

## GROWING WINDS OF CHANGE IN SAUDI ARABIA THROUGH VISION 2030

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### Abstract

*Discovery of oil in the Arab peninsula in late 1930s had a pronounced effect on social life in all Gulf States. Saudi Arabia, being the largest country of the Peninsula, started its national journey on 23<sup>rd</sup> September, 1932 with very limited resources. At the end of 19<sup>th</sup> century as state coffers kept overflowing with Petro dollars. This easy money supported state finances for almost eight decades; however, at the turn of the century, its financial landscape changed. Oil prices remained under pressure for over a decade, negatively affecting Saudi economy and social welfare system. As the cash flows, slowly desiccated, national policy planners were compelled to diversify economy through industrialization and restructuring of Saudi 'cradle to grave' welfare system for resource generation and its better management. It analyses the possibility of success of the strategy stipulating social change due to economic downturn. The conceived change will be implemented through Royal Vision during the next decade.*

**Keywords:** Social Reforms, Vision 2030, Economic Diversification, Oil Rents, Saudi Arabia.

### Introduction

**D**uring the last few decades, rising global demand for oil made the Gulf states enormously rich as the Arab peninsula houses world's largest oil reserves. Since discovery of oil in 1938 in the Middle East, the regional monarchies spent huge sums of money in providing comforts of life to their subjects. Subsidies afforded to the indigenous Saudi population cannot be found anywhere in the world including

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Scandinavia which stands out for having the best social welfare system. The extraordinary welfare subventions transformed the Middle Eastern states to welfare states for local population. According to McKinsey Global Report of December 2015 on the Kingdom of Saudi Arabia, "The oil price boom from 2003 to 2013 fuelled rising prosperity in Saudi Arabia, which became the world's 19<sup>th</sup> largest economy, GDP doubled, household income rose by 75 per cent and 1.7 million new jobs were created, including many for Saudi women. The government invested heavily in education, health and infrastructure and built up reserves amounting almost 100 per cent of GDP in 2014."<sup>1</sup> Economies of almost all Middle Eastern states were burgeoning alike till 2014.

By the end of 2014, the Saudi population was enjoying various luxuries of life as the state had enormous resources to support welfare programmes for their population through huge subsidies. However, the economic landscape of the country started facing a downturn as oil prices in the international market plummeted. The drop in oils prices hit Saudi Arabia very hard as it had total dependence on oil revenues. The 'hydrocarbon culture' created citizen's over-dependence on the state which resulted in massive and bloated unproductive pool of public employees <sup>2</sup> whose competence and efficiency is questionable even today. State's financial managers realized the upcoming danger and drew up a plan to diversify the oil dependent economy by industrialization and developing quality human capital which had too long enjoyed national prosperity without contribution resulting in a 'sense of entitlement' and dependency on the state. The plan in the shape of 'Vision 2030' has been designed to transform the Kingdom from an oil-revenue dependent country into a modern, liberalized and thriving entrepreneurial society whose prosperity is underpinned by flourishing industrial, financial, economic and commercial sectors.<sup>3</sup> This article analyses if the objectives of the Royal Vision 2030 are achievable in terms of perceived social change in Saudi society.

## Saudi Arabia at a Glance

The Arabian Peninsula is one of the world's largest landmasses, situated at the crossroads of Asia, Africa and Europe, and having an area of

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<sup>1</sup> McKinsey Global Institute Report 2015, "Saudi Arabia beyond Oil: The Investment and Productivity Transformation," <https://www.mckinsey.com/search?q=saudi+per+cent202030>, accessed on 19 January 2020.

<sup>2</sup> M. Aman, "Editor's Viewpoint: beyond Oil: A New Middle East Vision," *Digest of Middle East Studies* 25, no. 2 (2016): 180-185. DOI: 10.1111/dome.12096.

<sup>3</sup> Neville Teller, "Saudi Vision 2030: A Progress Report – Analysis," October 13, 2018, <https://www.eurasiareview.com/13102018-saudi-vision-2030-a-progress-report-analysis/>

2,240,000 sq. km with an inhospitable climate. Saudi Arabia, the 'land of hot sand,' occupies about 80 percent of the Arab peninsula and has an area of 2,149,640 sq. Km. Seven sovereign states border the Saudi Kingdom: Jordan, Iraq, Kuwait, Yemen, Oman, United Arab Emirates and Qatar. The island nation of Bahrain lies off Saudi Arabia's eastern coast.<sup>4</sup>

Kingdom of Saudi Arabia (KSA) was formally founded by the *Al-Saud* family in 1932 after a 30 years' campaign to unify the Arabian Peninsula. The family united the four regions into a single state through a series of conquests beginning in 1902. It is the Islamic heartland, being the birth place of Islam, and houses the two Holiest shrines for Muslims. It has a population of 28.5 million and expats make up about 37 per cent of the total population. The Kingdom has a high unemployment rate of 24.2 per cent.<sup>5</sup> It has the largest oil reserves in the region which were discovered in 1938 by the American Oil Company in Dhahran area of the country. According to the Oil & Gas Journal (OGJ), Saudi Arabia had approximately 266 billion barrels of proven oil reserves as of January 1, 2017, amounting to 16 per cent of the world's total oil reserves.<sup>6</sup> These reserves are expected to last for about 90 years at the current rate of production. Saudi Arabia has an oil-based economy and is the largest petroleum exporter. The per capita oil export revenue was US\$ 7098 in 2018.<sup>7</sup> The petroleum sector accounts for roughly 87 per cent of revenue generation, 42 per cent of GDP, and around 90 per cent of export earnings.<sup>8</sup> During the last few years, budget deficit has seen a continuous rise and reached 8.3 per cent of GDP during 2017. This deficit was made up by bond sales and utilizing foreign reserves. Though the Kingdom can absorb this increasing deficit for a few more years, yet it has recently decided to cut capital spending and reduce subsidies on electricity, water and petroleum products and has introduced Value Added Tax (VAT) of 15 per cent for increasing much needed capital collection. Following is a brief look at the Saudi economy from 2003 onwards during which it kept growing.

### **Saudi Economy – Prosperity to Paucity**

Saudi economy in pre-corona settings was ranked the 18<sup>th</sup> largest economy in the world. It almost doubled in size during the 2003-2013

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<sup>4</sup> James Wynbrandt, *Brief History of Saudi Arabia* (2<sup>nd</sup> Edition) (New York: InfoBase Publishing, 2010).

<sup>5</sup> "CIA World Fact Book Information on Saudi Arabia," *CIA*, <https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html>.

<sup>6</sup> "EIA 2017 Country Analysis Report: Saudi Arabia," *EIA*, [https://www.eia.gov/international/content/analysis/countries\\_long/Saudi\\_Arabia/saudi\\_arabia.pdf](https://www.eia.gov/international/content/analysis/countries_long/Saudi_Arabia/saudi_arabia.pdf).

<sup>7</sup> "EIA OPEC Revenue Fact Sheet 2019," *EIA*, [https://www.eia.gov/international/analysis/special-topics/OPEC\\_Revenues\\_Fact\\_Sheet](https://www.eia.gov/international/analysis/special-topics/OPEC_Revenues_Fact_Sheet).

<sup>8</sup> CIA World Fact Book information on Saudi Arabia.

decade due to the boom in oil prices. It jumped from 27th position in 2003 to 19<sup>th</sup> largest economy in 2014. Its nominal GDP of US\$ 790 billion is larger than Switzerland and Sweden. On per capita basis, its nominal GDP is US\$ 22794 which is behind France and Canada only. The most unique feature of Saudi economy is its over dependence on oil and sizable population (30 per cent) of migrant workers.

Saudi Arabia is the one of the world's largest oil exporters and 90 per cent of the government revenues come from oil sales. The sharp increase in oil prices started in 2003 from US\$ 30 per barrel to US\$ 110 in 2013, doubling the GDP. The highest price of US\$ 110 per barrel stayed for about two years which gave a major boost to the economy and foreign exchange reserves. That's why the decade of 2003-2013 is labelled as 'decade of rising prosperity' for Saudis by international economists.

For an ordinary Saudi household during this decade, income rose by about 75 per cent. This upswing was driven by the public sector which created over one million new jobs. Out of these, Saudi nationals alone availed two-third of these job opportunities. In the overall economic perspective, 4.4 million new jobs were created by the rising economy during 2003-2013 and Saudi nationals had the lion's share of 1.7 million jobs. However, subsequent down-slide of the economy in 2015 could not maintain this new job creation tempo and unemployment started rising thereafter. The decade also witnessed an increase in the number of foreign workers because of the availability of new job opportunities. The influx of expat workers mainly from Bangladesh, India, Pakistan and a few other South Asian countries increased overall population of the Kingdom by 36 per cent from 22 million to 30 million.

Saudi government used these exorbitant oil revenues (US\$ 450 billion) for investment in health, education, transportation, infrastructure development and social welfare sectors. This increased public spending fourfold and these ventures gave a big boost to living standards and quality of life in the Kingdom. The major projects included establishment of new universities, new metro transit lines, and 80 new hospitals. The number of doctors in the Kingdom doubled as compared to 1990. Infant mortality rate improved by two-third and life expectancy rose to 76 years.<sup>9</sup> More than a quarter of government spending went to education alone and about 60 per cent of each age cohort accessed tertiary education, a proportion similar to that of France and Germany.<sup>10</sup> Despite such heavy investment in public sectors, standard of education still remains low, evident from Saudi children's poor scores on the international level and much higher (50 per cent) university dropout rates.

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<sup>9</sup> Mckinsey Global Institute, "Saudi Arabia Beyond Oil: The Investment and Productivity Transformation," 2015, <https://www.mckinsey.com>.

<sup>10</sup> "Gross Enrolment Rates of Tertiary Education," *UNESCO Institute of Statistics*, 2013, <http://data.uis.unesco.org/?queryid=142>.

Establishment of so many modern hospitals have also not played an effective role, as obesity and diabetes ratios in KSA are highest in the world.<sup>11</sup>

The prosperous decade saw a massive increase in male and female work force participation in overall development of the state. Female work force touched 1.2 million in 2014 or 18 per cent which doubled compared to the previous decade (1993-2003). However, restrictions over mixed gender work environment and female driving remained a unique challenge for women. Expatriate workers make half of the work force in KSA. There is a great disparity in their wages as foreign workers are paid far less than local workers. Local workers are paid three times more in government sector and six times more in private sector despite being less skilled. This has resulted in lower labour productivity. The reluctance of local population to undertake new jobs was due to generous unemployment benefits and plentiful family support. The unemployment benefit was two-third of the minimum public sector wage, thus providing least incentive to work.

Post second Gulf war and the decade of prosperity, Saudi economy started down sliding and started facing few critical challenges. Firstly, volatility of oil prices posed a challenge, as it is lifeline blood of the Kingdom. Second most important challenge faced by the Saudi economy since 2015 is massive youth unemployment. Both these challenges will be dealt with in detail in ensuing paragraphs.

## **Situational Analysis**

### **Population Growth & Unemployment**

A few factors have contributed in putting extreme strain on the Saudi economy, in addition to fluctuation in oil revenues. Rapid increase in population was one of the major factors which entailed a broad spectrum of issues such as large and young population, higher fertility rate of Saudi women (6 children per family), high population growth, and large expats' population. Since the last two decades, Saudi population has shown a steady increase at the rate of 2.5 per cent<sup>12</sup> which is very high as compared to developed countries. The consistent high population growth rate has direct linkage with the country's unemployment rate. As per World Bank data (1991-2019) for Saudi Arabia, the average unemployment rate of available work force of all age groups has been floating around 5.69 per

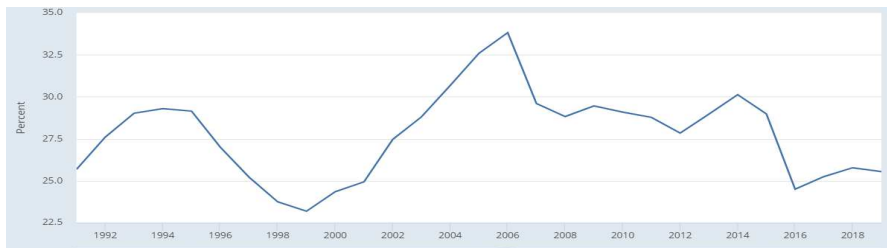
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<sup>11</sup> World Health Organization (WHO) Global Report on Diabetes 2019, <https://www.who.int/>.

<sup>12</sup> "Saudi Population Estimates," General Authority of Statistics, <https://www.stats.gov.sa/en/43>.

cent.<sup>13</sup> However, youth unemployment (age 15-24) has been a cause of serious concern for the Kingdom being 26 per cent, which is extremely high as per international standards.<sup>14</sup> Although unemployment rate has been declining since 2006 when it was highest (34 per cent), yet overall number with increased population has swelled.

**Fig 1: Youth Unemployment Rate in Saudi Arabia**



Source: *World Bank Data - Youth (15-24) Unemployment Rate for Saudi Arabia*

For creating job opportunities for the unemployed Saudi youth, Saudi government recently introduced new taxation regime and withdrew fuel and electricity subsidies. Introduction of 15 per cent Value Added Tax (VAT), increase in electricity tariff with revised calculation formula and increase in fuel prices affected both locals and expats alike. Introduction of Family Dependent Tax in 2017 (100 Riyals per family member with 100 Riyals annual increase till 2020) on foreigners' families was the major cause of discontent amongst foreign workers. The direct taxation had adverse impact on foreign workers forcing them to leave. The departure of over a million working class men coming from South Asia and Philippines since 2016 created low level job opportunities. The expat's exodus brought down the real estate price index by almost 15 per cent since 2016, which hit the Saudi property owners badly. The workers' outward flight from the Kingdom introduced deflation in the economy and consumer prices witnessed continuous fall averaging 2.2 per cent since 2018<sup>15</sup>.

### **Saudization Program**

Saudization policy to reduce reliance on expat workers has been

<sup>13</sup> "Saudi Arabia: Unemployment Rate Forecast," *The Global Economy*, [https://www.theglobaleconomy.com/Saudi-Arabia/unemployment\\_outlook/](https://www.theglobaleconomy.com/Saudi-Arabia/unemployment_outlook/).

<sup>14</sup> World Bank, "Youth Unemployment Rate for Saudi Arabia," (FRED) Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/SLUEM1524ZSSAU>.

<sup>15</sup> Michael Amon & Nicholas Parasie, "Saudi Arabia's Economic Overhaul is Backfiring," *Wall Street Journal*, March 23, 2019, [https://www.wsj.com/articles/saudi-arabias-economic-overhaul-is-backfiring-11553338819#comments\\_sector](https://www.wsj.com/articles/saudi-arabias-economic-overhaul-is-backfiring-11553338819#comments_sector).

adopted since long. The campaign was initiated in 1985 where Saudi companies were asked to recruit Saudi nationals on quota basis. In the last 5 years, Ministry of Labour has allocated 72 professions exclusively to Saudi nationals; however these jobs are of very low level. The list does not contain Human Resources related jobs, labour affairs related jobs, sales and finance roles. There is a major shortage of skills in Saudi nationals in terms of doctors, teachers, engineers, architects, IT specialists and healthcare professionals. The major setback to Saudization program since its inception is non-availability of highly skilled Saudi nationals as low level jobs are considered below the self-esteem of Saudi nationals. Despite all efforts by the Kingdom, much could not be done to change this mind-set to contribute towards reduction of unemployment amongst Saudi nationals.

### **Oil Dependence and Emerging Challenges**

Saudi economy has been oil dependent since discovery of this liquid gold. Historically, a major chunk of the Kingdom's revenues have been generated through global oil sales. The figure below shows that during the last 5 years, 64.37 per cent of the revenue came from oil and the rest, 35.63 per cent, was contributed by non-oil sectors. This shows overwhelming dependence of the economy on oil which has been the primary growth driver of Saudi Arabia's economy. Fluctuating oil prices have been affecting social life and development in the Kingdom. Major dependence for state revenues on oil has been a cause of concern to economists, as Saudi Arabia has no other alternatives at the moment for its revenue diversification. All oil-based economies felt seriously threatened when production of modern electric cars/vehicles was started in 2008. The major reason for electric car renaissance was a breakthrough in battery manufacturing technologies. The obvious advantages of electric cars made them a preferred option for buyers, which at the same time rang alarm bells for economic planners of oil producing countries as they would face a major dent in global oil sales thus reducing government revenues.

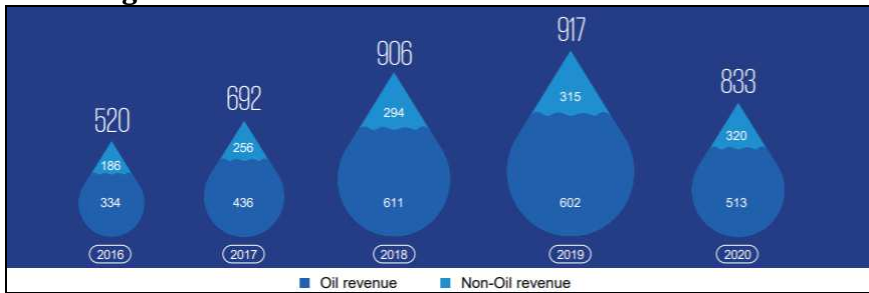
The major oil importers of recent times are China, India, Japan and many advanced European countries. The entry of electric vehicles has started showing its impact as oil demands of the advanced countries have already started dwindling. China's oil consumption will peak in 2025, five to eight years earlier than market consensus as electric vehicles and rails takes over, according to Morgan Stanley analyst Andy Meng<sup>16</sup>. India is also offering many incentives like tax holidays, cheap electricity and labour to

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<sup>16</sup> Dan Murtaugh, "China Oil Use Seen Peaking in 2025 as EV and Rail Takeover," *Bloomberg*, March 6, 2019, <https://www.bloomberg.com/news/articles/2019-03-06/china-oil-demand-seen-peaking-in-2025-as-evs-and-rail-take-over>.

attract electric vehicle manufacturers. Many European countries have started working on deletion plan of fossil fuel driven vehicles. Europe’s car-makers are gearing up to make 2020 the year of the electric cars<sup>17</sup>. Germany set the target in 2010 of having one million Electric Vehicles (EVs) on road by 2020. France already has 150000 EVs plying on its roads since 2017. Scandinavian countries have already taken lead in this field. Moreover, USA has also declared ‘non reliance on Middle Eastern oil’ as their home produced oil is sufficient to meet local demands, as asserted by Donald Trump in his state televised address to the nation on 8 January 2020.<sup>18</sup>

**Fig 2: Oil Revenue and Non-oil Revenue: 2016-2020**



Source: Report on Saudi Arabia, Beyond oil: The investment and Productivity Transformation, Mckinsey Global Institute, USA.

**Continuous Fiscal Deficit**

Scrutiny of Saudi Arabian budget of last six years reveals that economy is facing heavy fiscal deficits since 2014. Budget deficit touched a peak of 388 billion Riyals in 2015, though it has been reducing thereafter but this has direct linkage with oil prices. The lower oil price constricted the cash flows and more investment internationally in diverse sources of energy like renewable energy, and shale gas made the oil market more competitive. All this translated into global decrease in oil demand and glut in oil prices which receded to US\$ 30 per barrel after staying at US\$ 130 in 2014-2016. Resultantly, Kingdom’s budget swung from surplus of 6.5 per cent in 2013 to a deficit of 2.3 per cent in 2014<sup>19</sup>. IMF even projected

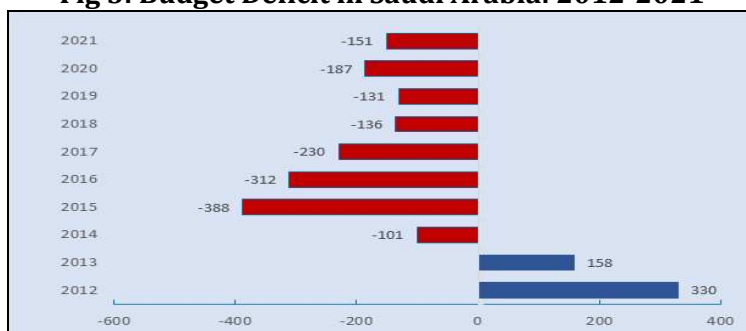
<sup>17</sup> Jasper Jolly, "2020 Set to Be Year of the Electric Car," *The Guardian*, December 25, 2019, <https://www.theguardian.com/environment/2019/dec/25/2020-set-to-be-year-of-the-electric-car-say-industry-analysts>.

<sup>18</sup> "State of the Union address by President Donald Trump in US Congress," *New York Times*, January 8, 2020, <https://www.nytimes.com/2020/01/08/us/politics/trump-address.html>.

<sup>19</sup> "Saudi Arabian Monetary Agency Annual Statistics," 2015, [http://www.sama.gov.sa/en-US/EconomicReports/AnnualReport/Fifty per cent20Second per cent20Annual per cent20Report.pdf](http://www.sama.gov.sa/en-US/EconomicReports/AnnualReport/Fifty%20per%20cent20Second%20per%20cent20Annual%20per%20cent20Report.pdf).

budget deficit forecast of 22 per cent of GDP for 2015<sup>20</sup> with a prediction of further increase if the oil prices did not recover from their lowest ebb of US\$ 30 per barrel. Slight recovery in oil prices (US\$30 to US\$60) improved budget deficit but it is staying in deficit since then. Another noticeable factor related to the budget deficit was massive expansion in size of all three armed forces, and purchase of expensive military hardware from western suppliers at inflated prices.

**Fig 3: Budget Deficit in Saudi Arabia: 2012-2021**



Source: Saudi Arabian Monetary Agency Annual Statistics, 2015.

### Depleting Foreign Exchange Reserves

Saudi Arabia has huge foreign exchange reserves. These reserves were mainly built up because of higher oil prices since 2004. The foreign exchange (FE) reserves touched their peak of US\$ 746.66 billion (2800000 Billion Saudi Riyals) in 2015 and started decreasing thereafter. The FE reserves stood at US\$ 506.6 billion by the end of 2019 depleting US\$ 48 Billion per year on an average. Since 2015, budgetary shortfall is being met by using Foreign Exchange Reserves. The following graph shows direct linkage of global oil prices with FE reserves: higher the price, higher the reserves.

**Fig 4: Global Oil Prices- Foreign Exchange Linkage**



Source: Tradingeconomics.com referred by Saudi Arabian Monetary Agency

<sup>20</sup> "World Economic Outlook," *IMF*, 2015, <https://www.imf.org/en/publications/weo?page=2>.

The above analysis brings out reasons necessitating a long term road map for economic stability and fiscal balance of the Kingdom. The policymakers of the country have concluded since long that oil dependence coupled with low oil prices is a dangerous reality for the economy in the long run. Therefore diversification of the economy is the only viable solution for sustainability. High unemployment rate amongst the young people was another cause of concern as monarchies can't afford to confront this kind of existential threat. Though economic diversification plans have been devised since long but lower oil prices and rapidly growing population were the main drivers for announcing 'Vision 2030' in 2016.

## Major Features of Vision 2030

Prince Mohammad Bin Salman, after his nomination as crown prince, had great realization about the seriousness of the economic situation of the Kingdom. He announced National Transformation Plan (NTP) on 25<sup>th</sup> April, 2016 which included Vision 2030 as its centre piece and is described as a "neo-liberal blueprint" for progress and prosperity of the nation. The Vision is built on three pillars drawing on the Kingdom's inherent strengths: being Arab and Islamic heartland, an investment powerhouse, and geographically connecting three continents. At level 1, these three overarching tenets have two sub-parts, each resulting in six primary objectives. At level 2, these six objectives translate into 27 'branch objectives' and level 3 has 96 strategic objectives<sup>21</sup>. Brief explanation of the three overarching tenets of the vision 2030 is as under:

1. A vibrant society
2. A thriving economy
3. An ambitious nation, responsibly enabled

**Vibrant society** tenet encompasses strengthening of Islamic and national identity, and offering a fulfilling and healthy life to its citizens. The goal set for this segment of the vision are; serve 30 Million Umra visitors, increase household spending on culture and entertainment to 6 per cent, and finally to increase the average life expectancy from 74 years to 80 years.

**Thriving economy** tenet includes expanding and diversifying the economy and increasing employment. Goals set forth for this part of the vision are decreasing the unemployment rate from 11.6 per cent to 7 per cent, increasing public investment fund's assets to 7 trillion Saudi Riyal (SAR), increasing private sector's contribution to 65 per cent of GDP and finally increasing share of non-oil GDP to 50 per cent.

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<sup>21</sup> "KSA Vision 2030 Objectives and Vision Realization Programs," Vision 2030, [https://vision2030.gov.sa/sites/default/files/vision/Visionpercent20Realization per cent20Programs per cent20Overview.pdf](https://vision2030.gov.sa/sites/default/files/vision/Visionpercent20Realization%20per%20cent20Programs%20per%20cent20Overview.pdf).

**Ambitious nation** tenet involves effective governance and responsibility enabled society. Goals set forth to achieve this segment are raising the ranking on the e-government survey index from current position of 36 to be among the top five nations. KSA plans to prepare one million volunteers per year to achieve the objective of responsibility enabling in Saudi society.

The Kingdom of Saudi Arabia executed the National Transformation Program (NTP) with full fervour and started endeavours to achieve 96 strategic objectives progressively. It was expected that 'resistance to change' phenomenon will affect the program's execution. Austerity policies like cuts in subsidies (fuel price), salaries (20 per cent reduction in minister's salaries) and other government benefits (cars and housing for senior officials) were bound to produce discontent amongst Saudi nationals. Secondly, the vision aspires to achieve more than economic transformation. It is an effort to reshape one of the world's most socially and religiously conservative states into a liberal and tolerant society.<sup>22</sup> Presently, the government is the main employer of the population which needs to be shifted to private sector; however, appropriate skills for any private job are a mandatory requirement in the private sector. Despite all the social resistance and bad press to some extent, "the path to reform remains steep, but the king and his son appear determined to stay on it", observes Farida Ghitis, a renowned Gulf expert.<sup>23</sup>

#### **Key Targets of Vision 2030<sup>24</sup>**

- Move from being the 19th largest economy in the world to the top 15.
- Increase the private sector's contribution from 40 per cent to 65 per cent of GDP.
- Increase foreign direct investment from 3.8 per cent to the international level of 5.7 per cent of GDP.
- Increase non-oil government revenue from SAR 163 billion to SAR 1 trillion.
- Increase the number of pilgrimage visitors from 8 million to 30 million annually.
- Localize over 50 per cent of military equipment spending by

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<sup>22</sup> Frida Ghitis, "Is Saudi Arabia's Vision 2030 Reform Plan Faltering or Succeeding," *World Politics Review*, April 27, 2017, <https://www.worldpoliticsreview.com/articles/21969/is-saudi-arabia-s-vision-2030-reform-plan-faltering-or-succeeding>.

<sup>23</sup> Ibid.

<sup>24</sup> Jane Kinninmont, "Vision 2030 and Saudi Arabia's Social Contract: Austerity and Transformation," *Chatham House*, <https://www.chathamhouse.org/sites/default/files/publications/research/2017-07-20-vision-2030-saudi-kinninmont.pdf>.

- 2030.
- Increase Saudization in the oil and gas sectors from 40 per cent to 75 per cent.
- Increase the Public Investment Fund's assets from SAR 600 billion to more than SAR 7 trillion.

## **Vision 2030 as a Driver of Social Change**

Centerpiece of Saudi domestic agenda of King Salman and his clique lies in vision 2030 which is a harbinger of radical reformation of Saudi society. The Vision 2030 blueprint seeks transformation of Saudi economy by diversification in both government revenue generation and collection. The document envisages reduction in longstanding oil dependence by promoting investment and private sector growth. Consumer and industrial subsidies are being phased out and Value Added Tax (VAT) and additional fees for every government provided service have been levied. Special focus has been placed on promoting Foreign Direct Investments (FDI) and tourism. Creation of a futuristic smart city "Neom" close to Jordan and Egypt's borders as a logistic hub will have a deep seated impact on the society as transition from Camel to Camry has still not been fully absorbed by all tribes. Increasing number of Hajj and Umra pilgrims travelling to Mecca and Medina will stretch the existing facilities to the limit, which would thus need major up-gradation.

Historically, Saudi social contract has been based on the distribution of oil rents to the general populace in exchange for their loyalty to the king. However, this may slightly change after implementation of the Vision 2030. Royals need to be very cautious in the Vision's implementation and keep political and social consequences of these reforms under full focus. Used to the 'cradle to grave' patronization policy, the populace and society of KSA will take a lot of time to readjust to the new realities of life. The IMF has predicted that if these plans fail to deliver desired results, unemployment will further increase. This will intensify social pressures on the government and any reduction in existing pay-outs to the public will increase general dissatisfaction which monarchies cannot afford. Implementation of more strict austerity measures will exert more stress on the social contract between the Kingdom's rulers and their subjects. Though it is unlikely that democracy will be established in Saudi Arabia soon, yet involvement of the general public in overall decision making with increased transparency are need of the hour.

Occasional demonstrations by the general Saudi population which were unthinkable in the past have started taking place. They are being dealt with sternly at the moment but have the potential of ending up in a mass rebellion in the future. For ensuring success of the Vision 2030, involvement of civil society is mandatory. On the macro level, the existing

Saudi education system has failed to provide skilled Saudi manpower to replace foreign workers. Motivation and 'willingness to work' is another weak area as Saudi population has never worked previously and have been handling foreign workers as managers rather than working themselves. Another issue is the demand for higher wages in private sector by the Saudi workers which is almost six times higher than a foreign worker, therefore private companies avoid hiring locals and prefer cheap foreign labour.

Vision 2030 includes the ambitious plan of building a modern desert megacity at the cost of US\$ 500 billion (1000 square miles area, 33 times bigger than New York in size) which will be a hub for manufacturing, renewable energy, biotechnology, media, and entertainment, and will be filled with skyscrapers, five-star hotels, and robots to free humans from repetitive labor.<sup>25</sup> The project needs careful handling and must not meet the same fate as of six economic cities announced in 2005 which never attracted expected response from the general public.

The economic fruits of the vision after three years of implementation have started becoming evident. The IMF in 2018 appreciated the progress being made in achieving objectives as stipulated in the vision document. The commitment of the government in implementation of wide-ranging economic and social reforms is above board. IMF mission chief for Saudi Arabia Tim Callen said in a statement. "Growth is expected to pick-up in 2020 and over the medium-term as reforms take hold."<sup>26</sup> He further acknowledged that GDP is expected to rise to 1.7 per cent from 0.7 per cent as in 2017 and economy will accelerate further in 2020.<sup>27</sup>

Confining of over 200 royals and wealthy businessmen in a five star hotel in Riyadh on 26<sup>th</sup> November, 2017 in an anti-corruption sweep has sent a clear message to all that corruption is intolerable in the Kingdom. This activity generated over US\$ 107 billion<sup>28</sup> alone and shows the level of corruption prevalent in Saudi society.

The Royal Vision was well on its way to achieve its long term objectives but the sudden eruption of Corona Virus pandemic in the world has an extremely negative impact on its implementation and execution.

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<sup>25</sup> Mimi Kirk, "Saudi Arabia's \$500 Billion Fantasy of a Utopian Megacity," *CityLab*, January 10, 2018, <https://www.citylab.com/design/2017/11/saudi-arabias-latest-planned-city-costs-500-billion-and-is-insanely-huge/544748/>

<sup>26</sup> Tim Callen, "IMF Mission Chief in Saudi Arabia," *IMF*, May 22, 2018, <https://www.imf.org/en/News/Articles/2018/05/22/pr18190-imf-staff-completes-2018-article-iv-mission-to-saudi-arabia>.

<sup>27</sup> Ibid.

<sup>28</sup> Bethan McKernan, "Saudi Arabians are Ready to Embrace Social Change - but Fear it May Come at a Cost," *Independent*, February 6, 2018, <https://www.independent.co.uk/news/world/middle-east/>.

The pandemic has sent most of the world's economies into a nose-dive wiping out billions of dollars in a very short span of time. The imposed lockdowns and restrictions on free movement of people worldwide reduced production and affected delivery chains. Saudi economy suffered extensively when Hajj 2020 was cancelled depriving her of billions of dollars. A few other political challenges like the murder of Jamal Khashoggi, rapprochement with Israel, and the role of Saudi controlled Organization of Islamic Countries (OIC) over Kashmir have indirect linkages with the success of Vision 2030.

## **Conclusion**

Saudi Arabia has embarked on one of the most ambitious diversification programmes through Vision 2030. Efforts to diversify the economy have been made through the last nine five-yearly development plans as well; however, most of these plans could not achieve the desired results. The Kingdom has to be wary of factors such as magnitude of the mega projects/ schemes, and focus on political development of institutions rather than the economy alone. The country needs heavy investment in vocational education for preparation of skilled local workforce for the jobs which Saudis reject and consider below them. The Kingdom does not anymore enjoy the luxury of ignoring the relationship between economic and political development as tribal based social system is bound to undergo a sea change after complete implementation of Vision 2030. Saudi society is well knit, status oriented, structured along tribal lines, and has the culture of total freedom with least law abiding trend. The society needs to be radically reformed for universal values essential for the operation of a modern economy and polity.

As new realities will dawn on the general Saudi public with the passage of time, society must readjust with the emerging change. The positive impact created by the Royal Vision has to be carried through forcefully by the government as falling back is not an option. The diversification of economy towards industrialization, along with necessary social change, is the only possibility left with the Saudi monarchy if their rule is to continue.

