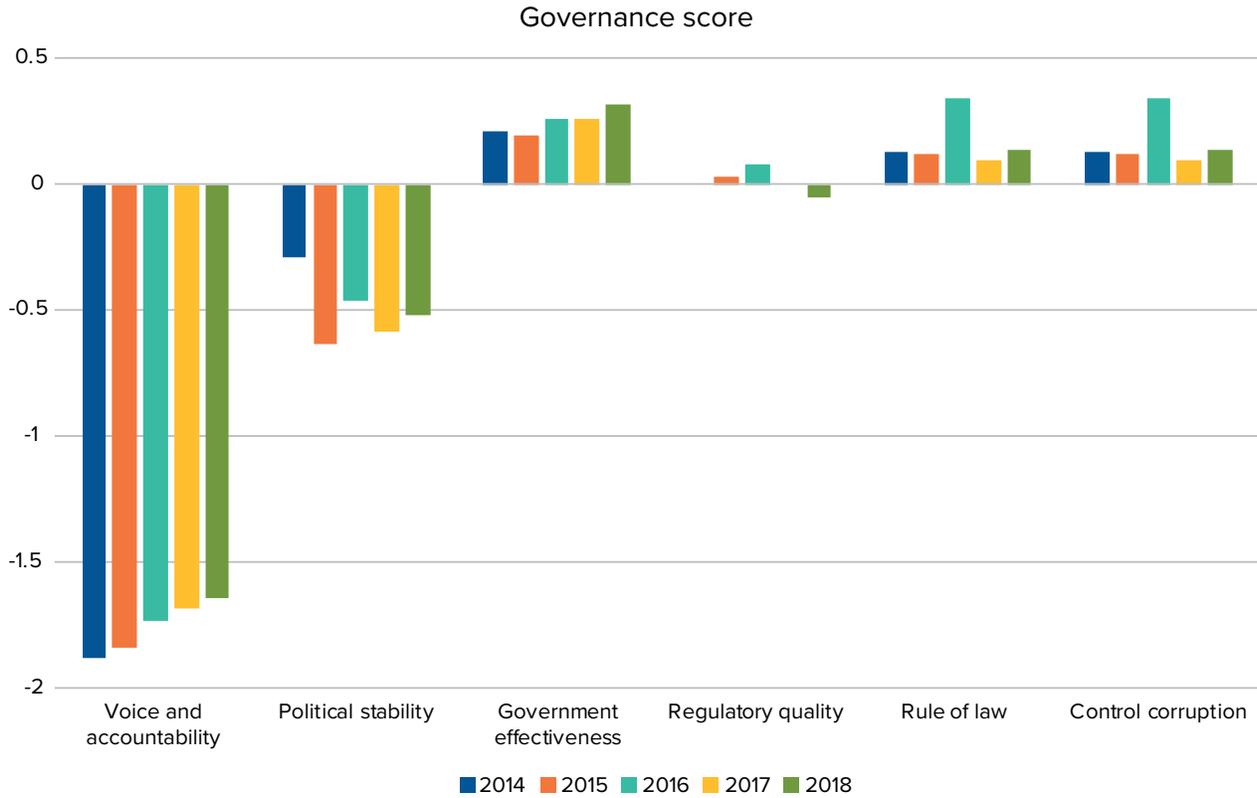
Moreover, while the Ministry for Labor and Social Development appears to have expanded significantly the number of workforce training programs, there is some modest indication of progress, although there is no indication yet that the offerings serve anywhere near the one million

155 United Nations E-Government Survey 2018,” United Nations, https://publicadministration.un.org/Portals/1/Images/E-Government%20Survey%202018_FINAL%20for%20web.pdf.

156 Any upward trend in Saudization in 2019 appears to be due to the massive number of expatriates leaving Saudi Arabia, rather than real job creation; data from “Labor Force” releases for the third, second, and first quarters of 2019, General Authority for Statistics (Saudi Arabia), accessed February 24, 2020, <https://www.stats.gov.sa/en/814>.

157 *Highlights from TIMSS and TIMSS Advanced 2015*, <https://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2017002>.

World Bank governance indicators for Saudi Arabia



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues, <https://info.worldbank.org/governance/wgi/Home/Reports>.

Saudis targeted. From the first quarter to the fourth quarter of 2019, the percentage of unemployed Saudis reporting having had job training rose to 3.8 percent from 3 percent. Of those with training, the self-reported number with administrative or computer training rose throughout 2019.¹⁵⁸

Attract Foreign Talent

As part of Vision 2030, the government has set as a strategic objective “improv[ing] living conditions of expatriates.” The government defines as a KPI the country’s ranking in this area in the Expatriate Working Abroad Index. The index is published by a magazine called Ex-Pat Insider. Its methodology is not scientifically sound as it surveys expats online according to who chooses to respond, rather than at random, and its sample size for particular countries is often as small as 75 respondents. Nonetheless, it can shed some insight into how well Saudi Arabia is doing in improving the living conditions of expatriates. The NTP sets as its baseline a country ranking of sixty-one in 2016 (when in fact it was sixty-third of sixty-seven in 2016, and sixty-first out of sixty-four countries in 2015),¹⁵⁹ its 2020 target is fifty. In the 2017 rankings, Saudi Arabia was ranked fiftieth of sixty-five. In the 2018 rankings, Saudi Arabia ranked sixty-sixth of sixty-seven, perhaps because of Saudization policies, in addition to the murder of Khashoggi and other negative media reports coming out of Saudi Arabia.¹⁶⁰

The second KPI the government set for this strategic objective is the number of “appropriate” International Labor Organization (ILO) technical conventions that Saudi Arabia has ratified. On the National Transformation Program website, the government provides the baseline of sixteen conventions (out of 177) in 2017 and a 2020 target of twenty (out of 177). The ILO website indicates that Saudi Arabia had signed sixteen ILO conventions in total (nine of them technical) by 2014.¹⁶¹ As of this writing, the ILO indicates that Saudi Arabia has ratified no further conventions.

The government has also set the strategic objective of “effectively attract[ing] suitable global talent.” As a KPI, the government employs INSEAD’s Global Talent Competitiveness Index, which attempts to ascertain a country’s ability to nurture entrepreneurial talent. Saudi Arabia was ranked thirty-ninth of 119 in 2017, and the NTP sets as the 2020 target thirty-seventh of 119. In the 2019 INSEAD survey, Saudi Arabia was ranked thirty-ninth of 125.¹⁶²

Address the Dual Labor Market

The government’s effort to reduce Saudi unemployment through Saudization has had a largely negative impact on the labor market. Two million expatriate workers are reported to have left the Saudi economy since the end of 2016, and yet the total number of Saudis employed rose by barely 40,000 over that period and Saudi unemployment has not dropped below 12 percent.¹⁶³

A 2018 IMF assessment makes predictions about the expat levy. First, that the fee borne by workers will not impact significantly the employment of nationals. Second, even so, it will decrease the domestic consumption and labor output of expatriate workers, a major engine of the consumer economy in Saudi Arabia, as they struggle to make ends meet. Third, that the fee on companies will have even greater negative impact, potentially reducing profits, investment, real wages for Saudis and non-Saudis, and domestic consumption. Fourth, if the levies were successful in replacing expatriate workers with Saudis and those workers returned to their home countries, this would only have a greater negative effect on the economy. Overall, the impact of both fees on GDP was expected to be negative over the next four years.¹⁶⁴ This analysis is borne out in the 2019 Saudi employment numbers, and anecdotally in reports of businesses struggling to keep up under higher fees and an already difficult economic environment.¹⁶⁵

The IMF and other international organizations have encouraged the kingdom to implement Saudization to address the distortions caused by the dual labor market. However, they

158 “Labor Force,” first quarter 2019, tables 55 and 56; “Labor Force,” fourth quarter 2019, tables 61 and 62.

159 “Expat Insider 2016: Three Years of Insights,” InterNations, 2016, <https://www.internations.org/expat-insider/2016/>; “Welcome to Expat Insider 2015—Take Two,” InterNations, 2015, <https://www.internations.org/expat-insider/2015/>.

160 “Expat Insider 2018: The Best (and Worst) Places for Working Abroad,” InterNations, 2018, <https://www.internations.org/expat-insider/2018/working-abroad-index-39589/>; Saudi Arabia was not included in the ranking of sixty-four countries in Expat Insider’s 2019 report, down from sixty-eight nations in 2018.

161 “Ratifications for Saudi Arabia,” International Labor Organization, https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:11200:0::NO::P11200_COUNTRY_ID:103208. There remain two fundamental conventions, three governance conventions, and 169 technical conventions that Saudi Arabia has not ratified. This is on par with or surpasses the standing of Saudi Arabia’s GCC neighbors and the United States. It is far behind most European countries.

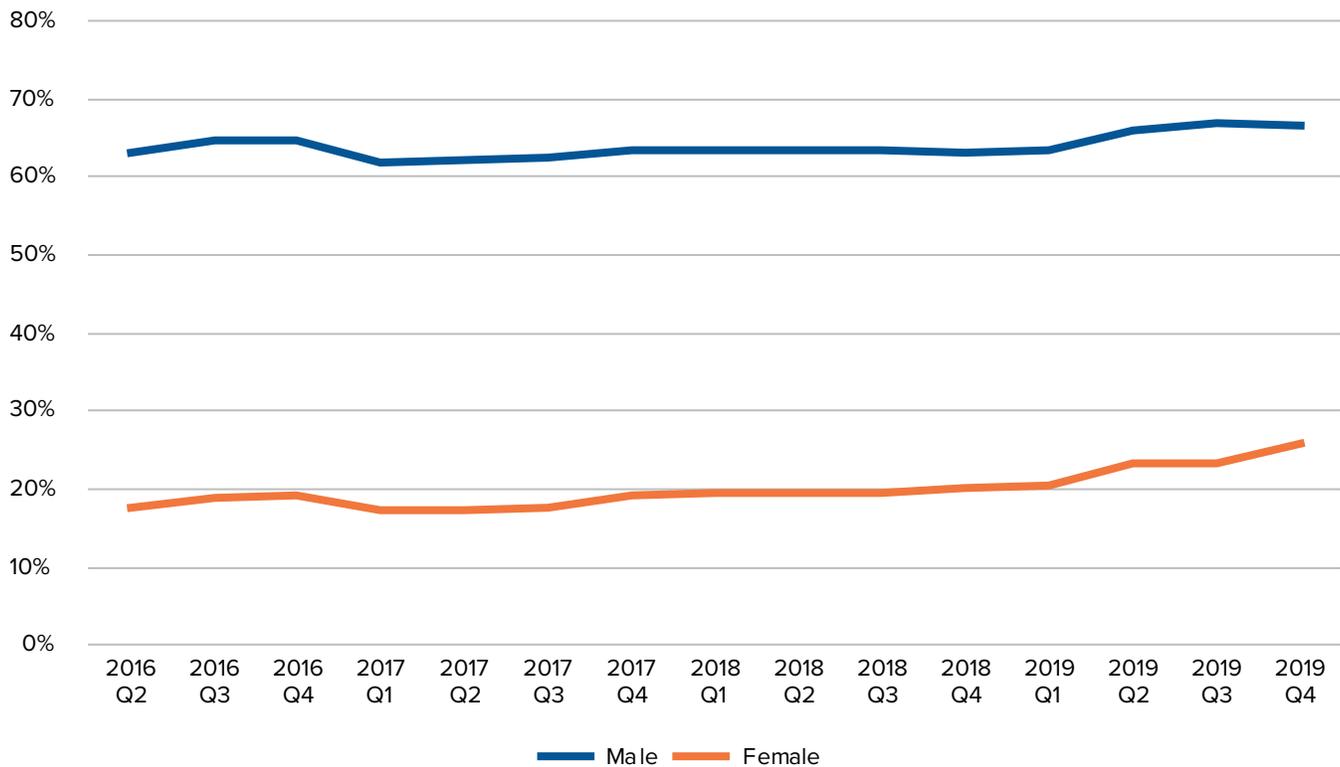
162 Bruno Lanvin and Felipe Monteiro, “The Global Talent Competitiveness Index 2019, Entrepreneurial Talent and Global Competitiveness,” INSEAD, the Adecco Group, and TATA Communications, 2019, <https://www.insead.edu/sites/default/files/assets/dept/globalindices/docs/GTCI-2019-Report.pdf>.

163 “Saudi Labor Market Update - Q3 2019,” Jadwa Investment, December 17, 2019, <http://www.jadwa.com/en/researchsection/research/economic-research/labor-market-reports>.

164 “Saudi Arabia: Selected Issues,” IMF Country Report, 2018, 38–40.

165 Kareem Fahim, “Saudi Arabia Encouraged Foreign Workers to Leave—and Is Struggling After So Many Did,” *Washington Post*, February 2, 2019, https://www.washingtonpost.com/world/saudi-arabia-encouraged-foreign-workers-to-leave---and-is-struggling-after-so-many-did/2019/02/01/07e34e12-a548-11e8-ad6f-080770dccc2_story.html.

Economic participation rates for Saudis



Source: General Authority for Statistics (Saudi Arabia), Labor Market Surveys from 2016 through 2019, <https://www.stats.gov.sa/en/814>.

have recommended a gradual program, along with the liberalization of expatriate labor policies and support for private sector development.¹⁶⁶ The Saudi government appears willing to calibrate its policies according to these recommendations: King Salman announced in 2019 a fund of \$3.1 billion to assist companies struggling under the expat levy by exempting or reimbursing fees for companies that already reached or have increased their Saudization ratio to at least 50 percent.¹⁶⁷ Later in 2019, the government announced it would waive expat fees on industrial companies entirely for five years (although it will not waive the fees for dependents paid by foreign industrial workers).¹⁶⁸

In response to the economic crisis in 2020, the Saudi government announced support for Saudi private sector workers, but did not enact similar measures for foreign

workers.¹⁶⁹ Migrant worker communities in Saudi Arabia (and across the Gulf) have been disproportionately affected by the spread of coronavirus, where families and workers tend to live in densely packed housing.¹⁷⁰ Experts predict that many foreign workers will return to their home countries, especially if a large number of foreign workers lose their jobs and potentially their visa status. The coronavirus and ensuing job losses are predicted to have a significant effect on the number of foreign workers in the kingdom, although it is less clear that Saudi workers will see additional job opportunities from those departures.

Provide Greater Workforce Opportunities for Women

As noted, one of the key Vision 2030 benchmarks is to increase the number of women participating in the workforce

166 “Saudi Arabia: Selected Issues,” IMF Country Report, 2018, 41–42.

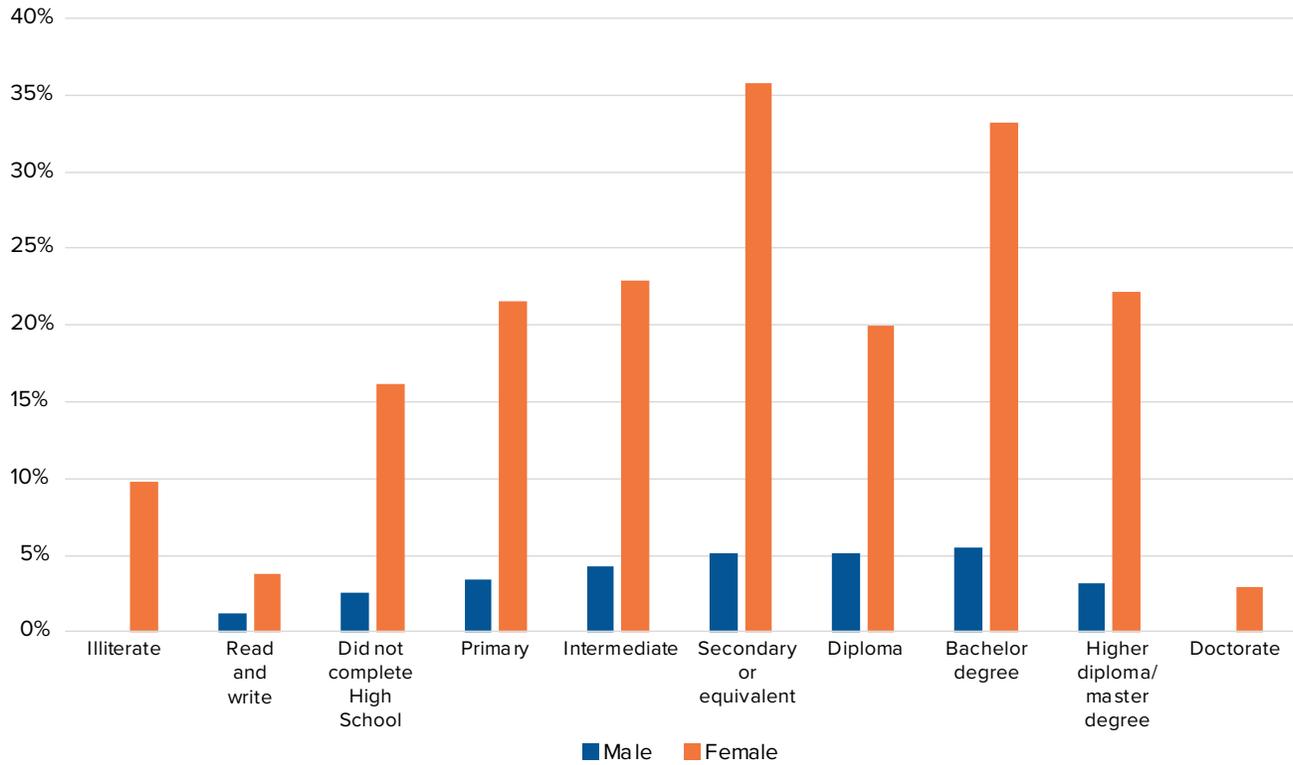
167 Alaa Shahine, “Saudi King Approves \$3.1 Billion Plan to Ease Expat Fee Costs,” Bloomberg, February 10, 2019, <https://www.bloomberg.com/news/articles/2019-02-10/saudi-king-approves-3-1-billion-plan-to-ease-expat-fee-costs>.

168 Vivian Nereim, “Saudi Arabia to Waive ‘Expat Fees’ for Industrial Companies,” Bloomberg, September 24, 2019, <https://www.bloomberg.com/news/articles/2019-09-24/saudi-arabia-to-waive-expat-fees-for-industrial-companies>.

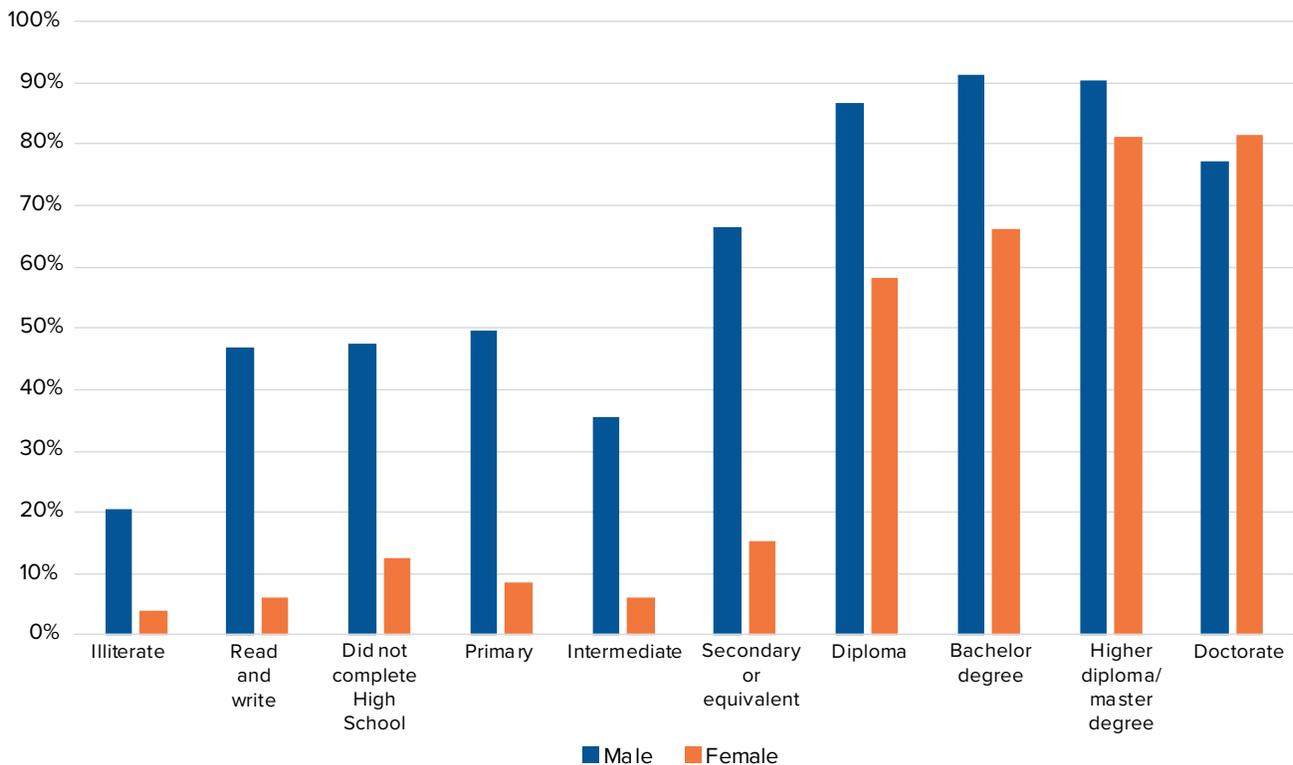
169 “Saudi Arabia to pay some private sector salaries amid coronavirus fallout,” *Al-Monitor*, April 3, 2020, <https://www.al-monitor.com/pulse/originals/2020/04/saudi-arabia-pay-private-sector-coronavirus-fallout.html>.

170 Ahmed Al Omran, “Saudi Arabia moves to control spread of virus among migrant workers,” *Financial Times*, April 16, 2020, <https://www.ft.com/content/c24262f1-2f13-4432-9eda-6ec5622f72e7>.

Unemployment rates for Saudis by education level



Economic participation rates for Saudis by education level



Source: "Labor Market, Fourth Quarter 2019," General Authority for Statistics (Saudi Arabia), <https://www.stats.gov.sa/en/814>.

to 25 percent by 2030, from 17 percent in 2017. This number was revised downward in 2018 from an initial goal of 25 percent by 2020 and 30 percent by 2030.¹⁷¹ As of the fourth quarter of 2019, official statistics reported employment of just over 1.15 million Saudi women, with another 780,000 women who are seeking jobs.¹⁷² It remains to be seen how these figures might change in 2020, given the economic crisis caused by the coronavirus pandemic and an oil price shock.

For the strategic objective to “increase women’s participation in the labor market,” the National Transformation Program has set two KPIs: women as a share of working Saudis; and the labor force participation rate of Saudi females (which includes job seekers).

For the first, women as a share of working Saudis, the NTP takes the 2017 figure of 21.2 percent as a baseline and establishes the 2020 target of 24 percent. In the fourth quarter of 2019, the figure reached 27.3 percent, exceeding the government’s target for 2020.¹⁷³ This figure is still much lower than in neighboring countries including Kuwait, the UAE, Bahrain, and Qatar.¹⁷⁴

For the second KPI, the NTP set as the baseline the 2017 figure of 17 percent female labor force participation (meaning 17 percent of women in Saudi Arabia are employed or registered as unemployed) and the 2020 target of 25 percent. In the fourth quarter of 2019, the participation rate for women hit 26 percent, nearly a 6 percent jump over a relatively stagnant previous two years and exceeding the 2020 target.

The female unemployment rate, particularly for young women, remains high—30.8 percent in the fourth quarter of 2019 compared with a male unemployment rate of 4.9 percent. Nonetheless, there is some positive news. In the past, female unemployment rose steadily as more women entered the workforce, but since 2016 the number has fallen, and as of 2019 it has nearly returned to 2010 levels (30 percent), signaling a market for female employees even as overall unemployment has continued to rise.

Notably, the gap in female participation in the workforce is highly correlated with educational achievement. The economic participation rate for women with a high school degree or below maxes out at 15 percent; for those with an associate’s degree or technical diploma, the rate jumps to between 60 percent and 80 percent. More Saudi women than men now graduate with a bachelor’s degree, and Saudi women have reached near parity with men in the most recent generation with regard to literacy levels and enrollment in primary, secondary, and tertiary education.^{175, 176}

To put Saudi Arabia’s performance in a global context, the World Economic Forum’s Global Gender Gap Report (2018) ranks Saudi Arabia 143rd out of 149 countries in terms of labor force participation.¹⁷⁷ But the improvements across a variety of indicators are positive, and they point Saudi Arabia in the direction of meeting its goals for Vision 2030.

IMPROVE THE BUSINESS ENVIRONMENT

For the strategic objective to “facilitate doing business,” the NTP chose the World Bank’s Ease of Doing Business Report for its KPI. The index measures how far others lag the top performing country. The baseline for Saudi Arabia was 62.5 percent in 2018 (meaning it scored 37.5 percentage points behind the highest performer). Saudi officials set as a target 79 percent by 2020, which would narrow the gap to twenty-one percentage points.

Saudi Arabia’s scored 71.6 percent in 2020, achieving a rank of sixty-second out of 190 countries worldwide.¹⁷⁸ Regionally, it scores higher than Egypt, Jordan, and Oman, but below Bahrain and the regional leader, the UAE.

The kingdom’s 2020 score is a significant jump from 2019 (when Saudi Arabia was ranked ninety-second with a score of 63.5 percent)—the World Bank ranked Saudi Arabia as the number one most improved economy in terms of ease of doing business, based on regulatory reforms it enacted in 2018–2019.¹⁷⁹ The most significant improvements, as reported by the World Bank, were in starting a business,

171 Young, “Saudi Arabia’s Crisis Is Economic and Demographic.”

172 “Labour Market, Fourth Quarter 2019,” General Authority for Statistics (Saudi Arabia), 2019, <https://stats.gov.sa/en/814>. This employment number does not include the extensive defense and security sector; the total number of employed women could be as high as two million.

173 The Q4 2019 figure rose to 27.3 percent from 23.8 percent in Q1 2019.

174 “Ratio of Female to Male Labor Force Participation Rate (%) (modeled ILO estimate)—Saudi Arabia,” World Bank, <https://data.worldbank.org/indicator/SL.TLF.CACT.FM.ZS?locations=SA>.

175 “35,000 Saudi Women Studying Abroad on Government Scholarships,” *Arab News*, April 11, 2017, <https://www.arabnews.com/node/1082551/saudi-arabia>; Saudi Arabia does not score high in the World Economic Forum’s 2018 gender report ranking, but ranks relatively highly for gender equality in educational attainment.

176 “The Global Gender Gap Report 2018, Insight Report,” World Economic Forum, 237–8, http://www3.weforum.org/docs/WEF_GGGR_2018.pdf.

177 “The Global Gender Gap Report 2018, Insight Report,” World Economic Forum.

178 *Doing Business 2020, Comparing Business Regulation in 190 Economies*, World Bank Group, 2020, <https://openknowledge.worldbank.org/bitstream/handle/10986/32436/9781464814402.pdf?sequence=24&isAllowed=y>.

179 “Doing Business 2020: Saudi Arabia Accelerated Business Climate Reforms, Joins Ranks of 10 Most Improved,” World Bank press release, October 24, 2019, <https://www.worldbank.org/en/news/press-release/2019/10/24/doing-business-2020-saudi-arabia-accelerated-business-climate-reforms-joins-ranks-of-10-most-improved>.

Ease of Doing Business Indicators: How Saudi Arabia Stacks Up

Topics	DB 2020 Rank	DB 2020 Score	DB 2019 Score	Change in Score (% points)
Overall	62.0	71.6	63.8	+ 7.8%
Starting a Business	38.0	93.1	80.1	+ 13.0%
Dealing with Construction Permits	28.0	78.3	76.7	+ 1.6%
Getting Electricity	18.0	91.8	79.9	+ 11.9%
Registering Property	19.0	84.5	84.1	+ 0.4%
Getting Credit	80.0	60.0	45.0	+ 15.0%
Protecting Minority Investors	3.0	86.0	80.0	+ 6.0%
Paying Taxes	57.0	80.5	75.0	+ 5.5%
Trading across Borders	86.0	76.0	54.3	+ 21.7%
Enforcing Contracts	51.0	65.3	63.4	+ 1.9%
Resolving Insolvency	168.0	0.0	0.0	--

Source: “Doing Business: Measuring Business Regulations,” The World Bank, <https://www.doingbusiness.org/en/data/exploreeconomies/saudi-arabia>.

protecting minority investors, and getting electricity, via new online platforms and a “one-stop shop” for business services, and the new regulations discussed in the previous section.

From 2007 to 2017, according to a World Bank database, Saudi Arabia moved up five positions in the rankings. Most of these gains came between 2007 and 2011, but then the country lost ground from 2011 onwards. The 2020 scores suggest gains are once more being made. The pace of regulatory reform is consistent with the aims of Vision 2030, despite the gap between Saudi Arabia’s achievements thus far and its 2020 goal.

The World Economic Forum (WEF) Global Competitiveness Index is another measure, one that seeks to evaluate the long-term drivers of national competitiveness and growth. The WEF changed the methodology of its survey in 2018 in an effort to capture better the nature of national competitiveness in today’s globalized economy. Saudi Arabia scored 67.5 percent in 2018 (with the top performer at the level of 100 percent) and ranked thirty-ninth out of 140 in the world. This was 1.6 percent and two positions higher in the rankings than Saudi Arabia would have scored the

previous year if the same methodology had been employed. The following year, in 2019, Saudi Arabia scored 70 percent overall and rose in the rankings to thirty-sixth out of 141 countries.¹⁸⁰

The trendline for past years, even if a different methodology was employed, suggests that the 2018 and 2019 scores represent important progress for Saudi Arabia (despite the fact its overall ranking is lower than in past years). The 2019 report cites the rapid deployment of broadband technology and increase in overall internet users, as well as gradual improvement in what the report calls “innovation capability” for Saudi Arabia’s rise in the rankings. However, the WEF points to insolvency regulations, the amount of time it takes to start a business, and better use of talent as areas holding Saudi Arabia back from a higher ranking—all areas that Saudi Arabia has committed to improving under its reform plan.

As mentioned previously, the Saudi government hopes that the private-sector contribution to GDP will grow from 40 percent to 65 percent by 2030. Improving the business environment will be necessary to achieve that growth, but the kingdom has yet to see significant fruits from its labor.

180 Klaus Schwab, World Economic Forum, “The Global Competitiveness Report,” 2019, http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf.

As of 2019, the private-sector contribution to GDP had only reached 40.67 percent.¹⁸¹ That said, the nonoil private sector outperformed overall GDP growth in 2019 and was expected to do so in 2020 as well, but the number now has been revised downward in IMF estimates. In 2020, GDP in the nonoil sector is now expected to contract for the first time in over decade.¹⁸²

NURTURE A CULTURE OF ENTREPRENEURSHIP AND SUPPORT SME GROWTH

A country's environment for entrepreneurship and small businesses is difficult to measure. Some of the ease of doing business indicators mentioned in the previous section are relevant to entrepreneurs and SMEs as well. We will start by looking at KPIs that the government has set in this area for which there are data, and then move to broader international indicators.

Vision 2030 seeks to increase loans by the banking sector to SMEs. The specific KPI in this area is raising the percentage of loans to SMEs as a share of overall bank lending from a baseline of 2 percent to 5 percent by 2020. Such loans already represent 5.9 percent of overall lending, exceeding the 2020 target.¹⁸³ Similarly, as of June 2019, bank credit to the private sector overall rose 3.5 percent on a year-on-year basis.¹⁸⁴

Another KPI in this area is increasing the representation of micro- and small-capitalization firms on Tadawul. The number of such firms increased to 42 percent of total listings in 2019, up from 34 percent in 2016, exceeding the government's 2020 target of 40 percent.¹⁸⁵

With regard to developing the retail sector, which contains many SMEs, the government set as a KPI increasing the annual income of the retail sector from a baseline of 156 billion SAR in 2017, with a 2020 target of 175 billion SAR. A definitive valuation of the retail sector in 2018 is not available, but the sector reportedly grew by 0.8 percent in that year, which would put 2018 retail income at approximately 157 billion SAR. This would suggest that

Saudi Arabia's retail sector lags way behind its target for 2020.

More broadly, nonoil exports have been down over the last year. In 2018, these exports totaled \$63 billion, accounting for 8 percent of GDP. This decline can be attributed in part to the effects of the US-China trade war on global demand for goods, but Saudi-specific factors pertain as well.

Turning to broader international indicators, the Global Innovation Index, compiled by INSEAD, seeks to measure the different dimensions of economic innovation within a country. In 2016, Saudi Arabia received a score of 37.8, ranking it forty-ninth of 128 countries. In 2017, Saudi Arabia received a score of 36.17, ranking it fifty-fifth of 127 countries. In 2018, its score slipped to 34.3 and its ranking to sixty-first of 126 countries. In 2019, its score slipped again to 32.9 and its ranking to sixty-eighth of 129 countries.

PRIVATIZE SELECT INDUSTRIES AND ATTRACT FOREIGN DIRECT INVESTMENT

Unsurprisingly, the government has found progress slow in pushing forward the privatization of state-owned industries. A draft privatization law was released for consultations in July 2018, but an implementation date has yet to be announced.¹⁸⁶ Reports cite difficulties in the regulatory framework and management as stumbling blocks to corporatization of entities like the Riyadh airport.

So far, the government has signed six public-private partnership agreements (out of a targeted fourteen contracts for the 2020 benchmark), where state assets are managed by an outside private firm. Of the six deals, four are in the water sector and two are in health care and transport. In keeping with its KPI in this area, the government plans forty more PPP deals by 2022, adjusted from the original target date of 2020.¹⁸⁷

Financial-sector reform, as a way of bringing in foreign direct investment and financing, appears to be a government

181 "Quarterly GDP at Constant Prices for 2010-2019", General Authority for Statistics (Saudi Arabia), accessed May 6, 2020, <https://www.stats.gov.sa/en/823>.

182 "2020 Saudi Fiscal Budget," Jadwa Investments, December 10, 2019, <http://www.jadwa.com/en/researchsection/research/economic-research/budget-reports>.

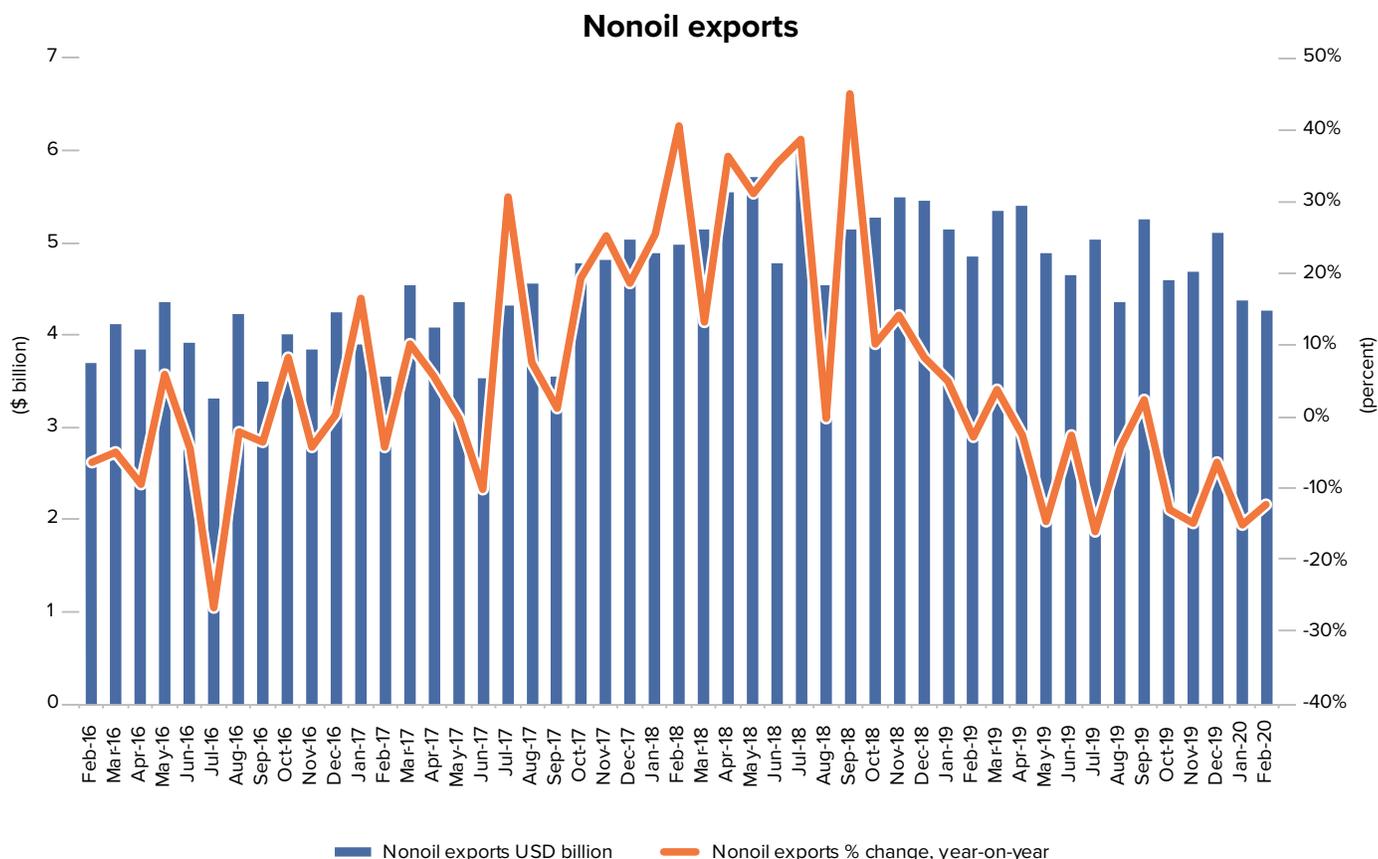
183 "Financial Sector Development Program: Quarterly Newsletter Q2 2019," Financial Sector Development Program (Saudi Arabia), 2019, <https://vision2030.gov.sa/sites/default/files/attachments/FSDP%20Quarterly%20Newsletter%20Q2%202019.pdf>.

184 "Saudi Chartbook—June 2019," Jadwa Investments, May 30, 2019, <http://www.jadwa.com/en/researchsection/research/chart-books?page=2>; "World Economic Outlook, April 2020: The Great Lockdown," <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>.

185 "Financial Sector Development Program: Quarterly Newsletter Q2 2019."

186 "Draft Private Sector Participation Law," National Center for Privatization, https://www.ncp.gov.sa/en/PublicConsultation/Documents/Draft_Private_Sector_Participation_Law_-_English.pdf; Tim Burbury and Timm Smith, "Ten Reasons Why International Investors Should Be Excited about Saudi Arabia's New PSP (PPP) Law," King & Spalding, March 11, 2019, <https://www.kslaw.com/blog-posts/ten-reasons-why-international-investors-should-be-excited-about-saudi-arabias-new-psp-ppp-law>; Bilal Rana, "Paving the Road for Privatisation: Saudi Arabia's Draft Private Sector Participation Law," Ashurst, April 15, 2019, <https://www.ashurst.com/en/news-and-insights/insights/paving-the-road-for-privatisation/>.

187 Tom Arnold, "Saudi Seals Six Private Sector Deals Worth \$3.5 Billion, Plans Many More," Reuters, March 12, 2019, <https://www.reuters.com/article/us-saudi-privatisation/saudi-seals-six-private-sector-deals-worth-3-5-billion-plans-many-more-idUSKBN1QT28R>.



Source: “Merchandise Imports and Exports of the Kingdom of Saudi Arabia” from February 2016 to February 2020, General Authority for Statistics (Saudi Arabia), <https://www.stats.gov.sa/en/325>.

priority. The fact that this is one of the few areas for which the current status of KPIs is published online would appear to confirm that.¹⁸⁸ The government’s biggest accomplishment to date in financial-sector reform has been the continued growth in the Saudi stock exchange, Tadawul, and its launching with US company MSCI of the MSCI Tadawul Index 30, an index fund of the thirty largest liquid Saudi companies. In May 2019, Tadawul also began the first phases of its inclusion in the FTSE Russell Emerging Markets Fund and the S&P Emerging Market indices. These index funds will provide global institutional investors a mechanism for making portfolio investments in Saudi Arabia. In the first half of 2019, Saudi Arabia saw \$14.7 billion in foreign portfolio investments, including from the purchases of swaps.¹⁸⁹

There are additional data points pertaining to other KPIs in financial-sector development, with some signs of progress.

- Saudi authorities have increased the percentage of noncash transactions in the economy. The baseline percentage was 18 percent and the target for 2020 was 28 percent; the percentage of noncash transactions in 2019 rose to 26 percent.
- The market concentration of the largest Saudi firms, on the other hand, has increased rather than decreased. The market share of the ten largest Saudi firms by market capitalization rose from 57 percent to 61.4 percent, despite the goal of decreasing this concentration to 55 percent by 2020.
- The Saudi government has a long way to go in turning its citizens into institutional investors. Assets under management as a percent of GDP has risen from 12 percent to 16.3 percent, but the result remains well

188 “Financial Sector Development Program: Quarterly Newsletter Q3 2019,” Financial Sector Development Program (Saudi Arabia), 2019, <https://vision2030.gov.sa/sites/default/files/attachments/FSDP%20-%20Newsletter%20Q3%202019%20-%20English.pdf>.

189 “Macroeconomic Update—Pick-up in Non-oil Activity,” Jadwa Investment, July 9, 2019, <http://www.jadwa.com/en/researchsection/research/economic-research/macroeconomic-reports>.



Sarah Al Suhaimi, chair of the Saudi Stock Exchange (Tadawul) at the World Economic Forum's annual meeting in January 2018. Source: World Economic Forum/Greg Beadle (<https://www.flickr.com/photos/worldeconomicforum/46859768201/in/photostream/>)

short of the 2020 target of greater than 22 percent. The European average is 72 percent.¹⁹⁰

- The role of institutional investors in the stock market has increased significantly, presumably at least in part a result of the launch of the MSCI Tadawul index fund. Their share of the value traded has risen markedly from 18 percent to 47.8 percent, well above the 2020 target of at least 20 percent.
- Foreign portfolio investment in the stock market has grown as well, but not at the projected pace. Foreign investor ownership as a percentage of market capitalization has grown from 4 percent to 8.6 percent, but the level remains well short of the 2020 target of 15 percent or more.

- The percentage of equity market capitalization that is free-float—or the percentage of outstanding shares that are readily tradable, and not tightly held by the main owner (in this case primarily the state)—has remained approximately steady. The minimum free float of equity market capitalization as a percentage of total outstanding shares has risen slightly from 46 percent to 47.6 percent, staying above the 2020 target of at least 45 percent.¹⁹¹
- The insurance industry is not growing as projected. Life gross written premiums per capita remains at a baseline level of 33 SAR.
- The number of savings options available to Saudi citizens has risen to six from four, but remains below the 2020 target of nine.

However, the most telling measure of Saudi Arabia's ability to attract outside capital is that foreign direct investment (FDI) shrank dramatically in 2017, to only 0.2 percent of GDP, from an average of 1 percent and 1.25 percent since 2013.¹⁹² The government recorded a nearly 100 percent increase in FDI in 2018, but only because it was negligible in 2017—the \$4.25 billion inflow still amounted to only 0.54 percent of GDP in 2018. A string of events, most notably the crackdown on Saudi businessmen and the murder of Khashoggi, have badly damaged investor confidence. It is difficult to imagine this trend reversing in 2020. Globally, it bears mentioning, there has been a downturn in foreign direct investment worldwide in recent years, particularly in emerging markets. FDI outflows during this time period reached \$22.9 billion in 2018 (or 2.9 percent of GDP), which suggests that Saudi Arabia is still investing more around the world (largely through the PIF) than it is getting in return. Capital outflows by Saudi residents reached \$80 billion in 2017, and may have been as high as \$65 billion in 2018, suggesting even wealthy Saudis are hesitant to risk their capital in the Saudi program right now.¹⁹³ Both domestically and abroad, Saudi Arabia is not attracting the investments that it requires to make Vision 2030 a success.

OPEN THE SOCIAL SPHERE

The Saudi social reforms are changing markedly the opportunity structures for women and should diminish the remaining discrepancies over time. While it is difficult to quantify many of the changes, Saudi Arabia has

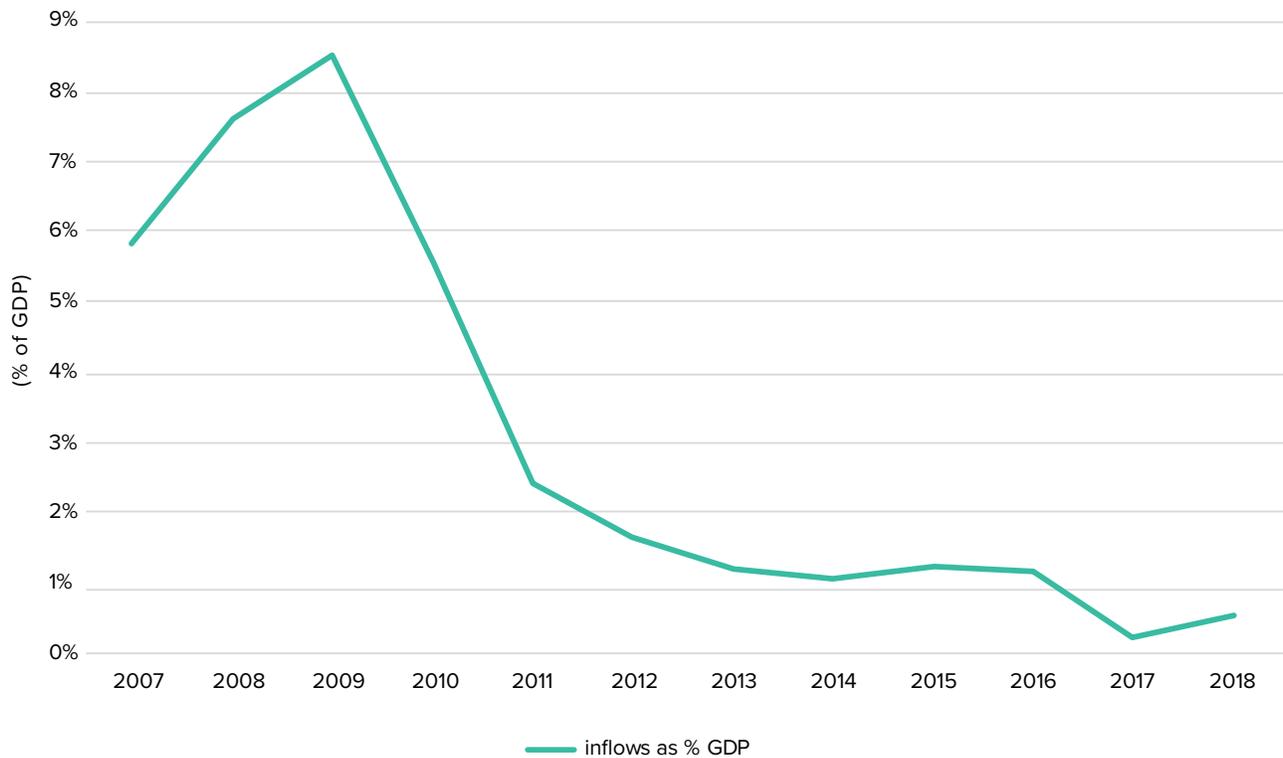
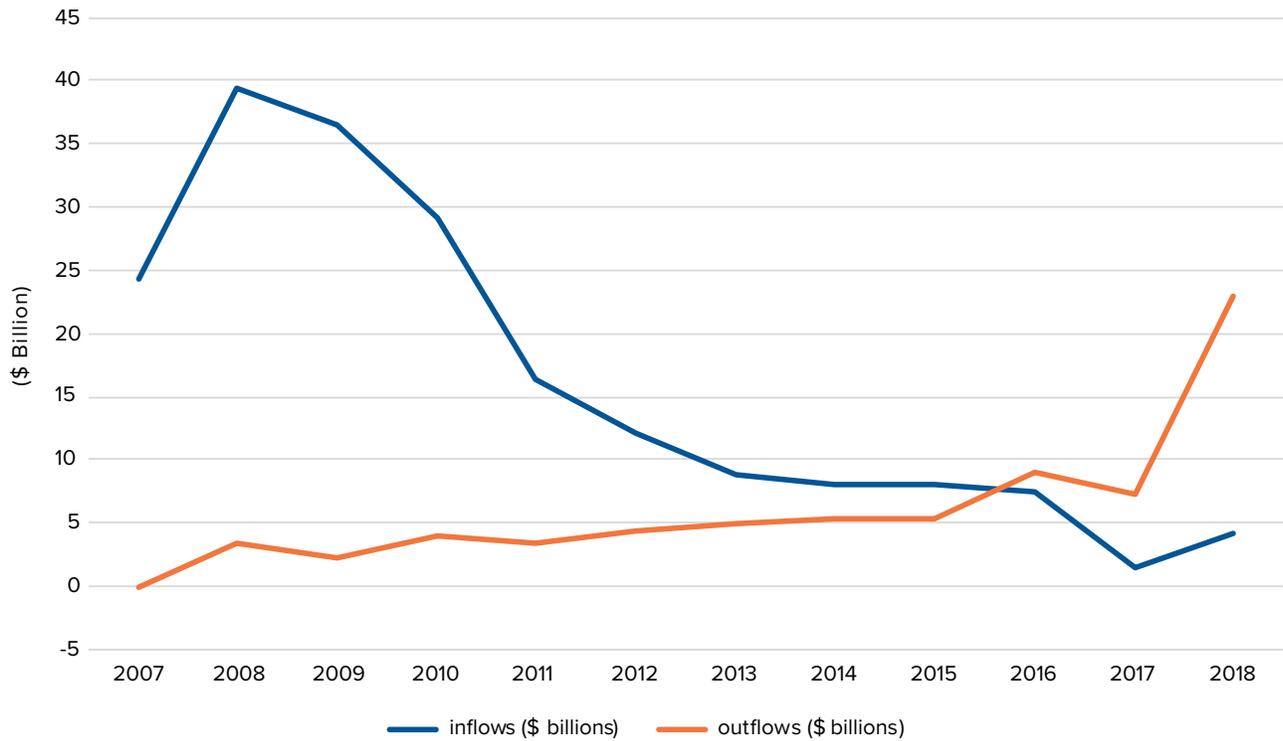
190 James Cherowbrier, "Proportion of Investment Funds [sic] Assets to Country GDP in Europe 2017, by Country," Statista website, October 4, 2019, <https://www.statista.com/statistics/368648/europe-investment-funds-assets-to-gdp-ratio-by-country/>.

191 Generally, major indices measure market cap using the free-float method to exclude shares restricted to the government from the calculation.

192 "Country Fact Sheet: Saudi Arabia," World Investment Report 2019, UN Conference on Trade and Development (UNCTAD) FDI/MNE Database, <https://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Country-Fact-Sheets.aspx>.

193 Young, "Saudi Arabia's Problem Isn't the Canada Flight, It's Capital Flight."

Foreign direct investment flows



Source: “Foreign Direct Investment, Net Inflows (percent of GDP), Saudi Arabia, from 2007 to 2018,” “Foreign Direct Investment, Net Inflows (BoP, current US\$),” and “Foreign Direct Investment, Net Outflows (BoP, current US\$),” World Bank, with multiple data sources, <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2018&locations=SA&start=2007&view=chart>.

nonetheless set many targets for itself to improve the overall “quality of life” for Saudi Arabia—including metrics related to urbanization, environmentalism, sports and entertainment, and more. In this section, we will primarily address efforts related to women’s participation and new sectors that overlap with social changes.

These social changes are important to Saudi Arabia’s efforts to open new sectors and invite tourism into Saudi Arabia and take advantage of the largely ignored potential for Saudi women to contribute to the economy and society more broadly. Moreover, social liberalization may have earned the crown prince a certain degree of latitude and political capital, particularly with younger Saudis, that could help him to weather less popular economic reforms.

Relax Social Restrictions on Women and Gender Mixing

Notably, the metrics related to women’s participation are primarily limited to the realm of the labor force, despite the wider edicts on women driving and participating in sports, loosening the dress code, and reducing the scope of the guardianship system.

There are, however, some numbers that can help gauge women’s engagement with new measures. For example, as of July 2019, officials reported that 120,000 women had obtained drivers’ licenses after completing the necessary practical training at the country’s seven driving schools, up from 70,000 reported in March 2019.¹⁹⁴ There is reportedly broad demand to enroll in training programs, and the schools are attempting to scale up rapidly. Nonetheless, this number represents a small part of the female population in Saudi Arabia. It remains to be seen how reforms to the civil and guardianship systems will translate across the broader population.

Promote Entertainment, Sports, and Tourism

While there are not yet numbers available on how the entertainment industry is performing in terms of GDP contribution and job creation, the hope is that the sports and entertainment sectors can be drivers of jobs and nonoil growth. The Entertainment Support Fund and the Public Investment Fund subsidize events and the industry is not yet profitable, but the kingdom sees entertainment as commercially viable and attractive to investors. The General Entertainment Authority (GEA) has been tremendously

active, hosting over 6,000 events for twenty-seven million attendees. The GEA has reported an increasing number of licenses being granted to local event companies, including companies that are supported by government funds as well as nonsupported companies.

Saudi Arabia also is hard at work to develop an environment that encourages tourism to the region, with the introduction of a new online or on-arrival tourist visa system (previously there was no tourist visa, only a religious tourist visa) and the development of historical, pre-Islamic sites, and luxury beach developments. Foreign women are no longer required to wear the abaya, and foreign men and women no longer need to provide a marriage certificate to stay at a Saudi hotel.¹⁹⁵ Again, these changes are recent enough that statistics are unavailable. During the coronavirus pandemic, Saudi Arabia has enforced a ban on tourists (including religious tourists) and is unable to host major sporting and entertainment events. As of the time of publication, it remains to be seen when large-scale tourism and events will be able to resume.

Arguably, to date, Saudi Arabia’s social reforms have outpaced the economic ones. There is some irony here in that these were the reforms that were deemed the most difficult to enact. Saudi officials long described the prohibition on women driving, for example, as the third rail of Saudi politics—an issue, much like abortion in the United States, that was too culturally sensitive to touch. Neither the Saudi clerical establishment nor conservative Saudis, it was believed, would tolerate such a change.

So far, the king and crown prince appear to have avoided any political fallout. In a very short span of time, the government has made far-reaching changes within Saudi society without, at least to date, encountering entrenched resistance from the Saudi religious establishment. These measures were easier to enact than many on the economic side in that they only required a royal decree to implement, but they did require a political consolidation that, as described earlier, would prevent other elements of the political and religious classes from derailing or detracting from the social-reform program.

This goes hand in hand, however, with a troubling, parallel social trend. While the Saudi government has been liberalizing many social rules, it has cracked down on any form of dissent. Over the past several years, the government

194 “181 Women Drivers Hired from Abroad in a Year,” *Saudi Gazette*, July 23, 2019, <http://saudigazette.com.sa/article/572728/SAUDI-ARABIA/181-women-drivers-hired-from-abroad-in-a-year>; Lojjen Ben Gasseem, “What Has Changed Since Saudi Women Started Driving?” *Arab News*, July 25, 2019, <http://www.arabnews.com/node/1515121/saudi-arabia>; “70,000 Women Obtain Saudi Driving Licenses,” *Saudi Gazette*, March 19, 2019, <http://saudigazette.com.sa/article/561569/SAUDI-ARABIA/70000-women-obtain-Saudi-driving-licenses>.

195 Zainab Fattah, Vivian Nereim, and Sarah Algethami, “Saudi Arabia Drops Dress Code for Foreign Women in Tourism Push,” *Bloomberg*, September 26, 2019, <https://www.bloomberg.com/news/articles/2019-09-26/saudi-arabia-opens-to-foreign-tourists-and-their-foreign-ways>.



Qasr al-Farid, an ancient tomb in the al-Ula Valley estimated to have been carved in the first century AD. Under Vision 2030, the kingdom has established the Royal Commission of al-Ula to protect and develop as a tourist destination the archeological sites in and around al-Ula. Source: Wikimedia Commons/Richard Hargas (https://en.m.wikipedia.org/wiki/File:Qasr_al_Farid.JPG).

has jailed female activists who were campaigning for the right to drive, detained wealthy business leaders and princes at the Ritz-Carlton hotel, and kidnapped or killed Saudi critics living abroad, including the murder of prominent Saudi journalist Jamal Khashoggi, a *Washington Post* columnist.¹⁹⁶ The message appears to be that change will occur on the crown prince's terms, rather than in response to public demand. Many of the same policies long advocated by these imprisoned women are now championed and enacted by the crown prince himself.

In spite of the arrests, the government appears to have garnered popular support for these social changes. While it is notoriously difficult to gauge Saudi public opinion and the crackdown on dissent has only further quieted any criticism, millions of Saudis are participating in the concerts, sporting events, and street festivals put on by the government. For younger Saudis who grew up following the events of 1979, the recent changes have been dramatic.

Suddenly they have found new vistas opened to them, whether in the workplace or the cultural realm.

REPURPOSE THE PUBLIC INVESTMENT FUND AND DEVELOP MEGAPROJECTS

The crown prince has relied primarily on the PIF to do the heavy lifting of attracting foreign investment and creating jobs through the deployment of massive amounts of state capital in megaprojects like NEOM, the Red Sea luxury tourism developments, and the Qiddiya Entertainment City. In line with its first goal, the PIF has massively increased its assets under management, from \$152 billion in 2015 to more than \$300 billion in 2019. While the government has adjusted many Saudi Vision 2030 KPIs downward to more realistically reflect progress and expectations, the PIF's KPIs have gone up—from a targeted \$400 billion in assets by 2020 when the plan was announced in 2017, to a now projected \$600 billion by 2020.¹⁹⁷

¹⁹⁶ For more details on political prisoners and detainees, including intellectual and religious figures, see reports from Human Rights Watch and Amnesty International. "Saudi Arabia: Unrelenting Repression: Positive Reforms for Women Tainted by Ongoing Arrests of Activists, Dissidents," Human Rights Watch, January 14, 2020, <https://www.hrw.org/news/2020/01/14/saudi-arabia-unrelenting-repression>; "Saudi Arabia: Free Jailed Activists," Amnesty International, February 6, 2020, <https://www.amnesty.org/en/get-involved/take-action/saudi-arabia-specialized-criminal-court/>.

¹⁹⁷ Riad Hamade, Matthew Martin, and Archana Narayanan, "Saudi Arabia Doubles Down on SoftBank Bet With Extra \$45 Billion," Bloomberg, October 5, 2018, <https://www.bloomberg.com/news/articles/2018-10-05/saudi-arabia-doubles-down-on-softbank-bet-with-extra-45-billion>.

Program KPIs	Baseline	Status	2020 Target
Assets under management	\$152 billion (2015)	~\$320 billion	\$400 billion
Total shareholder return	3 percent (2014–2016)	PIF: “on track” to meet 2020 goal	4 to 5 percent
Share of assets in international investments	5 percent (2017)	15 percent	25 percent
Share of assets in new sectors (as percent of total PIF assets under management)			20 percent
Total contribution to GDP	110 billion SAR (2016)		170 billion SAR
Percent total contribution to GDP	4.4 percent of total GDP (2016)		6.3 percent of total GDP

Source: “The Public Investment Fund Program (2018–2020),” Public Investment Fund Program, https://vision2030.gov.sa/sites/default/files/attachments/PIF%20Program_EN_0.pdf.

Since 2015, the PIF has:

- become the most important shareholder in four of the country’s leading financial institutions;
- acquired two-thirds of the shares of the country’s largest mining company, Saudi Arabia Mining Company;
- acquired a controlling interest in cement companies that account for 40 percent of domestic market share; and

- become the leading shareholder in three of the country’s leading food companies (Savola, Almarai, and Nadec).¹⁹⁸

As demonstrated, the PIF is hitting its KPIs (to the degree to which there is transparency about progress thus far) and wields a huge amount of weight under the leadership of the crown prince, but it is less clear that it is bringing the promised gains for the economy more broadly.

198 Roll, 19.

KEY CONCLUSIONS

WHAT DATA TELL US ABOUT THE FUTURE OF VISION 2030

So far, the data regarding the Vision 2030 reform program are limited and far from representative of the comprehensive effort. Nevertheless, some broad patterns can be discerned.

The Saudi government has made important progress when it comes to tasks that can be directly managed by the state—namely macroeconomic management, the development of capital markets and the banking system, improving the regulatory environment and the ease of doing business, and digitization, as well as social reforms. On the fiscal and financial side, these are areas where the government has broad discretion and the measures undertaken are for the most part not politically controversial, so these early successes are important but not entirely surprising. Because of the centrality of sound fiscal management and effective financial intermediation to the broader health of the economy, Saudi authorities have developed bureaucratic institutions and personnel in these areas of significant sophistication, who have demonstrated their capability of managing effectively these portfolios.

The social reforms are a different matter. These have been politically controversial measures in what has been up until now an extremely religiously conservative society, but they have been measures that the government can implement by fiat. The government has chosen to push forward social reforms and to sideline politically the religious establishment. Advancing reform while quelling dissent could be a politically risky move, but the crown prince appears to have judged that, at least for now, silencing dissent from religious figures, activists, and intellectuals in fact strengthens him politically. So far, the gambit has worked, and the government has maintained stability.

It is early to judge whether the state is meeting the task of strengthening human capital—through improving education, health care, and the social safety net—or to what degree these efforts will pay off, but education and workforce training in particular will be critical if the plan is to succeed.

The Saudi government appears to have made less progress in areas that are less suitable to central management—such as creating jobs and a broader climate for entrepreneurship, attracting foreign direct investment, and developing the private sector. These are more difficult measures to take, as they require a more

whole-of-government approach, sustained effort, and the cooperation of other actors.

What the Saudi government most needs to do is to facilitate the development of a diversified private sector. The purpose of reform, it should be remembered, is to wean Saudi Arabia of its dependence on oil revenues and create a sustainable economy for future generations. This is no easy task. Economists debate how, and the extent to which, a private sector can be nurtured and the employment gains that are likely to ensue. However, key elements clearly include a less restrictive regulatory climate, market conditions conducive to entrepreneurship, empowering citizens to build businesses and take risks, a predictable legal system for adjudicating disputes, property rights and the rule of law, access to capital, and attracting foreign investment and know-how.

It seems reasonable to assess Saudi Arabia's overall progress in building a robust private sector by applying the metrics of its initial Vision 2030 program statement. The government identified the following four headline goals to attain by 2030:

- private sector as a percentage of GDP grows from 40 percent to 65 percent
- foreign direct investment as a percentage of GDP grows from 3.8 percent to 5.7 percent
- nonoil exports as a percentage of overall exports grow from 16 percent to 50 percent
- the unemployment rate of Saudi nationals decreases from 11.6 percent to 7 percent

The data provide little indication that the government's reforms have brought the kind of dramatic change that might lead to a rapid transformation of the country's economy. To date, Saudi Arabia has made little progress against any of its headline measures.

In an insightful essay, Steffen Hertog of the London School of Economics asks what the Saudi economy would need to look like to have transitioned successfully beyond an oil-rentier state. He suggests two key developments would be required, which are as simple to describe as they are difficult to implement: 1) Saudi Arabia would need to employ the overwhelming majority of its working population in the private sector rather than government and 2) it would need to derive the revenue it uses to fund government

Measurement	Baseline (2016) ¹	Status	2030 Goal
Private sector as a percentage of GDP	40 percent	40.7 percent (2019) ²	65 percent
Foreign direct investment as a percentage of GDP	3.8 percent	0.54 percent (2018) ³	5.7 percent
Nonoil exports as a percentage of overall exports	16 percent	22.4 percent (2019-20) ⁴	50 percent
Unemployment rate of Saudi nationals	11.6 percent	12.0 percent (2019) ⁵	7 percent

1 These are the baseline numbers and goals set by Saudi Arabia's Vision 2030 plan, not necessarily as reported by international organizations. "Vision 2030," 39, 53, 61, https://vision2030.gov.sa/sites/default/files/report/Saudi_Vision2030_EN_2017.pdf.

2 "Quarterly GDP at Constant Prices for 2010-2019", General Authority for Statistics (Saudi Arabia), accessed May 6, 2020, <https://www.stats.gov.sa/en/823>.

3 "Foreign Direct Investment, Net Inflows (percent of GDP), Saudi Arabia, from 2007 to 2018," <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2018&locations=SA&start=2007&view=chart>.

4 Based on data from March 2019 to February 2020. "Merchandise Imports and Exports of the Kingdom of Saudi Arabia," February 2020, General Authority for Statistics (Saudi Arabia), <https://www.stats.gov.sa/en/325>.

5 "Labour Market, Fourth Quarter 2019," <https://stats.gov.sa/en/814>.

expenditure from taxes on private-sector activity rather than from oil. Both would require a monumental expansion in the private sector.¹⁹⁹

Hertog calculates it would take sixteen years for the government to move enough jobs from the public to the private sector to meet the OECD average, assuming 5 percent annual private-sector growth (and twenty-seven years assuming 3 percent annual private-sector growth).²⁰⁰ Similarly, he calculates it would take eighteen years to build a tax base from private entities in a way that could maintain public expenditures, assuming 3 percent growth annually in the private sector.²⁰¹ Vision 2030 would require much more fundamental and deep-seated reforms just to meet these targets.

Saudi Arabia is currently nowhere near the standards that political scientist Hertog sets in his analysis of what it would take for Saudi Arabia to truly transition from an oil-rentier state. The number of jobs in the private sector

has only risen by the tens of thousands in recent years, and the share of private-sector to public-sector employment of nationals has remained nearly flat.

WHAT DATA TELL US ABOUT THE SAUDI GOVERNMENT'S GENERAL APPROACH TO REFORM

As the government has rolled out the Vision 2030 program and begun to implement components of it, certain patterns seem apparent in its approach to reform:

Within the government, the recognition that Saudi Arabia must change is widespread. However, there seems less of a sense of urgency regarding the pace, much less an understanding of the depth, of the transformation required. Saudi officials appear aware that Saudi Arabia must undertake significant economic and social reforms if it is to flourish in the twenty-first century. Across the whole of government, many are engaged in

199 Steffen Hertog, "What Would the Saudi Economy Have to Look Like to Be 'Post-rentier'?", in *POMEPS Studies 33: The Politics of Rentier States in the Gulf* (2019): 29–33, <https://pomeps.org/what-would-the-saudi-economy-have-to-look-like-to-be-post-rentier>.

200 This is the calculation based on moving 2.27 million jobs from the public to private sector. This number assumes holding the size of the Saudi workforce constant, an unrealistic assumption given the hundreds of thousands of young Saudis entering the workforce each year. Taking into account the 2 percent average annual growth of the Saudi workforce, these figures for private-sector growth would need to be even higher (on the order of about 2 percent higher).

201 These calculations are based on an eventual 34 percent tax rate (the OECD average) on private entities. Notably, a significant shift in employment from the public to the private sector would reduce the level of government expenditure required.

enacting just such changes. However, Saudi officials at times seem insufficiently concerned about the urgency of the task: How rare it is that countries get a window in which to implement reforms, how quickly the global transition away from oil could potentially occur, and how high the political costs of failure could be. In early 2019, at a clean energy conference in Abu Dhabi, former Saudi Energy Minister Khalid al-Falih reiterated what he has said publicly and privately on multiple occasions, that oil demand “will continue to grow for the foreseeable future.”²⁰² The CEO of Saudi Aramco, Amin Nasser, has similarly lashed out at those predicting oil’s decline at any point in the next several decades: “I am not losing any sleep over ‘peak oil demand’ or ‘stranded resources.’”²⁰³ At Davos, he told CNN: “I don’t see peak [oil] demand happening in ten years or even by 2040.”²⁰⁴ Such optimistic statements may be part of the job description for either role, but they run counter to the judgments of most oil experts and encourage complacency at home regarding the urgency of Saudi Arabia’s need for reform.

Similarly, Saudi officials appear at times unaware of how difficult a task it will be to grow a globally competitive private sector. Saudi Arabia’s transition away from oil will require the private sector to take up the slack and become an engine for employment growth. That does not happen with the flip of a switch or a few regulatory changes or a few joint ventures with foreign multinationals. To be successful, Saudi Arabia needs a wholesale transformation in the role of state and market, as well as a change in the work mentality of ordinary Saudis.

Finally, Saudi officials do not appear sufficiently sensitive to the perennial economic tradeoff between guns and butter. The country has entered a period of finite resources. No matter how dangerous the neighborhood in which it lives, Saudi Arabia can ill afford to prosecute a war of attrition in Yemen and escalate its confrontation with Iran, while at the same time having the resources to transform its economy. Saudi defense expenditures, which at nearly 9 percent of GDP are among the largest in the world, place undue pressure on government finances.²⁰⁵

The government has emphasized glitzy megaprojects over the more mundane tasks of reform. The Saudi government has tried to dazzle international investors with its reform plans. The crown prince, for instance, has promoted heavily during his trips abroad the development of NEOM, an isolated and largely uninhabited 10,200-square-acre region on the westernmost border of Saudi Arabia that he hopes will attract the best talent to relocate there from around the world. Reform programs succeed if they are in some way able to inspire citizens and potential foreign investors alike. For the Saudi government, NEOM became a way of trying to change the country’s image, particularly in the eyes of foreigners. The project was a means of signaling that Saudi Arabia was no longer a country known primarily for its vast oil wealth, conservative clerics, and draconian penal code, but instead one pioneering new, cutting-edge technologies and innovation. That rebranding effort was severely derailed by the murder of Khashoggi. Just months after Khashoggi’s death, the crown prince is reported to have acknowledged that, “No one will invest [in the project] for years.”²⁰⁶

More to the point, though, the economics behind NEOM are questionable at best. Government-designed megaprojects of this sort have a poor track record, especially in Saudi Arabia. Beginning in 2005, former King Abdullah announced the creation of six “economic” cities. Only one, King Abdullah Economic City, was completed and has floundered. The *Economist* dubbed the King Abdullah Financial District in Riyadh, another such megaproject, “a \$10 billion white camel.”²⁰⁷ The banks that were supposed to occupy the district’s towering skyscrapers never moved in. Vision 2030 has among its many objectives revitalizing these economic cities. The initial Vision 2030 report notes that the King Abdullah Financial District was begun “without consideration of its economic feasibility.” Hopefully the government will afford the same consideration to the \$500 billion NEOM project.

The government, as noted earlier, has made bold progress when it comes to social reforms. To its credit, the government has taken on the conservative religious establishment

202 “Falih Urges ‘Fair’ Energy Transition,” Daily Star, January 16, 2019, <http://www.dailystar.com.lb/Default.aspx/Opinion/Sports/Life/Opinion/Arts-and-Ent/News/Business/Regional/2019/Jan-16/474153-falih-urges-fair-energy-transition.ashx>.

203 Tsvetana Paraskova, “Saudi Aramco CEO Rebukes Peak Oil Demand ‘Hype,’” Oilprice.com, February 29, 2019, <https://oilprice.com/Energy/Energy-General/Saudi-Aramco-CEO-Rebukes-Peak-Oil-Demand-Hype.html#>.

204 Tsvetana Paraskova, “Saudi Arabia: We’ll Pump the World’s Very Last Barrel of Oil,” Oilprice.com, January 23, 2019, <https://oilprice.com/Energy/Crude-Oil/Saudi-Arabia-Well-Pump-The-Worlds-Very-Last-Barrel-Of-Oil.html>.

205 Nan Tian, Aude Fleurant, Alexandra Kuimova, Pieter D. Wezeman, and Siemon T. Wezeman, “Trends in World Military Expenditure, 2018,” fact sheet, Stockholm International Peace Research Institute, April 2019, https://sipri.org/sites/default/files/2019-04/fs_1904_milex_2018_0.pdf.

206 Simeon Kerr and Ali Raval, “Saudi Prince’s Flagship Plan Beset by Doubts after Khashoggi Death,” *Financial Times*, December 11, 2018, <https://www.ft.com/content/c24ab1d4-f8a7-11e8-8b7c-6fa24bd5409c>.

207 “Saudi Arabia Launches a Futuristic Economic Zone,” *Economist*, October 26, 2017, <https://www.economist.com/middle-east-and-africa/2017/10/26/saudi-arabia-launches-a-futuristic-economic-zone>.



Satellite views of the area NEOM is proposed to inhabit, 10,000 square miles along the Red Sea and Gulf of Aqaba; a royal palace development along the coast; and NEOM Bay Airport. The palace and airport are among the first new constructions at the site. Source: Google Earth, earth.google.com/web/.

on multiple fronts. For instance, it has removed controversial religious clergy from the leadership of major religious institutions and important mosques, replacing them with its own, generally less-conservative candidates.²⁰⁸ It has defanged the religious police and diminished significantly their presence on the streets. It has loosened restrictions regarding women’s dress and the playing of music in public establishments. It has sanctioned the reopening of cinemas, and its new Entertainment Authority has organized world-class musical festivals and sporting events. Perhaps most significantly, the government has made it possible for

women to work in a far broader range of occupations and made it legal for them to drive and to travel abroad without a guardian’s permission.

Many Saudis have regarded these actions as life-changing measures. Between the social changes and an apparent new nationalism within the country, the new Saudi leadership of King Salman and Crown Prince Mohammed bin Salman and their reform program appear to have created a good deal of support within society (although peering into authoritarian societies and making sound judgments is

²⁰⁸ The government also has removed or arrested moderate religious clergy as part of a wider crackdown on dissent. Ola Salem and Abdullah Alaoudh, “Mohammed bin Salman’s Fake Anti-extremist Campaign,” *Foreign Policy*, June 13, 2019, <https://foreignpolicy.com/2019/06/13/mohammed-bin-salmans-fake-anti-extremist-campaign/>.

always difficult).²⁰⁹ How this leadership will capitalize upon their apparent groundswell of popular support remains to be seen.

On the economic side, the government seems most focused on attracting foreign capital. The government rightly recognizes that the success or failure of reform efforts will hinge at least in part on their ability to bring foreign investment and technological know-how to Saudi Arabia. For this reason, the Saudi leadership appears to have devoted considerable attention to the further development of capital markets and the banking system. They have similarly succeeded in passing a long-delayed bankruptcy law and a Companies Law granting greater protections for minority investors.

For their part, foreign investors remain cautious, even in the face of such changes. Foreign firms appear eager to *do business* with Saudi Arabia, given its immense wealth. They appear less willing at this point to *risk their own capital* with long-term investments on the ground in Saudi Arabia. Such foreign direct investment will likely require better conditions for private-sector business activity and a far more developed rule of law, neither of which seem to be accorded at the moment the same level of priority by the government. Broadly, the government has not yet shown sufficient willingness to open the economy to real competition from domestic and foreign entrepreneurs. Together with a more transparent business environment, such an opening could stimulate investment—but would require the government to cede some ground both in control over vast sectors of the economy and in political control in the name of transparency and rule of law.

In the name of reform, the government has further concentrated economic and political decision-making. Prior to King Salman's succession to the throne, major national policies were developed through a consensual decision-making process among the direct descendants of King Abdulaziz, the first king of modern Saudi Arabia. That process, which early on tended to produce thoughtfully deliberated policy decisions and introduced a measure of accountability into the system, became more and more unwieldy and sclerotic over time.

Whatever the system's virtues and vices, King Salman quickly moved away from it. He removed several royal

family members from ministerial positions, eliminated the National Security Council (which effectively gave key family members in the top ministerial posts a say in security matters), and bypassed the Allegiance Council (which was formally established by King Abdullah to codify the royal family's role in deciding upon the line of succession) in initially selecting Prince Mohammed bin Nayef as crown prince. The king established a Council of Economic and Developmental Affairs to oversee the reform process and named his son Mohammed bin Salman (then deputy crown prince) as its head, thereby bypassing the key economic ministries. Combined with his initial roles as defense minister and minister of state, this appointment provided Mohammed bin Salman with broad authority over the country's security, economic, and intelligence apparatus—powers which only grew with his elevation to crown prince in 2017.²¹⁰

Beyond the political class, the Saudi leadership has cracked down on advocacy of all types—even when in line with the Saudi government's own goals for Vision 2030, including jailing female activists for advocating for Saudi women's right to drive just months before the kingdom announced women would be able to acquire driver's licenses. A heavy hand on open speech and opinion, in combination with a sense of nationalism that has emerged since the rise of the crown prince, has served to further elevate the king and the crown prince as the sole political arbiters and decision makers.²¹¹

The same kind of consolidation of power has occurred on the economic side. The government's detention of wealthy businessmen and princes at the Ritz-Carlton in November 2017 was ostensibly targeted at halting corruption, but it also served the purpose of sidelining Crown Prince Mohammed bin Salman's remaining political opponents and shaking down the country's wealthy business elite for money. As earlier mentioned, the government netted \$170 billion from the controversial operation.²¹²

The government also has liberally employed the PIF as its primary vehicle for consolidating economic power. Before King Salman's reign, the PIF was, in the words of the *Financial Times*, “a near-dormant state holding company,” which has been transformed over time into “arguably the world's most active sovereign investment vehicle.”²¹³ When he created the Council for Economic and Development

209 Eman Alhussein, “Saudi First: How Hyper-nationalism Is Transforming Saudi Arabia,” policy brief, European Council on Foreign Relations, June 19, 2019, https://www.ecfr.eu/publications/summary/saudi_first_how_hyper_nationalism_is_transforming_saudi_arabia.

210 “Will Khashoggi's Killing Force Mohammed bin Salman to Cede Some Control?,” Stratfor, November 15, 2018, <https://worldview.stratfor.com/article/will-khashoggis-killing-force-mohammed-bin-salman-cede-some-control>.

211 Alhussein, “Saudi First: How Hyper-nationalism Is Transforming Saudi Arabia.”

212 “Saudi Arabia Ends Major Anti-corruption Campaign,” BBC; Faucon, Said, and Fitch, “A Saudi Luxury Prison: How the Kingdom Squeezed Billions from Billionaires.”

213 Andrew England and Simeon Kerr, “Saudi Arabia: How the Khashoggi Killing Threatens the Prince's Project,” *Financial Times*, October 22, 2018, <https://www.ft.com/content/227c99dc-d2b5-11e8-a9f2-7574db66bcd5>.

Affairs, the king transferred the PIF and Saudi Aramco under its control, making Prince Mohammed bin Salman the head of both. Saudi Aramco, long an instrument of state wealth, is now (at least in part) an instrument of PIF wealth. This has made the PIF a major political actor in the Saudi economy. Such a concentration of political and economic power need not be a bad thing. In fact, governments capable of such centralized political and economic decision-making and enjoying some autonomy from the pressures of special interests can have an advantage in implementing reform. They have the latitude, in theory, to act speedily and to deploy capital to where it is needed most. However, where there is no transparency or mechanisms of accountability regarding the use of such centralized power, a government can be vulnerable to fraud and abuse. One criticism of the PIF's agglomeration of state assets is that it is not subject to the same legal standards and scrutiny as the central bank was. Some describe the PIF as having become "a parallel state," in that it operates outside the rules that apply to the rest of the Saudi government.²¹⁴ IMF staff have warned that "the growing role of the PIF may lead to a larger role of the government in the economy, crowding out the private sector."²¹⁵

At the same time that its operations have become less transparent, the PIF has become a key actor in the government's overall reform plans. The Saudi government has made the PIF an integral component of its reform efforts. The government foresees the PIF playing a catalytic role in attracting foreign partners to invest in Saudi Arabia. The PIF is viewed as a means of using Saudi Arabia's financial muscle to induce foreign companies to help develop key sectors of the economy, by contributing not only investment capital but also technology and know-how. The government, with the PIF in the lead, will spearhead efforts to create through these joint ventures whole new sectors of the economy, such as logistics, entertainment, and defense manufacturing, which in turn will provide growth opportunities for the private sector (as suppliers to the joint venture) and spur employment. The PIF will keep a controlling interest in the joint venture, reap a large share of the profits, and maintain its position at the commanding heights of the economy.

In an important sense, there is nothing new here. This is similar to the approach the government took in the mid-1970s in developing SABIC, the petrochemical conglomerate.²¹⁶ At the time, the government decided that

it wanted to move downstream into petrochemicals as a way of diversifying the economy and making use of flaring from its oil and gas production that were otherwise polluting the air. The Saudi government established the Royal Commission for Jubail and Yanbu, an early model of sorts for Vision 2030, to supervise the effort.²¹⁷ Shortly after its founding, SABIC negotiated joint ventures with Shell, Mobil and Exxon (now Exxon Mobil Corp.), Dow Chemical Co., and Mitsubishi Gas Chemical Co. Inc., among others, to build production plants to manufacture ethylene and other hydrocarbon derivatives of it.²¹⁸ The foreign multinationals provided the technological expertise and equipment that Saudi Arabia lacked to build a petrochemical industry. The tiny port towns of Jubail and Yanbu were transformed into thriving industrial cities, and SABIC is now the fourth-largest chemical company in the world by sales volume, having branched out into a broader range of other chemical-related industries and beyond.

Whether the SABIC model can be replicated in other sectors remains to be seen. The Saudi government's move into the petrochemicals industry in the 1970s made sense because the country had a clear comparative advantage in that sector. **It is less clear that Saudi Arabia has a comparative advantage in the sectors that the government has targeted now—beyond perhaps chemicals and mining—whether regional tourism, logistics, financial technology, robotics, clean energy, or defense manufacturing.**

When the state rather than the market targets capital to sectors, the danger is overinvestment in uncompetitive economic activities. The IMF, following its most recent annual consultations with the Saudi government, made a similar point in its characteristically diplomatic way: "careful implementation of industrial policies could encourage the development of new sectors of the economy. Directors emphasized that any government support should be made available at the sectoral level, be time bound, and have strict performance criteria attached."²¹⁹

The world's major oil and chemical companies were willing to partner with SABIC and provide technical expertise because the Saudi Arabian government could offer them in return access to low-priced oil at its source. In the case of the new sectors being targeted within Vision 2030, it is not evident what the government can offer other than financial inducements. Given the lack of an adequate commercial legal framework and the poor state of the rule of law in

214 England and Kerr, "Saudi Arabia: How the Khashoggi Killing Threatens the Prince's Project."

215 "Saudi Arabia: Staff Report for the 2018 Article IV Consultation," IMF, June 28, 2018, <https://www.imf.org/~/media/Files/Publications/CR/2018/cr18263-SA.ashx>.

216 Thanks go to Ellen Wald, Atlantic Council nonresident senior fellow, for this insight.

217 Frank Kane, "Why SABIC Is So Important to Saudi Arabia," *Arab News*, October 8, 2018, <http://www.arabnews.com/node/1384141/business-economy>.

218 Derivatives include polyethylene, ethylene glycol, styrene, and ethylene dichloride.

219 "IMF Executive Board Concludes 2019 Article IV Consultation with Saudi Arabia," IMF press release, July 18, 2019.

Saudi Arabia, foreign multinationals are likely to be wary of sharing their proprietary technology and other intellectual property with the Saudis.

Within the government, there appear to be conflicting views about the proper approach to reform. Vision 2030 is often portrayed in the Western press as a move by Saudi Arabia toward a more market-based economy and more liberal society. Certainly, the initial Vision 2030 plan contains language advocating economic liberalization, and within the government there is a camp that supports liberal economic reform and wants to see the private sector unleashed as a means of diversifying the economy. This camp, however, does not appear to be the dominant one.

The dominant camp prefers a more top-down than bottom-up approach to reform. This second camp appears to view reform not in terms of economic liberalization, but rather state-driven development. It believes not in markets but the power of a strong state to effect change. It appears keen on building strategic, state-owned industries in key economic sectors rather than on creating the enabling conditions for a thriving private sector. It envisions the state, as it did with SABIC, building new sectors of the economy and thereby expanding a state-led private sector. This camp looks to China, Singapore, and the UAE as models, not the United States, Great Britain, or Germany.

There is undoubtedly a third camp as well, and it does not want reform at all. It desires a return to business as usual, though perhaps with different beneficiaries from this business. This camp wishes to see the continuation of the old, tight-knit, clientelist relationships between government and business. It believes in the old style of politics based on tribal and familial loyalty and an economy built on government-sponsored monopolies, though it wants those for its family or tribe, not others. Some analysts maintain, for instance, that the Ritz-Carlton detentions were, at bottom, about wresting economic power away from King Abdullah's side of the royal family and transferring it to King Salman's side.²²⁰

At the moment, Crown Prince Mohammed bin Salman would appear to be firmly in the second camp, trying to steer the country's economic transition away from oil from on high, without ceding an inch of political control. Should he fail in his efforts, he could well return to the family-based politics advocated by the third camp, as Saudi kings before him have when reform attempts failed but oil prices rose again. The crown prince could use the PIF to steer business and capital toward his political support base. This could preserve his position in power over the short- to medium-term, but it would fall short of addressing Saudi Arabia's long-term challenge of diversifying away from oil.

²²⁰ See, for example, Ben Hubbard, David D. Kirkpatrick, Kate Kelly, and Mark Mazzetti, "Saudis Said to Use Coercion and Abuse to Seize Billions," *New York Times*, March 11, 2018, <https://www.nytimes.com/2018/03/11/world/middleeast/saudi-arabia-corruption-mohammed-bin-salman.html>.

FINAL RECOMMENDATIONS

“Somewhat ironically, this is a state plan to diminish the presence of the state within the economy by increasing state spending in investments in the private sector, funded by the sale of state assets—most notably a share offering for a small portion of Saudi Aramco, the state oil company, as well as a number of other privatizations and partnerships in major industry and utilities.”

“Can the Saudi Economy Be Reformed?” by Karen E. Young for the Arab Gulf States Institute in Washington, published November 28, 2016.



US President Donald Trump talks with Saudi then-Deputy Crown Prince Mohammed bin Salman in the Oval Office of the White House in March 2017. *Source:* Official White House Photo by Shealah Craighead.

More than three years since the announcement of Vision 2030, Saudi Arabia has made important strides toward social and economic reform. The extent of its ambition and the money and effort that it has expended to date on these efforts should be lauded. The government deserves credit for some important successes to date, most notably in the realm of social reforms, fiscal stabilization, the development of capital markets, and the digitization of government services. Nonetheless, for all its efforts, the Saudi government has yet to change the fundamental dynamics of its economic situation—and starting in 2020 is once again facing highly adverse economic conditions. It appears to have made little progress to date in terms of building a vibrant non-oil private sector that can create jobs and diversify the economy.

The authors conclude with the following recommendations.

- **Saudi Arabia has a profound national interest in seeing the economic and social changes entailed in Vision 2030 successfully implemented, as does its partner the United States.** The future of oil is too uncertain for Saudi Arabia to continue to have an economy centered almost exclusively on this single natural resource. Similarly, the country’s population is too youthful and restless to continue to live under the conservative social strictures of the past. Both its leaders and the United States stand to benefit from a Saudi Arabia that has a globally competitive economy across a range of sectors and is more open to the world.
- **Saudi Arabia has a rare window of opportunity to implement wide-ranging reforms. Its government needs to seize this window to proceed aggressively with**

reform. Countries often get but one chance in a generation to implement far-reaching reforms. The 2014 collapse in oil prices and the accession soon thereafter of a new king created for Saudi Arabia such an opportunity. The popularity of the government’s social reforms has extended that window. Because of the uncertainties associated with the future of oil markets, though, the kingdom may have less than a decade to shift its economy away from its current dependence on oil. It needs to move expeditiously to enact meaningful economic change.

- **The Saudi economy will thrive when it finds competitive niches in global supply chains.** While high technology is alluring, Saudi Arabia is not going to succeed in creating the kinds of employment it needs by trying to become the Silicon Valley of the Middle East. The Saudi government needs to tailor its policies to the workforce it has, not to the one it would eventually like to create. The best way for Saudi Arabia to expand private-sector employment rapidly is to grow industries in tradable sectors that can become part of global supply chains, and in which large numbers of Saudis have the skills to work. This is where the most dramatic productivity and employment gains are likely to be found.

- **Human capital will be the most important long-term asset for the Saudi reform plan.** At the same time that Saudi Arabia should seek to grow competitive sectors in the near term based on its existing workforce, the Saudi government needs to dramatically improve the quality of education at the primary and secondary levels. Only by educating a more talented workforce over the long term will the country be able to advance into higher value segments of the global economy. This is reflected in the Saudi Vision 2030 reform plans, and it needs to be reflected as a key policy priority over the coming decade.
- **As contrary to its instincts as it may be, the Saudi government needs to cede some of its dominant role in the economy to the marketplace and the decisions of private entrepreneurs.** The private sector now services the government; the government needs instead to become the enabler of a private sector-led economy. A vibrant private sector cannot be built solely from the top down, whether by means of command or throwing cash at it. The playing field needs to be adjusted for the private sector to be competitive, requiring that the government leave space in some big sectors to private enterprise. No company will want to compete against state-owned entities, which often play by different rules and receive subsidized funding. The government should recapture some of the spirit of McKinsey's 2015 report, which advised "it shift from its current government-led economic model to a more market-based approach."
- **Saudi Arabia has the luxury of wealth that it can channel toward revamping its economy. It should not shy from doing so, but it should avoid big public megaprojects, which have a dubious track record of success and only augment rather than diminish the role of the state in the economy.** Megaprojects such as NEOM may be eye-catching and generate headlines, but their track record in generating jobs is limited—and the crux of Vision 2030 is creating jobs for Saudis today and in the future. The Saudi government should shift its focus to the more mundane task of improving business conditions for entrepreneurs, private companies, and foreign investors. These will be the real engines of growth and employment over the long term. As laid out in the Vision plan, this will require an improved regulatory environment, with better legal protections and transparency, capital and knowledge resources for entrepreneurs, and more. Saudi Arabia is working on these items (particularly the legal and regulatory environment) with some success, but the government would do well to prioritize them over expensive megaprojects.
- **To the extent the Saudi government engages in industrial policy, in the sense of steering public dollars toward supporting the country's economic transformation, it should do so cautiously and on a competitive basis.** Savvy business leaders often have a better sense than government bureaucrats of where competitive niches in global supply chains can be found. Such government interventions should be targeted broadly at particular industrial sectors rather than specific firms within those sectors.
- **Public investment vehicles such as the Public Investment Fund (PIF) need to be managed in transparent and accountable ways, so that they further the country's economic goals.** Otherwise there is the danger of corruption and self-dealing, or the PIF becoming a political tool rather than an economic one. A more transparent wealth fund is one that will be more attractive to international partners for investment and joint projects. To this end, the PIF should consider joining the International Forum of Sovereign Wealth Funds and subscribing to the Santiago Principles.²²¹ For the sake of its own legitimacy, it needs to be more transparent as it pursues its mission.
- **Foreign direct investment, foreign technology, and foreign know-how will be integral to the Saudi economy's success, but the Saudi government will have to strengthen the rule of law if it is to attract all of these.** Especially in light of recent events, investors will want to see far greater mechanisms of political accountability in place before they are willing to risk their own capital within Saudi Arabia. While this is an economic reform program that makes no promises about measuring up to global standards of good governance and rule of law, companies and individuals have proven hesitant to invest their money and attach their names to a program without accountability or predictability. By opening itself up to greater integration with the global economic and financial system, Saudi Arabia must accept that some level of accountability will be demanded by the foreign partners it seeks to attract.
- **The Saudi leadership needs to be far more discerning in the military ventures it undertakes and to take clear steps to wind down the region's civil wars. Regional instability only makes the task of reform more difficult and diverts critical resources elsewhere.** Saudi Arabia's foreign entanglements place significant pressure on its budget, underscoring the classic trade-off that economists have highlighted between guns and butter.

²²¹ Saudi Arabia would join neighbors Kuwait, Oman, Qatar, and Abu Dhabi in subscribing to the Santiago Principles, which are "designed to promote good governance, accountability, transparency and prudent investment practices." Santiago Principles, International Forum of Sovereign Wealth Funds, October 2008, <https://www.ifswf.org/santiago-principles>.

APPENDIX A: VISION REALIZATION PROGRAMS

VRP	Description	Key acting bodies
Financial Sector Development Program¹	The program's role is to create a diversified and effective financial services sector to support the development of the national economy, diversify its sources of income, and stimulate savings, finance, and investment. The FSDP will achieve this ambition by enabling financial institutions to support private sector growth, ensuring the formation of an advanced capital market, and promoting and enabling financial planning, without impeding the strategic objectives intended to maintain the financial services sector's stability.	Saudi Arabian Monetary Authority, Ministry of Finance, Capital Market Authority, General Authority for Small and Medium Enterprises, Ministry of Economy and Planning, and Saudi Stock Exchange (Tadawul).
Fiscal Balance Program²	The program is anchored on the following themes: enhancing sustainability of government revenues by growing nonoil revenues; optimizing and rationalizing government capital and operational expenditures, while focusing spending on the most strategic areas; eliminating misdirected subsidies, and empowering citizens to choose and consume responsibly; and sustaining economic growth in the private sector.	Fiscal Balance Office, Ministry of Finance, Debt Management Office, Finance Committee at the Royal Court, Spending Efficiency Realization Center, and Strategic Procurement Unit.
Housing Program³	The program aims to offer solutions to enable Saudi households to own or benefit from housing according to their needs and finances. This will improve living conditions for current and future generations, increase the supply of affordable housing units in record time, and enhance access to subsidized and appropriate funding.	Ministry of Housing, Developers Services Center (Etмам), Saudi Real Estate Refinance Company, Saudi Arabian Monetary Authority, Real Estate Development Fund, Ministry of Finance, Ministry of Municipal and Rural Affairs, and Capital Market Authority.
National Industrial Development and Logistics Program⁴	The program is mandated to transform Saudi Arabia into a leading industrial powerhouse and a global logistics hub in promising growth sectors (with focus on Industry 4.0), which would generate ample job opportunities for Saudis, enhance the trade balance and maximize local content. ⁵ The program focuses on four key sectors: industry, mining, energy, and logistics. It also focuses on many enablers including the development of policies and regulations, financial enablement, infrastructure, industrial lands, special economic zones, research, development, and innovation (RDI).	Ministry of Energy, Industry and Mineral Resources; Saudi Industrial Property Authority; National Industrial Clusters Development Program; King Abdulaziz City for Science and Technology; Ministry of Transport; Saudi Ports Authority; General Authority of Civil Aviation; and Royal Commission for Jubail and Yanbu.

1 Descriptions reprinted from "Financial Sector Development Program," Kingdom of Saudi Arabia Vision 2030 website, accessed February 24, 2020, <https://vision2030.gov.sa/en/programs/FSDP>, with light edits for length and consistency of style.

2 Descriptions reprinted from "Fiscal Balance Program," Kingdom of Saudi Arabia Vision 2030 website, accessed February 24, 2020, <https://vision2030.gov.sa/en/programs/FBP>, with light edits for length and consistency of style.

3 Descriptions reprinted from "Housing Program," Kingdom of Saudi Arabia Vision 2030 website, accessed February 24, 2020, <https://vision2030.gov.sa/en/programs/Housing>, with light edits for length and consistency of style.

4 Descriptions reprinted from "National Industrial Development and Logistics Program," Kingdom of Saudi Arabia Vision 2030 website, accessed February 24, 2020, <https://vision2030.gov.sa/en/programs/NIDL>, with light edits for length and consistency of style.

5 Industry 4.0 is a term used to describe the rise of applications for machine learning and big data in manufacturing, or the creation of autonomous industrial systems.

<i>Representative initiatives and projects</i>	<i>Top-line goals</i>
Major bond issuances; listing of Tadawul on MSCI, FTSE Russell, and S&P Dow Jones; Apple Pay launched in Saudi Arabia; FinTech regulatory sandbox; and UAE/Saudi common digital currency.	<p>Grow the financial sector to fund Vision 2030 objectives.</p> <p>Develop an advanced capital market.</p> <p>Offer a diverse set of products and services and become more inclusive of all citizens.</p> <p>Achieve a high degree of digitization.</p> <p>Maintain financial stability.</p>
Citizen's Account, water and energy price reforms, Broadband Stimulus Fund, SME financing, reimbursement of SME fees, and enhancing the budgeting process.	<p>Balance the budget by 2023 (revised upward from 2020 in 2017).</p> <p>Diversify government revenues without an income tax on citizens or any further removal of subsidies.</p>
Platform to motivate housing builders, industrial mechanization of the housing sector, mortgage guarantees, housing support for military personnel, Ministry of Housing land development, new housing finance products, "lease-to-own" programs, down-payment subsidies, and public-private partnerships (PPP) for housing development.	<p>Increase access to financing, including from the private sector, for future home owners.</p> <p>Develop suitable housing at affordable prices.</p>
Saudi Export and Import Bank; Automotive Development Program; national renewable energy companies; Saudi Industrial Development Fund; Centers of Industrial Capacities of the Fourth Industrial Revolution; and accelerated exploration program for promising mining deposits.	<p>Amend current laws and regulations to enable important competitive advantages and rapid development of modern industrial sectors.</p> <p>Boost traditional industrial sectors (oil chemicals, mining, food processing, aquaculture, etc.).</p> <p>Establish capacity development centers specialized in Industry 4.0 technologies.</p> <p>Launch negotiations with global partners and set the geographical and legislative environment to build key industrial compounds.</p>

VRP	Description	Key acting bodies
National Transformation Program⁶	The program aims at achieving governmental operational excellence, improving economic enablers, and enhancing living standards through accelerating the implementation of primary and digital infrastructure projects; and engaging stakeholders in identifying challenges, co-creating solutions, and contributing to the implementation of the program’s initiatives.	Ministry of Health; Saudi Food and Drug Authority; Ministry of Education; Ministry of Municipal and Rural Affairs; Ministry of Labor and Social Development; Ministry of Environment, Water, and Agriculture; Ministry of Economy and Planning; Ministry of Civil Service; Ministry of Justice; Ministry of Communications and Information Technology; Ministry of Commerce and Investment.
Privatization Program⁷	The program enhances the role of the private sector in the provision of services and the availability of government assets. This will improve the quality of services provided and contribute to the reduction of costs. Furthermore, it will strengthen the government’s focus on its legislative and regulatory role, in line with Vision 2030. In addition, the program seeks to attract foreign direct investment and improve the balance of payments.	National Center for Privatization and PPP (NCP), Privatization/PPP Innovation Center, Privatization Supervisory Committees and Execution Teams.
Public Investment Fund Program⁸	The program strengthens the Public Investment Fund (PIF), which is the engine behind economic diversity in the kingdom. It also develops high-priority strategic sectors by growing and maximizing the impact of the fund’s investments and seeks to make PIF among the largest sovereign wealth funds in the world. Moreover, the program establishes strong economic partnerships that help deepen the kingdom’s impact and role both regionally and globally.	Public Investment Fund
Quality of Life Program⁹	The program improves individuals’ lifestyles by developing an ecosystem to support and create new options that boost citizens’ and residents’ participation in cultural, environmental, and sports activities. This effort is in addition to other suitable activities that contribute to enhancing the quality of life of individuals and families, creating jobs, diversifying economic activity, and raising the status of Saudi Arabian cities so that they rank among the best cities in the world.	General Entertainment Authority, General Sports Authority, Saudi Arabian General Investment Authority, General Culture Authority, and Ministry of Culture and Information.

6 Descriptions reprinted from “National Transformation Program,” Kingdom of Saudi Arabia Vision 2030 website, accessed February 24, 2020, <https://vision2030.gov.sa/en/programs/NTP>, with light edits for length and consistency of style.

7 Descriptions reprinted from “Privatization Program,” Kingdom of Saudi Arabia Vision 2030 website, accessed February 24, 2020, <https://vision2030.gov.sa/en/programs/Privatization>, with light edits for length and consistency of style.

8 Descriptions reprinted from “Public Investment Fund Program,” Kingdom of Saudi Arabia Vision 2030 website, accessed February 24, 2020, <https://vision2030.gov.sa/en/programs/PIF>, with light edits for length and consistency of style.

9 Descriptions reprinted from “Quality of Life Program,” Kingdom of Saudi Arabia Vision 2030 website, accessed February 24, 2020, <https://vision2030.gov.sa/en/programs/QoL>, with light edits for length and consistency of style.

Representative initiatives and projects	Top-line goals
<p>Health care privatization, expansion of municipal e-services, urban beautification and redesign of urban landscape, redesign of environmental standards, establishment of a Center for Climate Change, National Center for Nonprofit Sector Development, domestic violence campaign, index for citizen satisfaction, “dashboard” for the National Center for Performance Management (Aadaa), promotion of flexible work and telework, childcare services, Saudi Intellectual Property Authority, application of bankruptcy law, tourist visas, development of UNESCO sites, and many others.</p>	<p>Transform and enable twenty-four government agencies key to Vision 2030.</p> <p>Support the growth of the private sector, make labor market more attractive, ensure the sustainability of vital resources, and develop the tourism and nonprofit sectors.</p> <p>Provide individuals, private sector, and nonprofit organizations with improved social services, health care, and safety.</p>
<p>“Opportunity Explorer” platform to explore potential projects for PPPs, ports corporatization, privatization of the production sector of the Saline Water Conversion Corporation, and privatization of aspects of the health care sector.</p>	<p>Develop strong legal and regulatory frameworks for privatization and PPPs.</p> <p>Establish the institutional basis for entities to implement privatization of key sectors.</p>
<p>Establishment of Saudi Military Industries Company, Entertainment Investment Company; NEOM smart city, Red Sea and Entertainment City projects, Softbank Vision Fund, Uber and US infrastructure investments.</p>	<p>Grow the assets of the PIF to \$400 billion by 2020, and \$2 trillion by 2030.</p> <p>Catalyze the growth of sectors including industrial and manufacturing, entertainment, and waste management.</p> <p>Build strategic economic partnerships through international investment.</p>
<p>Opening of cinemas, hosting concerts with major international stars, street festivals, women attending select sporting events, partnership and hosting events with World Wrestling Entertainment, and announcing a future Six Flags park and a water park.</p>	<p>Increase public participation in sports and athletic activities.</p> <p>Achieve regional and global excellence in selected professional sports.</p> <p>Develop and diversify entertainment opportunities to meet population’s needs.</p> <p>Grow Saudi contribution to arts and culture.</p>

VRP	Description	Key acting bodies
Hajj and Umrah Program¹⁰	Provide an opportunity for the largest possible number of Muslims to perform Hajj and Umrah to the fullest; developing the world's tourism and cultural sites; providing the best services before, during and after their visit to Mecca and Medina. In addition to the above, this program will serve as a platform to confirm the relationship and effective role of the private sector in improving the tourism and cultural sectors.	--
Human Capital Development Program¹¹	The program aims to improve the outputs of the education and training system at all stages and provides training to reach international standards and are in line with the needs of the local and global labor markets. The program also contributes to the development of all components of the education and training system. The program will be based on Islamic, educational, social and professional foundations.	--
National Character Enrichment Program¹²	The program aims to enrich the Saudi national character by fostering a set of values rooted in the kingdom's legacy and Islamic heritage, through a comprehensive portfolio of initiatives aimed at strengthening the sense of national belonging and fostering the values of tolerance, moderation, perseverance, and determination.	--
National Companies Promotion Program¹³	The program was created to enable and empower more than 100 companies with the opportunity for each one to transform into a leading regional company or global company. The program will also contribute to raising local content, diversifying the economy, developing companies (including small- and medium-size enterprises), and creating more job opportunities.	--
Strategic Partnership Program¹⁴	The program aims at strengthening the position of Saudi Arabia regionally and globally and pushing forward the integration agenda of the Gulf Cooperation Council (GCC) by launching a series of strategic partnerships in various fields in a way that ensures synergy with partnering countries and economic blocs.	--

10 Descriptions reprinted from "Hajj and Omrah Program," Kingdom of Saudi Arabia Vision 2030 website, accessed February 24, 2020, <https://vision2030.gov.sa/en/programs/Hajj-and-Omrah>, with light edits for length and consistency of style.

11 Descriptions reprinted from "Human Capital Development Program," Kingdom of Saudi Arabia Vision 2030 website, accessed February 24, 2020, <https://vision2030.gov.sa/en/programs/HCDP>, with light edits for length and consistency of style.

12 Descriptions reprinted from "National Character Enrichment Program," Kingdom of Saudi Arabia Vision 2030 website, accessed February 24, 2020, <https://vision2030.gov.sa/en/programs/NCEP>, with light edits for length and consistency of style.

13 Descriptions reprinted from "National Companies Promotion Program," Kingdom of Saudi Arabia Vision 2030 website, accessed February 24, 2020, <https://vision2030.gov.sa/en/programs/NCPP>, with light edits for length and consistency of style.

14 Descriptions reprinted from "Strategic Partnerships Program," Kingdom of Saudi Arabia Vision 2030 website, accessed February 24, 2020, <https://vision2030.gov.sa/en/programs/SPP>, with light edits for length and consistency of style.

<i>Representative initiatives and projects</i>	<i>Top-line goals</i>
--	<p>Facilitate hosting more Umrah visitors and provide easier access to the holy mosques.</p> <p>Improve quality of services, including safety and overall level of satisfaction provided to Hajj and Umrah visitors.</p> <p>Enrich the spiritual and cultural experience of pilgrimage visitors.</p>
--	--
--	<p>Foster Islamic values, instill national values, and uphold the Arabic language.</p> <p>Promote equity and access to high-quality education, financial planning, and vocational training.</p> <p>Develop positive attitude, resilience, and hard-working culture among Saudi youth.</p>
--	<p>Support national champions consolidate their leadership globally.</p> <p>Develop promising local companies into regional and global leaders.</p>
--	<p>Push forward the GCC integration agenda.</p> <p>Develop economic ties with the region beyond GCC.</p> <p>Develop economic ties with global partners.</p> <p>Attract foreign direct investment.</p>

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From 2004 to 2006, Grand was director of the Aspen Institute's Middle East Strategy Group. He has also served as an adjunct professor at American University's School of International Service and Syracuse University's Maxwell School of Citizenship and Public Affairs. From 2002 to 2003, he was an international affairs fellow at the Council on Foreign Relations. He has also been a term member of the Council on Foreign Relations and a Henry Crown Fellow with the Aspen Institute. Prior to June 2002, Grand served as director of programs at the German Marshall Fund (GMF) of the United States. Before joining GMF in 1997, he was a professional staffer on the Senate Foreign Relations Committee, covering Europe. In 1994, he was a visiting researcher at Charles University's Center for Economics and Graduate Education in Prague. Grand earned a PhD from the department of government at Harvard University and a BA in political science from the government honors program at the University of Virginia, where he was a Jefferson Scholar.



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