From Wellhead to Wire: Diversification and its Challenges in Saudi Arabia

Utilising the high oil price regime since 2003, as well as renewing century’s old trade links with China and India, Saudi Arabia is now in a position to manage a gradual transition towards a diversified economy that includes development across all sectors. The education and health sectors are both experiencing rapid expansion and reform, and privatisation is leading Saudi Arabia more rapidly into industries such as energy, petroleum, infrastructure, services and large scale projects such as its economic cities. However, there are challenges which could significantly alter the timescale and nature of a future diversified Saudi economy. These can be divided into the following issues:

- The ‘Arab Spring’
- A re-evaluation of the strategic plan for the economic cities
- The dialogue between the government and private sector (including the priorities of business versus internal security concerns)
- Youth unemployment and the Saudi work ethic
- Domestic constraints and pressures to slow the pace of reform

Like an oasis in the Empty Quarter, Saudi Arabia is managing to flourish despite being surrounded by a harsh Arab Spring in the North (Egypt), South (Yemen), East (Bahrain) and West (Libya). Saudi Arabia is in good shape financially, having injected $36 billion in social and welfare programs and boosted public-sector pay by 15%. 1 Arab unrest, the resignation of President Mubarak, and attacks on Libyan oil fields, has contributed to a $100 per barrel oil price. Therefore, Saudi Arabia is in a prime position to benefit within the production constraints of OPEC. It is only the misconception of some businesses which may look at the region with one lens that requires Saudi Arabia to maintain vigilance in the way it continues to promote itself as an attractive investment opportunity.

However, the immediate concern of the Saudi Arabian General Investment Authority (SAGIA) must be its economic cities since they have only attracted high net worth Saudi businessmen and received very little foreign investment. There remain questions as to how they will connect with the industrial cities and how the state should finance them. SAGIA is therefore reappraising its strategic plan and looking at an increased role for the private sector in terms of financing and risk. This dialogue will inevitably slow down the timescales and lead them to take a different form from that originally envisaged.

Another parallel dialogue, and one which is not likely to change in the short term, is the ongoing debate in Saudi Arabia as to whether it should facilitate business or ensure internal security, as it perceives that it cannot do both. Most states differentiate between potential domestic problems and commercial opportunities and are able to gage when the risk is greatest, such as the UK immigration/border system. Likewise, smaller GCC states have good internal security and therefore do not feel the same pressure as Saudi Arabia. As long as Saudi Arabia continues to attract business visitors, expatriate workers, and those performing Hajj and Umra, based on its oil, money and the two holy sites respectively, the less it has reason to change the current

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system. Saudi Arabia’s economy is developing fast, and the systems and staff are still catching up in the ministries, but more must be done if Saudi Arabia wants to develop a tourism industry. The efforts of SAGIA to ease the path for business investment have already borne fruit, as Saudi rankings have improved markedly at institutions such as the World Bank.\(^2\)

The most concerning and possibly long term issue is the process of ‘Saudization’, and the unchanging Saudi work ethic that still puts status above pride in work. Whilst the best Gulf talent goes to the energy and public sectors, in the upper echelons of government, (at DG level in petroleum, finance, commerce etc) they are not going to the private sector. Saudi quotas simply perpetuate a system that burdens many companies with labour that generally has no professional qualifications at all, representing a cost rather than a contribution to the business. Without ‘Saudization’, unemployment in youth (which makes up around 25% of the total Saudi population) would get worse and continue to favour professional foreign labour to fill the massive number of positions being creative by an expanding and diversifying economy. For example, there are 40,000 schools and primary care centres in every village but Saudi Arabia doesn’t have the population to support this social and welfare strategy.\(^3\) The panacea is development of higher education, which is already being addressed in the massive investment in universities across the Kingdom, including the Princess Nora Bint Abdulrahman University for women in Riyadh.

So long as the reforms continue unabated, the trickle down effects should form the mindset that will advance Saudi Arabia into becoming a knowledge economy. Much depends on the regional environment because as Saudi Arabia liberalises its economy, other states are increasing the role of the state in their economies. The Middle East has often been cited for its lack of intra-regional trade, which may serve to limit any downside for Saudi Arabia, but two issues remain. The first is that Saudi Arabia’s foreign policy is often perceived to be a bridge between rich and poor states in the Middle East, thereby putting pressure on Al-Saud to provide more financial aid or military support to some states. The second is the potential for a popular domestic backlash, whether Islamist, Shi’a or intellectual, against what is perceived to be economic liberalisation but without the associated political reform. There is already a recognition in the Kingdom that some conservative elements, perhaps including the Ulama (religious establishment), sees the rapid pace of change as going against the traditional values that Saudi Arabia has espoused throughout its history.\(^4\) The necessities to continue down the road to economic liberalisation may be self evident, but there could be more set backs yet to come.

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\(^3\) Interview with High Ranking Diplomat, Riyadh, Saudi Arabia, 4 June 2011

\(^4\) Interview with Prince Alwaleed bin Talal bin Abdulaziz Alsaud, ‘The Sky’s the Limit’, *The Middle East*, June 2011, Issue 423, 58