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# Economic Diversification in Saudi Arabia

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## The Challenges of a Rentier State

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There are two types of economies in the world. One that relies heavily on one specific resource and one that collects revenue from diverse economic resources. Economic diversification in this paper is defined as modification of national income sources to reduce the dependence on one particular resource. In Saudi Arabia, this resource is oil and it is used as rent. Rent creates a substantial revenue for the government from the availability of one specific resource through its sales to external actors. Thus, Saudi Arabia is a rentier state because it heavily relies on its rent of oil. Relying on one sector of income, however, can create long-term instability. Since 1970, the Saudi government introduced new policies for more diversification in ten development plans, yet most of them have failed in their implementation.<sup>1</sup> What, then, are the challenges of economic diversification policies in Saudi Arabia, and what can lead to a greater diversification despite these challenges? This work argues that the new government-initiated Vision 2030 and economic diversification can only be successful if work ethics, innovation, and government control are addressed.

In April 2016, Saudi Arabia's Deputy Crown Prince announced the Vision 2030, a reform plan that aims to free the kingdom of oil dependence through diversifying the economy and social politics. This essay demonstrates that Vision 2030 and economic diversification can only be successful if the identified challenges are addressed. The key judgments of the paper entail three challenges to diversification policies. First, Saudi culture of the rentier state and youth work ethics challenge the implementation of such policies. Second, government subsidization has to be reduced in order to promote innovation. Third, enforcement of diversification policies will be unsuccessful if the ruling Al-Saud family is not willing to reduce government control.

Employing an empirical approach, the paper will review the background on the Saudi Arabian economy and its development with a focus on proposed policies. It will continue to review the literature and research that has been conducted on economic diversification in the Gulf States to be able to meet the challenges that diversification programs in Saudi Arabia contain. More specifically, it will look at three challenges of diversification policies and efforts: Saudi culture, subsidies, and government control. Subsequently, the research will analyze future conditions and settings that answer the question whether economic diversification in Saudi Arabia is possible after all. With its conclusion of the case study of Saudi Arabia, the paper adds to the literature of economic diversification in rentier states by identifying key challenges for the Saudi government.

The research is aware that resources from the Saudi government have to be read with caution because of possible biases. For example, the Saudi Ministry for Economy and Planning widely praises the Saudi economy in its 2025 Vision.<sup>2</sup> The Saudi government, as a monarchical autocracy, acts out of self-interest when publishing reports and documents. Therefore, the research will look at government, non-government, and foreign sources for data collection and literature review before arriving at a conclusion.

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<sup>1</sup> Bassam A. Albassam, "Economic diversification in Saudi Arabia: Myth or reality?" in *Resources Policy* 44, (June 1, 2015): 112, ScienceDirect, EBSCOhost, accessed March 21, 2016, [http://ac.els-cdn.com/S0301420715000215/1-s2.0-S0301420715000215-main.pdf?\\_tid=fd439984-efb0-11e5-b49f-00000aab0f01&acdnat=1458598094\\_c889d3c11343f642b8827821e6234102](http://ac.els-cdn.com/S0301420715000215/1-s2.0-S0301420715000215-main.pdf?_tid=fd439984-efb0-11e5-b49f-00000aab0f01&acdnat=1458598094_c889d3c11343f642b8827821e6234102)

<sup>2</sup> "Saudi Arabia: Long-Term Strategy 2025" (Riyadh: Saudi Ministry of Economy and Planning October 2007), 19-22, accessed April 25, 2016, [http://vision.cer.uz/Data/lib/vision\\_texts/Saudi\\_Arabia/SAUD\\_Long\\_Term\\_Strategy\\_2025\\_October\\_2007.pdf](http://vision.cer.uz/Data/lib/vision_texts/Saudi_Arabia/SAUD_Long_Term_Strategy_2025_October_2007.pdf)

An answer to the long-discussed question of when and whether the world will eventually run out of oil is not addressed in the paper. The work addresses the challenges of economic diversification and is not an approach to science. Several scientific research publications and scholars have concluded that oil is a limited resource.<sup>3,4</sup> Therefore, the paper will assume that oil-based economies must consider different sources of income for a sustainable future.

## **BACKGROUND ON SAUDI ARABIA: ECONOMY, POLICIES, AND DIVERSIFICATION ATTEMPTS**

Saudi Arabia is one of the largest oil producer in the world.<sup>5</sup> Its economy is driven by wealth from oil resources and “the kingdom depends largely on oil as a major source of income.”<sup>6</sup> After 15 years of surpluses, 2014 was the first year to report a deficit for the country. The government recognized already in 1998 that the country could not rely entirely on revenue allocated through the state and announced political changes, such as raising gasoline prices for consumers, increasing prices for government services, and reducing farm subsidies.<sup>7</sup> According to Bernard Haykel et al.,<sup>8</sup> however, “the Saudis did not follow through on these rumored political changes.”<sup>9</sup> The attempt to alternate the oil revenue and government spending was not effective before the 21st century.

Another effort to diversify revenue and economy was made on April 25, 2016. Mohammed bin Salman announced the program of diversification efforts: Saudi Vision 2030.<sup>10</sup> The plan includes improved structural reform, transparency, and a package of economic and social policies.<sup>11</sup> An education reform seems to be missing. The question is whether the vision can meet international expectations of reforming the economy. For the purpose of the study, this paper will consider the policies of a former publication for analysis: Saudi Arabia’s Long-Term Strategy 2025 (LTS 2025). The Vision 2030 was published in the summer of 2016 and does not provide enough data on its implementation. The paper assumes that the concluded challenges of the 2025 vision will be similar for the 2030 vision.

With the release of the vision for 2025, Saudi Arabia took several approaches to diversify its economy and introduced policies to do so. The new plan focuses on “job creation, poverty alleviation, diversification and balanced regional development.”<sup>12</sup> The second pillar of the plan introduces 80 policies to implement the goals. For example, the improvement of infrastructure through public-funded projects, incentives for Saudi investors to turn to domestic instead of foreign sectors, the strengthening of the private sector and its responsibility, and the appointment of a Supreme Economic Council to create a regulatory framework for the private sector.<sup>13</sup> As a result of the policies, the Saudi Arabian Monetary Agency reports that manufacturing industries, construction

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<sup>3</sup> Callen, Tim, Reda Cherif, Fuad Hasanov, Amgad Hegazy, and Padamja Khandelwal, “Economic Diversification in the GCC: Past, Present, and Future,” International Monetary Fund: IMF Staff Discussion Note (December 2014), accessed March 21, 2016, 4. <https://www.imf.org/external/pubs/ft/sdn/2014/sdn1412.pdf>.

<sup>4</sup> Martin Havidt, “Economic diversification in GCC countries: Past record and future trends,” In The London School of Economics and Political Science (2013, January), 1, accessed April 27, 2016, <http://www.lse.ac.uk/middleEastCentre/kuwait/documents/Economic-diversification-in-the-GCC-countries.pdf>

<sup>5</sup> Bernard Haykel, Thomas Hegghammer, and Stéphane Lacroix, eds, *Saudi Arabia in Transition: Insights on Social, Political, Economic and Religious Change* (New York: Cambridge University Press, 2015), 0.

<sup>6</sup> “Kingdom of Saudi Arabia: Fifty-First Annual Report,” (Riyadh: Saudi Arabian Monetary Agency, 2015), 25, accessed March 21, 2016, [http://www.sama.gov.sa/en-US/EconomicReports/AnnualReport/5600\\_R\\_Annual\\_En\\_51\\_Apx.pdf](http://www.sama.gov.sa/en-US/EconomicReports/AnnualReport/5600_R_Annual_En_51_Apx.pdf)

<sup>7</sup> Bernard Haykel et al., *Saudi Arabia in Transition*, 26.

<sup>8</sup> Bernhard Haykel, professor of Near Eastern Studies at Princeton University, Thomas Hegghammer, senior research fellow at the Norwegian Defence Research Establishment, and Stéphane Lacroix, associate professor of political science at Sciences Po, Paris.

<sup>9</sup> Bernard Haykel et al., *Saudi Arabia in Transition*, 26.

<sup>10</sup> *Vision 2030*, Kingdom of Saudi Arabia, 2016, accessed October 22, 2016. <http://vision2030.gov.sa/en>

<sup>11</sup> Celine Aswad, Andrew Torchia, and Karin Strohecker, “Analyst view: Saudi Arabia’s Vision 2030 reform plan,” (Dubai/ London: Reuters, April 25, 2016), accessed April 25, 2016, <http://www.reuters.com/article/us-saudi-plan-reaction-idUSKCN0XM1FX>

<sup>12</sup> “Saudi Arabia: Long-Term Strategy 2025” 3.

<sup>13</sup> *Ibid.*31.

and building, transport, storage, and communication, wholesale, retail trade, restaurants, personal, social services, finance, insurance, real estate, agriculture, and mining activities grew in 2014.<sup>14</sup>

Following the diversification approaches and policies, the King Abdullah University of Science and Technology (KAUST) opened, signaling a step towards new areas of skilled education besides the oil production field. Furthermore, KAUST is a symbol for the history of intellectual achievements and richness of research in Islam.<sup>15</sup> This drive towards new achievements and contributions to the field of medicine and mathematics seems to be forgotten in the height of oil wealth. The university also marks a contribution to diversification because it allows men and women together in one classroom.<sup>16</sup> In conservative Saudi Arabia, this is a central message of a step towards modernization. Additionally, the school is an exemplar for diversification because it is derived from the limited King Fahd University of Petroleum and Minerals (KFUPM),<sup>17</sup> which solely focused on education in engineering and training for the oil sector. In conclusion, the government has introduced numerous policies and ideas to diversify its economy.

## LITERATURE REVIEW

The future of the Saudi Arabian economy has been a widely discussed topic, research results ranging from a chaotic revolution through disappointed youth rebels to a continued status quo that is unlikely to change. In his work “Saudi Arabia’s Economic Time Bomb,” Luay Al-Khatteeb, the founder and director of the Iraq Energy Institute and former resident at the Brookings Doha Center, sees a continuation of an oil based economy with skepticism for the country.<sup>18</sup> Pauline Jones Luong and Erika Weinthal, on the other hand, portray a more positive outlook on Saudi future, describing the numerous benefits of an oil economy. The Saudi government itself continues to publish positive reports on their visions of economic diversification, yet implement the policies rather unsuccessfully.

Martin Hvidt<sup>19</sup> uses the term *Dubai-model* to define economic development that integrates free trade, market liberalism, economic openness (a market-economy (mostly) free from trade barriers), pro-business, and pro-globalization.<sup>20</sup> He argues that, unlike the assumptions of many scholars, other Gulf States –including Saudi Arabia– have not yet replaced their allocation models with the *Dubai-model*.<sup>21</sup> An allocation model describes how a state distribute resources, goods, and products. He does conclude, however, that that process has been initiated and may lead to an adoption in the future.<sup>22</sup> Scholars have suggested increasingly that Saudi Arabia will have to redefine its economic model to continue its economic development.

For example, Al-Khatteeb gives an outlook of the drawbacks for the country if it does not adjust its economy and fails to review its budget. He argues that Saudi Arabia has to increase public and private sector cooperation to integrate the youth into the workforce and address the lack of

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<sup>14</sup> “Kingdom of Saudi Arabia: Fifty-First Annual Report,” Saudi Arabian Monetary Agency, 23 and 25.

<sup>15</sup> Bernard Haykel et al., *Saudi Arabia in Transition*, 31.

<sup>16</sup> *Ibid.* 33.

<sup>17</sup> *Ibid.*

<sup>18</sup> Luay Al-Khatteeb, “Saudi Arabia’s economic time bomb,” The Brookings Institution, (December 30, 2015), accessed March 19, 2016, <http://www.brookings.edu/research/opinions/2015/12/30-saudi-arabia-economic-time-bomb-alkhatteeb>

<sup>19</sup> Dr. Martin Hvidt currently teaches at Zayed University in Dubai and received his PhD from Colorado State University. His research focus is economic and social development of Arab Gulf countries.

<sup>20</sup> Martin Hvidt, “Economic and Institutional Reforms in the Arab Gulf Countries,” *Middle East Journal* 65, no. 1 (Winter 2011 2011), 85, accessed April 12, 2016, <http://eds.a.ebscohost.com/eds/pdfviewer/pdfviewer?sid=15612ebe-8312-47d1-a685-7b64b5ac4568%40sessionmgr4002&vid=2&hid=4213>

<sup>21</sup> Hvidt, “Economic and Institutional Reforms,” 102.

<sup>22</sup> *Ibid.*

education and training, otherwise the *economic time bomb* will cause severe damage.<sup>23</sup> One major drawback of the current economy that Al-Khatteeb points out is the possible radicalization of the youth.<sup>24</sup> Saudi Arabia's youth unemployment rate is extremely high and can pose a great challenge to the country in the future. Young people –especially men– are generally tempted to join a grouping or organization where they follow a common purpose and feel appreciated. Hence, Al-Khatteeb's suggested radicalization can take place.

Several other scholars capture another factor of the Saudi youth's mindset towards work: the lack of incentives and motivation to perform blue-collar work looked down upon as immigrant and foreigner work. Abdullah Abdul Elah Ali Sallam, Murray Hunte, and Ann T. Jordan evince this lack of work ethic of the youth.<sup>25, 26</sup> They adhere to the idea that a majority of the Saudi youth do not show an interest in education or work opportunities.

The International Monetary Fund (IMF) and some staff members take a more theoretical approach by comparing successful economic diversification and its application to member states of the Gulf Cooperation Council (GCC). In 2014, the fund points to three benefits GCCs can have from a transformed economy: reduced exposure to an uncertain international market, provide jobs in the private sector for unemployed nationals, and create sustainable growth and productivity.<sup>27</sup> If Saudi Arabia implements its policies, it could experience those benefits.

Literature on the rentier state and its economy has been of diverse opinions, arguments, and recommendations. What makes this work new and necessary are the specific challenges that economic diversification in Saudi Arabia faces. Previous literature has put an emphasis on the value and return of investment of oil. This work looks at factors other than simply the revenue of oil but incentives that are characterized by the uniqueness of Saudi Arabia and that impact challenges significantly.

## **CHALLENGE ONE: SAUDI CULTURE, RENTIERISM, AND WORK ETHIC**

Rentierism is deep-rooted in Saudi Arabian economy, culture, and government structures, making change unlikely over the next decades. As Hvidt states, "rolling back 30 to 50 years of Rentierism is not a process that can be accomplished easily or hastily."<sup>28</sup> The economic boom of the rentier state resulted in a governance by the Al-Saud family that exercised strict authoritarian rule in all aspects of life. The oil resources and revenues had lasting economic, social, and political effects. They are at the core of the state's existence and, thus, will be difficult to change.

Being a rentier state does not only imply the collection of rent, economic benefits for the government, and reallocation of the wealth to the people; it is also "a continuation of centuries-old cultural behavior common in Arabia."<sup>29</sup> Being a citizen of the rentier state and benefiting from collected revenue is part of the culture, identity, and tradition of Saudi nationals. Therefore, Saudis, especially young Saudis that did not know a Saudi Arabia before the oil, might not welcome a change in economic revenue and alternate job opportunities.

The younger third and fourth generations of Saudis were born after the oil boom, but lived with the privileges of a wealthy oil state. These generations mostly identify themselves with the

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<sup>23</sup> Luay Al-Khatteeb, "Saudi Arabia's economic time bomb."

<sup>24</sup> Ibid.

<sup>25</sup> Abdullah Abdul Elah Ali Sallam and Murray Hunter 2013, "Where is Saudi Arabian Society Heading?" Contemporary Readings in Law & Social Justice, vol. 5, no. 2, 145, accessed March 19, 2016. <http://ezproxy.library.nyu.edu:2240/eds/detail/detail?vid=21&sid=6f1e30ce-fd58-484f-b5be-ceae22ca2bdb%40sessionmgr113&hid=120&bddata=JnNpdGU9ZWRzLWxpdmU%3d#AN=93326096&db=lgs>

<sup>26</sup> Ann T. Jordan, *The Making of a Modern Kingdom: Globalization and Change in Saudi Arabia*, Long Grove: Waveland Press, 2011, 24.

<sup>27</sup> Callen, Tim et al., "Economic Diversification in the GCC: Past, Present, and Future," 10.

<sup>28</sup> Hvidt, "Economic and Institutional Reforms in the Arab Gulf Countries," 102.

<sup>29</sup> Jordan, *The Making of a Modern Kingdom*, 24.

stability of family, religion, and nation.<sup>30</sup> This implies that their major interests do not lay in the participation in an economic diversification and *Saudization*—the process of replacing foreign workers with Saudi experts in the private sector. The young generations expect the oil benefits and job provision from the government to continue. Additionally, “the pay is typically higher for government jobs than it is for comparable private sector jobs to making Saudi citizen less interested in the latter and most available jobs are in the private sector.”<sup>31</sup> Therefore, the incentives for Saudis to participate in the idea of *Saudization* in the private sector do not reflect culture or interests. Many jobs that foreigners hold—and that Saudis are supposed to replace—are in highly skilled science and engineering sectors, yet only eight percent of Saudi graduates specialize in those fields.<sup>32</sup>

This lack of skilled labor implies another challenge to *Saudization* rooted in Saudi culture. The numerous efforts of the government to provide more education opportunities do not work efficiently if young Saudis are not willing to participate. A center that seeks to train electricians reports that “most of the young Saudis appear too sullen and lethargic to want to learn...[and] appear to be interested only in the government stipend they receive for showing up.”<sup>33</sup> The challenge does not seem to be the actual proposed policies with *Saudization*, but the cultural mindset of young Saudis towards education and work.

One of the policies that the government introduced is the implementation of a selected minimum wage.<sup>34</sup> Yet, even if a minimum wage will be passed, would Saudi nationals or foreigners end up working these jobs? Generally, minimum wage jobs do not have a good reputation and are usually in low-skilled sectors. The Saudi mindset would reject the idea of working in these sectors because “the youth are uninterested in the menial jobs now performed in [Kingdom of Saudi Arabia] by foreigners.”<sup>35</sup> For the purpose of this paper, minimum wage jobs can be defined as *menial jobs*. Saudi culture and youth mindset are hurdles to this particular policy.

Another proposed policy is the expansion of the tourism sector. The Vision 2025 aims for an increase in the “provision of tourism education and training facilities and programmes.”<sup>36</sup> This policy faces a similar resistance of Saudi culture. Young Saudis are “traditional in their views and lifestyle” and generally “not pushing for radical political reforms.”<sup>37</sup> An attempt to employ them in the tourism sector is likely to fail. First, it is rather untraditional to be educated and employed in tourism in order to serve foreigners in their leisure needs. This is contradictory to the pride with which Saudis praise themselves. Second, intensified education would require more funds in this sector and thus call for cuts or reforms in other sectors. Saudi nationals, however, do not seem keen to participate in political and economic reforms.

The disinterest and fear of change exhibits a challenge to the majority of policies and hopes of diversifying, because “change is seen by many [citizen] to be a threat to Saudi culture.”<sup>38</sup> The roots of culture, Rentierism, and Islam create a general antipathy towards radical economic change. As long as this challenge is not addressed, diversification policies and *Saudization* will be difficult to implement. Since Saudi Arabia is a divided country, however, a portion of the country is indeed dissatisfied with the status quo<sup>39</sup> and would welcome change. Yet, the majority of dissatisfied

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<sup>30</sup> Jordan, *The Making of a Modern Kingdom*, 125.

<sup>31</sup> Ibid. 79.

<sup>32</sup> Ibid. 90.

<sup>33</sup> Karen Elliott House, *On Saudi Arabia: Its People, Past, Religion, Fault Lines - and Future*, (New York: Vintage Books, 2012), 170.

<sup>34</sup> “Saudi Arabia: Long-Term Strategy 2025,” 39.

<sup>35</sup> Jordan, *The Making of a Modern Kingdom*, 169.

<sup>36</sup> “Saudi Arabia: Long-Term Strategy 2025,” 38.

<sup>37</sup> Ali Sallam et al., “Where is Saudi Arabian Society heading?” 145-152.

<sup>38</sup> Ibid. 149.

<sup>39</sup> House, *On Saudi Arabia Future*, 122.

citizens leave the country to get an education abroad, returning with their degrees<sup>40</sup>, avoiding the lack of education opportunities, and, thus, engagement in reforms.

## **CHALLENGE TWO: SUBSIDIES AND INCENTIVES FOR INNOVATION**

The efficiency of the Saudi economy relies heavily on government subsidies. To diversify the economy, the government has to reallocate money given to businesses in the oil sector. Bassam Albassam stated that government support is mostly granted to industries that are dependent on oil<sup>41</sup> and Al-Khatteeb estimated that “annual subsidies on oil and gas are costing the Kingdom around \$61 billion and nearly \$10 billion for electricity and water.”<sup>42</sup> Reducing subsidies, however, could affect the stability of the economy negatively due to the backfiring frustration of receiving companies and people (specifically the many wealthy members of the widespread Al Saud family).

The subsidies to the public sector hinder a creative and innovative Saudi workforce. According to the IMF, “the continued availability of public sector jobs discourages nationals from pursuing entrepreneurship and private sector employment.”<sup>43</sup> The incentives for Saudi nationals to create their own self-reliable private businesses to compete with the local and international market are missing. Although, the government has invested in the education system, young graduates are drawn into the already existing system because it provides financial stability, assurance of employment, and benefits. Creating one’s own business or joining unsubsidized private businesses might not be as rewarding or secure.

Furthermore, the three of the largest private companies—the Saudi Electricity Corporation (SEC); the Saudi Telecommunications Corporation (STC); and the Saudi Basic Industries Corporation (SABIC), are majority-owned by the government and receive heavy subsidies.<sup>44</sup> If the government owns their shares, what incentives for diversification remain? The companies experience more economic security through involvement of the government. That is because they owe their production—through contracts and orders of foreign investment—to the government.<sup>45</sup> To diversify production and employment and invest in innovation, research, and development, the private companies need more competition and fewer subsidies. The subsidized economy can only be transformed if the government allows “a more competitive industrial base to develop that leverages both foreign technology and investment.”<sup>46</sup> For now, the definition of Saudi private enterprises is not so private after all because of subsidization.

## **CHALLENGE THREE: GOVERNMENT CONTROL AND LACK OF POLICY IMPLEMENTATION**

A third challenge is the resistance by the ruling Al-Saud family to change the economic approach with its current stability through oil revenue. Simply put, the incentives of intensified diversification are missing for state officials. The regime holds an “almost unique degree of power over society and lead to a very high degree of material dependence.”<sup>47</sup> This power derives from the oil wealth and natural resources. Through its tight control, the regime also has autonomy over the

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<sup>40</sup> House, *On Saudi Arabia Future*, 175.

<sup>41</sup> Albassam, “Economic diversification in Saudi Arabia,” 112.

<sup>42</sup> Luay Al-Khatteeb, “Saudi Arabia’s economic time bomb.”

<sup>43</sup> Callen, Tim et al., “Economic Diversification in the GCC: Past, Present, and Future,” 4.

<sup>44</sup> “Saudi Arabia: Long-Term Strategy 2025” 32.

<sup>45</sup> House, *On Saudi Arabia*, 163.

<sup>46</sup> *Ibid.* 164.

<sup>47</sup> Bernard Haykel et al., *Saudi Arabia in Transition*, 98.

local economy. In 2008, the government employed 900,000 Saudis, the private sector only 830,000.<sup>48</sup> If the regime would implement more policies of economic diversification, the private sector would expand and become more self-reliant. This, however, would mean the regime loses a great portion of control since employment distribution would change. Would the government welcome a shift from public to private sector employment that would result in a decrease in dependence, and thus control? As mentioned in the background section, the government appointed the Supreme Economic Council to regulate diversification, yet the council acts on behalf of the government, assuring its continued control.

The rentier state has not, of yet, seen a fiscal crisis. Haykel et al. argue that the state was able to avoid a crisis because of “its reserves, its ability to tap domestic wealth through the banking system, and its unique role of being able to affect global oil prices by its own decisions.”<sup>49</sup> These three powerful tools have provided the government with the ability to continue to provide wealth and to avoid an expansion of economic diversification.

Another tool that confirmed the consistent path of the government is the reliability of foreign investors in the Saudi oil market. Even when prices decrease and instability seems to increase, investors are interested in the Saudi market. Haykel et al. point to the fact that “investors are attracted by instability, because their return on investment will be potentially much greater...rigid demand and supply becomes amplified and attracts ever more financial investment.”<sup>50</sup> Therefore, the government does not need to react instantly to an unstable economy with new diversification policies. There seems to be a lack of interest in substantial economic reforms due to efficient investment.

The government admits that speed and content of a reform have not been implemented yet.<sup>51</sup> This exemplifies that the government does not want a rapid change, though it recognizes the need for reform. The Al-Saud family members find themselves in a dilemma between diversifying the economy in order to continue growth and stability, yet they do not want to lose the ability to determine regulations and ownership. In the strategy for 2025, the government acknowledges that conversion of policies and ideas into implementation often failed.<sup>52</sup>

The same control and failed implementation is exemplified by the formulation and word choice of suggested policies in the government Vision 2025. One of the 80 policies proposes to “consider privatization of Aramco<sup>53</sup> and divestiture of parts of it in the long run.”<sup>54</sup> The word choice of “consider” clearly dismisses an actual interest in more privatization and less government control. In addition, another policy states to “speed up privatisation process.”<sup>55</sup> This is a vague statement that would need much more detail for successful enforcement. What process is described and how will the government go about a faster rate? Essential details on specific actions are missing. It seems like the policies are simply proposed but will be unlikely to be seriously implemented.

This is the case because the government is aware that it will reduce its sphere of influence and open up the political system if policies are successfully implemented. Policies that educate and encourage the population “to depend more on its own initiative and less on the government risks unleash [ing] forces that the regime fears it may not able to contain.”<sup>56</sup> The dilemma of the Saudi government is apparent. It can follow through with the enforcement of proposed policies and lose

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<sup>48</sup> Bernard Haykel et al., *Saudi Arabia in Transition*, 101.

<sup>49</sup> Ibid. 28.

<sup>50</sup> Ibid. 75.

<sup>51</sup> “Saudi Arabia: Long-Term Strategy 2025” 34.

<sup>52</sup> Ibid. 44.

<sup>53</sup> Aramco is a Saudi oil company with the largest oil reserves in the world and is 100 % government owned.

<sup>54</sup> “Saudi Arabia: Long-Term Strategy 2025” 39.

<sup>55</sup> Ibid. 42.

<sup>56</sup> House, *On Saudi Arabia*, 178.

influence on its population, or continue on its current path of tight government control and possibly face instability in the future.

## FUTURE OF ECONOMIC DIVERSIFICATION

Having pinpointed several challenges of a successful economic diversification in Saudi Arabia, one might wonder if a fundamental change in the future is possible after all. The IMF argues that “success or failure appears to depend on implementing appropriate policies well ahead of the decline in oil revenues.”<sup>57</sup> As the three aforementioned challenges exemplify, policy implementations may continue to fail. Additionally, there have been only a few cases in history of successful diversification through adjusted policies: Indonesia, Malaysia and Mexico.<sup>58</sup> Therefore, the question remains what other factors and solutions might contribute to a change of the economic sector.

First, a revolution or regime change can result in a diversified economy. As mentioned by Haykel et al., the current monarchy heavily relies on the oil sector. The collected revenues are used to fund public infrastructure (hospitals, universities, etc.) and provide social services such as education, water and health.<sup>59</sup> A revolution could lead to a government that does not use oil as regime tool to satisfy its people. Instead, newly elected leaders could use a diversified economy to create different job sectors with skilled labor. A new regime must also be appointed through fair elections to avoid incidents and tumult similar to other areas of the Middle East.

In keeping with this line of thought, the question of the likelihood of a revolution arises. As Haykel et al. argue, there has been no mobilization in the population or a weakened regime after oil prices decreased.<sup>60</sup> Therefore, even in 2016 with a low in oil prices and a state deficit, the motivations for political mobilization do not seem to exist on a large scale. So, what incentives do there need to be for political engagement of the population? It seems like Saudi nationals apply a high degree of trust into the government. Falling oil prices and the increase of state deficit did not seem to distress the people. Oddly, the regime did face political mobilization when oil prices were high: 1997-80, 1991-96, and 2001-06.<sup>61</sup> The possibility of revolution or regime change should not be exaggerated, but neither should it be dismissed. It is important for any Saudi government to follow Islamic guidelines and adapt its teachings, however it does not necessarily need a revolution, such as another Arab Spring, to use Islam as incentive for economic diversification.

In fact, a second, a more likely, factor to potentially contribute to an economic change, is the impact of Islamic teachings. For example, well-read Islamic scholars like the Wahhabi scholarly establishment, the Ulama can contribute to fundamental changes of work ethics and morals of Saudis, and to a focus on broader education. Apparently, as discussed in the literature review, Saudi Arabia shows a “lack of any work ethic among the local youth,”<sup>62</sup> yet their Islamic faith and jihad teaches them to be humble and benefit the greater society.<sup>63</sup> This lack of work ethics could be addressed by the Ulama.

Literature and resources on the process and possibility of involvement of Islamic scholars in economic change has not been analyzed in greater detail. Haykel devotes a short section on oil and the Ulama in his book, explaining that, historically, the Ulama criticized the reliance on oil and

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<sup>57</sup> Callen, Tim et al., “Economic Diversification in the GCC: Past, Present, and Future,” 5.

<sup>58</sup> Ibid.

<sup>59</sup> Bernard Haykel et al., *Saudi Arabia in Transition*, 133.

<sup>60</sup> Ibid. 15.

<sup>61</sup> Ibid. 16.

<sup>62</sup> Ali Sallam et al., “Where is Saudi Arabian Society heading?” 145.

<sup>63</sup> *The Holy Qur'an: Arabic Text and English Translation*, transl. Maulawi Sher 'Ali (Islamabad: Islam International Publications LTD, 2004), 54, 143, 176, 362, and 491, accessed May 9, 2016,

[https://books.google.com/books?id=8hCktJb64WIC&printsec=frontcover&source=gbs\\_ge\\_summary\\_r&cad=0#v=onepage&q=humble&f=false](https://books.google.com/books?id=8hCktJb64WIC&printsec=frontcover&source=gbs_ge_summary_r&cad=0#v=onepage&q=humble&f=false)

foreign influence.<sup>64</sup> Only over time have scholars accepted oil as the future of Saudi life, which granted them “[and] employed [them] in a number of institutions such as government ministries, universities, and missionary organizations”<sup>65</sup> to increase influence in social, religious, and educational spheres. Since the Ulama has a voice on many state matters and is “directly involved in government,”<sup>66</sup> it has the potential to promote greater diversification, especially in the educational sector. Just as the opening of KAUST symbolizes the importance of intellectual achievements on behalf of Islam, the Ulama could refer to Islamic intellectual roots before the oil. To return to the roots of being humble and drive towards achievements, the lack of work ethic would need to be reformed. Young people need incentives and motivations to work as part of their nation. A greater activism of Islamic scholars and continued education and training can bring what Ali Sallam called “a new religious culture:”<sup>67</sup> a culture that emphasizes erudite work and education in contrast to relying on the wealth of the oil sector.

Third, a change is possible if the Saudi government as well as the Saudi population undergo a fundamental mindset. This is not to say, that the country should adapt to Western standards. Modernization does not mean Westernization.<sup>68</sup> What should change for increased diversification is the understanding that citizens must participate in the national workforce to continue economic development. As for now, the government can rely on its oil revenue and pay subsidies and military expenses and avoid tax collection. But eventually, oil revenue will no longer provide for stability. Some challenges need to be resolved to prolong the Al-Saud rule.

All factors and possibilities—a regime change, religious revolution or change in mindset—will not happen overnight, but, instead, will take years or even decades. Bassam argues that Saudi Arabia has “a long road ahead before the (...) economy can be considered a diversified economy.”<sup>69</sup> The recommended research question for further analysis is how much time the country has before oil becomes a scarce resource. Some might argue it will never cease since humankind will find substitutes or a way to produce petroleum. Should the government gamble as a rentier state or diversify its economy “just in case” the world runs out of oil? And if the world does not run out of oil, what other factors can challenge the stability that comes from a sole income resource? The increase in technology, access to Internet, and exchange of information, for example, can account for more instability for the ruling Al Saud family.

## CONCLUSION

Analyzing the challenges, yet also the possibilities, of diversifying the Saudi economy, results in one major conclusion: Saudi Arabia must initiate a change from within to produce economic development that will benefit generations to come. Former economic crises in the country have not seen political mobilization,<sup>70</sup> however, that does not mean that it will not lead to one in the future should oil revenues come to a halt. It would be a risk of the Saudi government to rely solely on a continued, momentarily strong, oil market. The long-term interests of the country are in all likelihood better served through science, development, technology, and diversification. A reliable, measurable plan to implement policies and overcome the challenges is necessary to achieve the vision of the Saudi economy:

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<sup>64</sup> Bernard Haykel et al., *Saudi Arabia in Transition*, 130.

<sup>65</sup> *Ibid.*, 131.

<sup>66</sup> Ali Sallam et al., “Where is Saudi Arabian Society heading?” 144.

<sup>67</sup> *Ibid.* 146.

<sup>68</sup> House, *On Saudi Arabia*, 256.

<sup>69</sup> Albassam, “Economic diversification in Saudi Arabia,” 116.

<sup>70</sup> Bernard Haykel et al., *Saudi Arabia in Transition*, 29.

“By the will of Allah, the Saudi economy in 2025 will be a more diversified, prosperous, private-sector driven economy, providing rewarding job opportunities, quality education, excellent health care and necessary skills to ensure the well-being of all citizens while safeguarding Islamic values and the Kingdom’s cultural heritage.”<sup>71</sup>

In June 2016, the government introduced its policies of the Vision 2030, accessible to the public.<sup>72</sup> The implementation of these policies, however will only be successful if the outlined challenges are addressed efficiently.

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<sup>71</sup>“Saudi Arabia: Long-Term Strategy 2025”, 4.

<sup>72</sup> *Vision 2030*, Kingdom of Saudi Arabia, 2016.