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The Saudi Arabian Economy

Policies, Achievements and Challenges

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CHAPTER 15

CONCLUSION: THE CHALLENGES AHEAD

So rich and yet so poor

- The **pace and tempo** of change in Saudi Arabia has accelerated and transformed Saudi Arabia sometimes beyond recognition.
- The Kingdom attracts equal measures of **envy and fear** given its economic power as the world's largest oil producer and reserves as well as its new found international political role in the region and the Muslim world.

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- However, the Kingdom is facing **potential issues** which could cause future problems if not dealt with correctly. **These involve meeting the expectations of a young and growing population and rising unemployment.**
- At the same time, despite many efforts at diversification of the national economy, the Kingdom is still **dependent on a narrow hydrocarbon base.**
- Oil revenue dependency and volatility has ensured that Saudi Arabia faces periods of GDP per capita declines.

Managing expectations and reforms

- Domestic issues and **reforms** are now accelerating on many fronts, especially since the succession of King Abdullah in 2005.
- These include an **accelerated, strengthening and modernization of the legal system, particularly in business and commercial law, aligning the education system with the needs of the private sector and rationalizing government expenditure.**
- The Saudi Capital Market Authority has been empowered to add depth, stability and oversight on the stock market and stakeholders, and the capital market is gradually opening up to **foreign investment.**

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- However, the sequence of reforms and change is also an important issue, so as not to be seen as **competition** between external and domestic reform.
- The issue of “**Saudization**” has to be managed carefully, as it may provide partial relief in the short term. In the long term, the policy has to be reassessed, as actual Saudi employment in the private sector has been **out of line with official expectations**.

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- **Social cohesion and poverty reduction** is now one of the government's key economic and social goals as well as human rights issues.
- According to data, nearly **19% of the population received government assistance and other subsidized support**, and regional economic planning calls for devolution of jobs and opportunities to outlying regions of Saudi Arabia.
- There has been more devolution of oversight powers to the ***Majlis Al Shoura*** or consultative assembly, and the Kingdom is now stressing consensus building in its decision making process.

The challenges ahead

- **Privatization** has been moving forward, albeit on a slow pace for some sectors, but the government is also promoting **Public-Private-Partnerships (PPP)** with the private sector for some of its mega economic projects.
- The **family businesses** came under scrutiny following high profile defaults of some Saudi family conglomerates, but on the whole the Saudi financial system came out **unscathed** during the global financial crisis of 2007/2008.

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- The **SME** sector is now receiving greater attention and support as a vehicle for national job generation, and the concept of SME economic “**clusters**” is now being pursued.
- Despite making the Kingdom a more attractive **FDI investment target**, obstacles still remain in labor issues and ease of doing business that holds the Kingdom back from attracting more FDI.
- The higher global ranking earned by Saudi Arabia is evidence that the government is trying to remove such obstacles and red tape.

Regional and International relations.

- The issue of a **common GCC currency** seems to have been shelved for the time being, but the choice of Riyadh as the headquarters of the **GCC Monetary Union** will give Saudi Arabia the opportunity to take a central stage in Gulf financial policy, as well as having a high **profile role in international groupings such as the G20, the IMF and the World Bank.**
- The Kingdom will continue with its **“look East”** policy and forge new strategic economic and political alliances with emerging global economic superpowers such as China and India.

Education: quality, not quantity.

- **Qualitative educational policies** is now a priority for the Kingdom, leading to a knowledge based economy to meet the challenges of globalization.
- Saudi universities are encouraged to adopt policies that foster industry relations and **international best practices and alliances**.
- The establishment of **science parks and “Techno-Valleys”** by the government indicates the seriousness by which technology transfer and knowledge commercialization is being pursued.

Women issues will be important

- **King Abdullah** has made it a personal point of encouraging the effective social and economic participation of **Saudi women** in all sectors of society, as long as there is conformity to Islamic principles.
- **Effective participation of educated and empowered Saudi women** will have a positive economic impact on productivity, consumption and reduction in foreign worker's remittances.

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- **The value of investments held by Saudi women is substantial, with around SR 8 billion in retail, services and SME sector, and owning around 43,000 companies and with SR 45 billion in bank deposits.**
- **More professions are now being opened up to Saudi women, the latest being the legal profession, as well as acting as overseas diplomatic representatives of the Kingdom.**
- **Saudi women now have their own ID's to make transactions without male intermediaries.**

Stake in Society

- Self-sustained economic development and “take-off” can only come from **within** a society and **not** imposed from outside.
- Such **“take-off”** can be sparked by education, innovation, productivity or social cohesion, especially in strengthening middle classes to ensure a stake in society.
- While there has been a commendable pace in the diversity and scope of change in Saudi Arabia, this has to be **sustained for a positive momentum to take root and flourish.**