Development Policies in Saudi Arabia
Challenges and Opportunities
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Executive Summary

This report explores the various economic development strategies and paradigms implemented by the Saudi state since the 1970s to encourage economic growth, stability, and diversification. Over the past several decades, the Kingdom has achieved remarkable gains in infrastructure and industry, particularly due to large-scale investments in hydrocarbons and downstream production. However, the country’s youth remain disenfranchised and largely have not benefited from the accumulation of oil wealth. As the inclusion of youth in the economy is vital for the nation’s political, economic, and social stability, Saudi Arabia faces an acute imperative to address the underlying factors stifling youth engagement and reimagine previous development theories.

Currently, two alternate economic visions compete for ascendancy in the Kingdom. The first vision urges Saudi Arabia to take advantage of its low oil cost and technical expertise to further expand petrochemical production downstream from oil, increasing investment in industries such as plastics. The second vision advocates instead for rapid diversification of the economy away from oil and into less volatile and more sustainable sectors such as tourism and entertainment.

Through historical analysis of dominant development strategies, this report analyses Saudi Arabia's past approaches to economic development in context:

- **First Saudi Arabia established tariffs and import quotas - a strategy commonly known as “import-substitution industrialization” - to promote a domestic manufacturing base.**

  Under the leadership of King Faisal, Saudi Arabia briefly pursued this strategy in the early 1970s. However, the political and economic conditions of Saudi Arabia – notably the political opposition of wealthy Saudi merchant families that were traditionally entitled to monopolies on imports – made this approach unworkable.
• Next Saudi Arabia attempted to drive industrialization through exports to foreign countries.

This approach was based on the growth trajectory of several economies in Asia, which underwent successful industrialization in the 1970s. However, this model also failed to work in Saudi Arabia, owing to the lower quality and higher price point of Saudi exports compared to their Asian rivals.

• Finally the Saudi leadership pursued a unique approach to economic development consistent with its conditions.

After the failure of import substitution and export-led growth, the Saudi state pursued a unique industrialization strategy based on the state’s natural advantage in oil production and downstream development. Because of Saudi Arabia’s comparative advantage in petroleum extraction, it pursued development in the petrochemical industry, such as the manufacturing of plastics.

Of the three economic approaches, the third has been the most successful, although Saudi Arabia continues to face significant economic challenges. The report considers several of these challenges in greater detail:

• Unemployment, particularly youth unemployment, remains very high.

Of the three economic approaches, the third has been the most successful, although Saudi Arabia continues to face significant economic challenges. The report considers several of these challenges in greater detail:

• State-run monopolies are run inefficiently and serve as an obstacle to economic liberalization.

Large and well-connected merchant families have become entrenched within the Saudi economy, operating large state-owned enterprises and discouraging innovation. Many of these families have political connections to the ruling Al-Saud family, making them difficult to dislodge or compete against.

• Corruption remains endemic.

Saudi Arabia has recently made several well-publicized and somewhat successful attempts to crack down on corruption, notably the Ritz-Carlton incident in 2018. However, there is evidence that it persists, particularly within the military and civil contracts.
Finally, the report evaluates the present approaches of the kingdom to economic development, particularly under the leadership of Crown Prince Mohammed bin Salman (MbS). Rather than establishing the “correct” way to pursue industrialization, the report charts a compromise between alternative development theories, recognizing both the need for further investment in downstream oil production and the necessity for economic diversification. Without firmly committing to one development vision or the other, the report makes several recommendations to increase overall efficiency:

- **In light of the COVID-19 pandemic, Saudi Arabia should pursue fewer high-profile “moonshot” projects such as NEOM and focus on smaller, less expensive projects with immediate benefits.**

- **Saudi leadership should continue economic liberalization and encourage entrepreneurship among young, tech-skilled Saudis.**

- **Social liberalization should be continued, encouraging women's rights and freedom of expression - as both of these will result in greater innovation and, therefore, economic gain.**
Visitors to Saudi Arabia will notice that the Kingdom's infrastructure is among the best in the world. The roads are excellent, the airports are constantly being upgraded, and the harbors are increasingly efficient. The electrical grid is superb despite constantly growing demand. Furthermore, although it is one of the driest countries on earth, Saudi Arabia has managed to ensure a reliable water supply. It is even more remarkable considering that this infrastructure was almost nonexistent at the country's founding. Most impressively, this progress in infrastructure development occurred concurrently with a vastly increasing population. In 1974, the Saudi population was roughly 4 million; today, it surpasses 32 million[1].

This growth was not accidental, but instead has been shepherded by the Kingdom's leadership and its civil servants since 1970. However, these improvements have not satisfied the country's Internet-savvy youth. While growth has been substantial and remarkable, it has not always benefited the majority of young people, who have thus far failed to profit from the Kingdom's accumulated wealth.

In 2015, King Salman succeeded King Abdullah and immediately began to increase the focus on the economic welfare of Saudi citizens. Mohammed, his youngest son, assumed the position of Crown Prince in 2017. King Salman allowed him to exercise unrestrained power to achieve radical societal change. Ultimately, the King and Crown Prince aspired to spark a widespread economic revolution, making the country less reliant on hydrocarbon production.

Naturally, most of the present industrial growth in Saudi Arabia occurred downstream[2] from oil and gas. As the nation has the lowest cost of production on earth, oil and gas constitute a major natural advantage. Downstream development in chemicals, metals, or fertilizers adds significant value to the carbon molecules from crude oil and natural gas. This development could make Saudi Arabia into an important industrial power, while maintaining a fundamental link to hydrocarbons. This added value approach to hydrocarbons has been the basic development model of the Kingdom since the mid-1980s.
However, although economic growth has been outstanding on the whole, it has largely failed to include youth for five main reasons:

1. Increases in the price of oil, combined with Saudi Arabia’s low cost of extraction, have made downstream investments appear expensive for comparatively little return.

2. The growth in the kingdom, especially in the service industries, has been outsourced to foreign migrant labor, displacing Saudi youth.

3. Neither companies nor individuals, except for Saudi Aramco, pay an income tax. Only lately has a modest value-added tax been instituted. Citizens and corporations have benefited enormously from domestic oil wealth but have not had to contribute to the government. Instead, the state has remained dependent on Saudi Aramco for 85% of its revenue.

4. Until a few years ago, the Kingdom protected merchants by allowing them a virtual monopoly on the brands they represented. This discouraged entrepreneurship.

5. Corruption in some segments of society limited competition for large government expenditures.

As many youth have failed to benefit from the opportunities offered by oil wealth, consultants and advisers to the Crown Prince drafted plans to establish new industries unrelated to oil. These plans aspired to bypass the five problems mentioned, creating entrepreneurship while modernizing and diversifying the kingdom’s economy. Tourism, information technology (IT), mining, and military industries are now greatly favored.

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Both approaches to development require huge investments and compete for resources, which are large but nevertheless finite. Currently, the Crown Prince’s vision of non-hydrocarbon development is garnering most of the state’s attention and resources. However, many in the Kingdom believe that development centered on the Saudi natural advantage of low-cost carbon molecules may be more feasible, especially given the challenges precipitated by the COVID-19 pandemic.
A compromise between these two visions could push the Kingdom forward. Downstream growth in oil and gas production and efforts to make the Kingdom into an industrial giant could succeed, provided the five points previously limiting downstream growth are addressed. Whatever one thinks of MbS, he has unquestionably succeeded in limiting corruption and further opening the economic system to youth. Taxes are now imposed to diversify the State’s sources of income. Furthermore, merchant monopolies were de facto canceled when the Kingdom joined the World Trade Organization (WTO) in 2007. The March 2020 oil price war, associated with the cratering of demand due to Covid-19, will keep the price of oil low for some time to come.

Thus, for the foreseeable future, oil production is less likely to crowd out the development of downstream industries. The economic decline and subsequent cut in public and private project expenditures is likely to lead to a massive exit of expatriates, which may open the door for increased Saudi employment. Finally, relative social liberalization since 2017 will continue to promote the development of non-hydrocarbon sectors such as homegrown entertainment and local tourism without relying on expensive, foreign-sourced providers.
In the early 1970s, Saudi Arabia's leadership under King Faisal bin Abdulaziz decided to modernize the country. The King and important civil servants like Mohamed AbalKhail and Khalid Al Gosaibi realized that they could not exclusively rely on petroleum as a source of revenue. Consequently, they began promoting industry as an alternative. Initially, import substitution, or the replacement of foreign production with domestic production, appeared to be an attractive strategy. The Saudi Industrial Development Fund (SIDF) was established in 1974 to offer generous loans to start firms that could promote development. SIDF, with the help of Chase Manhattan Bank of the United States, began funding construction material firms, furniture factories, pipe and cement plants, and other industries.

However, the Saudi technocrats quickly realized that the kingdom would not be able to sustain a policy of full-fledged import substitution. Merchant families owed their wealth and success to importing foreign goods into the country, including TVs, cars, trucks, home appliances, electricity generating turbines, and other technology. Each merchant family had a monopoly on one or more imported brands protected by high tariffs, and therefore had a vested interest in preventing similar goods from being produced locally. Additionally, the Saudis had seen the failure of import substitution schemes, both in Latin America and more closely in Iraq and Syria, where import substitution brought the local citizenry equipment of inferior quality.
The other model of development, which saw a rapid expansion in the 1980s, was export-led growth. This model came from the rapid economic growth of Hong Kong, Taiwan, Singapore, Japan, and Korea. All of these countries managed to establish highly successful industries. However, this model was also unattainable for any of the Gulf countries (and Saudi Arabia in particular). The far Eastern model depended on a large, well-educated, plentiful, and relatively cheap workforce. Its success was largely due to an ability to sell goods to the United States. The US allowed these Asian countries to export cars and electronics with attractive trade deals, aiming to establish rich, strong Asian states to ally with the US against the communist bloc. This industrial growth in the East was partially responsible for the loss of high paying American blue-collar jobs. The destruction of the US manufacturing base was made worse when China’s economy was reformed and liberalized, adding to the further displacement of the US manufacturing base. From a foreign policy perspective, the US gained a great deal by having rich and stable political states in the Pacific, and American leadership hoped that the US could replace Asian manufacturing by becoming the main provider of technology and services to the world. This model, unfortunately, resulted in a situation where the trade deficit with China rose to over $500 billion per year, leading to present, heightening tensions between China and the United States.

For Saudi Arabia, however, there were no products that could be manufactured in the Kingdom able to compete with the Asian goods and be guaranteed special access to US consumers. Thus, the export-led growth model did not fit the needs of the Saudi state.
In the late 1970s and 1980s, the civil servants in charge of development shifted away from economic strategies of import substitution and export-led growth. Instead, they pushed for growth in areas where the Kingdom had a natural advantage. Of course, the physical natural advantage of the Arabian Peninsula is its ample supply of hydrocarbons in geological formations that can be developed at the lowest costs in the world. This access to low-cost carbon molecules allows countries like the UAE, Kuwait, and Saudi Arabia to produce crude oil at costs between $4 per barrel and $8 per barrel, the lowest on the globe. At these costs, Saudi Arabia could afford to establish large downstream industries able to compete against other refiners and plastic manufacturers worldwide.

The effort to go downstream into high value-added products created opportunities as well as barriers. Going downstream in refining, chemicals and advanced chemicals require very large amounts of capital. A modern refinery typically costs over $14 billion [such as the SATORP refinery jointly owned by Total and Saudi Aramco]. The chemical complex of SADARA located next to SATORP cost over $20 billion, and each smaller company for the SADARA products requires further investment of hundreds of millions. Critics asked why investment was necessary when Saudi Arabia could pump oil and ship it for no capital expense beyond the drilling of wells and transportation, a cost also incurred if going downstream. This conundrum was worsened as the price of oil increased in the early part of the 21st century. The incentive to create increased value for the carbon molecules downstream was made less attractive when large profits were feasible without the large infrastructure and factories needed for downstream production.

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Nevertheless, Saudi Arabia’s natural advantages could be used to gain a sustainable position in world trade and to develop its economy.
This implied that the country could establish firms that thrive on low-cost energy and carbon. Thus, early in its development process, when oil was below $20 per barrel, the Kingdom started to consider an industrial economy based on downstream productions from hydrocarbons. The chemical company SABIC was established in the late 1970s to provide added value to the natural gas produced in association with crude oil. The Kingdom established large fertilizer plants that transformed the gas into large exports of ammonia and urea. Low-cost energy also became a prime factor in the development of metal industries, primarily steel and aluminum.

SABIC, the state-controlled chemical company, rapidly grew to become a major chemical and fertilizer company. It spread its wings worldwide, acquiring companies in its field. A major acquisition by SABIC was the advanced plastic division of General Electric for $12 billion [3], which allowed it to obtain manufacturing plants, research labs, and distribution offices in 35 countries. Other acquisitions in ethylene product lines in Europe allowed SABIC to become the fifth largest chemical company in the world [and the first in terms of capitalization], in direct competition with the large German, Japanese and American conglomerates which controlled these industries.

At the same time, Saudi Aramco started to become a major refiner by using its own crude to make gasoline, diesel, naphtha for itself and exports, thereby increasing the value of its crude oil. Saudi Aramco established refineries and downstream production lines in China, Korea, and in the United States, where it owns Motiva, that country’s largest refinery. The corporation also began to invest in chemicals to increase the value of its crude oil and natural gas. For example, it established SADARA, a $20 billion investment in a joint venture with Dow Chemical, which aimed to take the naphtha produced in the Jubail refinery and develop advanced chemicals. Further, Saudi Aramco planned the development of a major industrial zone next to SADARA called Plastchem. The area was established to provide the lowest cost feedstocks out of the chemical plant to produce advanced chemicals for export and local use. Ultimately, the productions of these plants are four times removed from the actual production of crude. Thus, they provide very high value added to the carbon molecules and require very little crude oil.

For example, a carbon molecule is extracted from the ground in the form of crude oil, then refined into numerous liquids including naphtha. The naphtha is transformed into ethylene, propylene, benzene, toluene, etc., which can be transformed into sophisticated polymers and advanced chemicals to be exported worldwide or made into products locally. Some of these products can be very chemically advanced [4], such as isocyanates, which are mixed with polyols [5] from refining lines to make urethanes. The urethanes are then used to make insulating foams, hard floor surfaces, ultra-strong plastic sheets, and other widely-used products. By the time the urethane is used, the value of the oil base relative to other components is extremely small. Most of the value in the product is derived from its high engineering content and large capital usage.
Additionally, low-cost energy helped the country to develop its mining industry. It developed an advanced fertilizer industry, using locally produced phosphates, sulfur, and ammonia to make 6 million tons per year of diammonium phosphate (DAP). This production took a large share of the Indian market and established a fully integrated aluminum industry, from bauxite to export of billets, at the "lowest cost" anywhere [6].

Naturally, these downstream developments created several service industries and resulting economic benefits. Further, it provided incentive to start various plants such as air conditioning, electric cables, desalinating membranes, brick and sanitary bath products, and other industries. The resulting need for water and electricity gave birth to the largest dual-purpose desalination plants in the world. Additionally, a portion of the brine produced in this process can be used to produce chlorine and caustic soda used locally in water treatment and aluminum production.
Employment

Despite the great success of Saudi industrial growth, it has been difficult for the Kingdom to limit unemployment, especially among youth. Furthermore, with 50% of the population below the age of 20, this unemployment is an intrinsic threat to the state's stability. The leadership has tried to placate its population by providing high quality services, opening the country, and ensuring a standard of living comparable to most Western countries. This was achieved by allowing all services, private sector, and local manufacturing to be filled by low-cost labor imported from the Indian subcontinent, the Philippines, Thailand, or Africa. As such, this labor provided high value at a low cost.

On the other hand, the plentiful access to low-cost quality labor made the private sector unmotivated and financially unable to hire and train Saudis. A common example is the truck driving industry. In the 1970s, all truck drivers were Saudis. Today, most truck drivers are Asian. A young Saudi would likely not consider accepting a blue-collar job unless it paid enough for him to feed his family. A Saudi truck driver would likely require about $40,000 per year, while Asian drivers work for a quarter of this price.

In defense of the Saudi private sector, it is normal for contractors and industrialists to seek to minimize their labor costs in order to provide the best prices and compete for business, especially when the cost of labor is a major component of costs. In advanced manufacturing, where labor costs are only a fraction of the final cost of the products, companies could more easily afford to hire Saudis. This partially explains why companies like Saudi Aramco and SABIC are staffed with over 85% Saudis, while the service-providing private sector is over 90% staffed by foreign workers.

The state has tried to remedy this situation by establishing rules to make the cost of foreign labor more comparable to the labor costs of local employees. However, the Saudization of the workforce is still a long way away. No one wants to see services become much more expensive and perhaps of lesser quality, not even the young Saudis who would benefit the most from the Saudization. Still, the transformation is taking place.

“Saudization of the workforce is still a long way away. No one wants to see services become much more expensive and perhaps of lesser quality, not even the young Saudis who would benefit the most from the Saudization.”
Still, the transformation is taking place. Predominantly, young male and female Saudis staff in hotels, shops and restaurants. Saudis almost entirely comprise the staff of banks and finance companies and are increasing in the service industry. Nevertheless, there are still ten million foreign workers in the Kingdom.

Although many are leaving, over 12% unemployment persists. The reliance on low-cost foreign workers has made it difficult for the economy to offer opportunities at living wages to Saudis. It is likely that complete Saudization will take many years to achieve.
Monopolies

Another issue that has hampered development and the employment of locals has been the quasi-monopolies provided to the merchant classes. Until Saudi Arabia was accepted in the WTO, all goods and services imported into the Kingdom had to be offered by a local agent. This agent was guaranteed complete control over the foreign product. Further, the foreign exporter could never replace his agent regardless of the agent’s performance. Since most goods have historically been imported into Saudi Arabia, this system gave birth to a very wealthy merchant class. There was little incentive for young Saudis to compete with their elders to offer better services to foreign companies, or to import goods directly in competition with the existing monopolies. It was even less likely that young Saudi entrepreneurs would set up factories to produce goods competing with well-established monopolies. Fundamentally, entrepreneurship was stifled.
A factor that further limited the growth of entrepreneurship is the endemic corruption in certain sectors of the economy. While by and large corruption appears to have been very limited in the running of the civil service and the major civil contracts, it seems that some parts of the military expenses, or contracts for the main religious sites, were provided with minimal or no competition. Thus, they were opened to corrupt practices, especially from some members of the royal family and associated business people, who could influence procurement. This practice was severely curtailed after the well-publicized Ritz Carlton episode of late 2018, when many princes and elites were forced to disgorge a large amount of their wealth. Anecdotal evidence suggests that the Ritz-Carlton incident was quite popular among younger Saudis, who saw this as a way to stop corruption and open the possibility for competition among businesses.

In 2014, as the Kingdom's large cash reserves increased to more than $730 billion [7], it became tempting to invest in projects totally unrelated to oil and gas. Instead of relying on the industries downstream from oil, the notion that the natural advantage of Saudi Arabia is import substitution became prominent. The Vision 2030 plan, established by MbS, relies on the wealth earned from oil to move the country away from oil revenues. As Saudi youth are exceptionally tech-savvy, it makes sense for the Crown Prince to push for growth unrelated to oil, ultimately striving to replace oil as the mainstay of the Saudi economy.

On the other hand, more "old-fashioned" development planners want to grow the kingdom's economy in industries which rely on the country's natural advantage in carbon molecules. The plans presented by Khalid Al Falih when he was Minister of Energy and Chair of Saudi Aramco put a great deal of emphasis on making Saudi Aramco more like an international oil company (IOC). Consequently, Saudi Aramco greatly increased its investments in natural gas, downstream refining, and highly advanced chemicals.

The plans presented to develop downstream production further were accepted by MbS at a time when Saudi Aramco was preparing to be privatized. Development by Saudi Aramco in the chemical industry, advanced refining, and natural gas were in line with the strategies of international oil companies, like Shell, ExxonMobil, BP
or Total. It allows them to multiply the value of earnings up to twenty-fold. The downstream industrial plans gave Saudi Aramco a value of $2 trillion, which MbS was seeking. Unfortunately, the amount of capital needed for Saudi Aramco to operate like an IOC was around $100 billion, too much for MbS and his advisers. They may have felt that this investment would have taken too much funding away from the capital needed by the Public Investment Fund to invest in non-oil industries.

Of course, as noted by the more conservative, old-line developing experts, downstream production has many advantages. Refining gives Saudi Aramco a use for its crude oil. It creates a base load of demand, regardless of the world markets for the product. As such, Saudi Aramco, which has a global capacity for refining of 5.6 million barrels per day [8], was planning to increase overall production to about 10 million bpd [9]. The increase in refining capacity was to take place mainly overseas, in places like India, China, and Indonesia. Aramco planned to use the production for sales of gasoline and diesel fuel in the local markets and for the use of naphtha for downstream production of chemicals. In the Kingdom itself, the company was planning to expand its refining power and move into more value-added production by improving its refining of the "bottom of the barrel", low value fuel oil [10]. Again, the chemical companies linked to Saudi Aramco were slated to use more naphtha, leaving natural gas for the generation of electricity and desalination.

At the same time, Saudi Aramco has closed on its acquisition of SABIC for $69 billion. This merger will allow Saudi Arabia to become a giant in chemicals and fertilizers. Saudi Aramco has thus far depended on technology and engineering from foreign firms like Dow Chemicals and Sumitomo. With the acquisition of SABIC, it would be able to develop advanced chemicals with Saudi-owned technology.

Production from the chemical plants is increasingly used by chemical transformers closely located to the plants of SABIC, SADARA and PetroRabigh. The proximity makes these plants quasi on-line with the chemical productions of these three companies, making investments by local and foreign chemical transformers very efficient and able to compete in the world markets.

As discussed, development based on adding value to hydrocarbons is extremely capital-intensive and does not employ many people. Multiple firms invested in the industrial sites of Jubail, Yanbu, and Plastchem benefit from the efficiency of being located next to a supplier of the lowest cost feedstock like ethylene, MDI, propylene, ammonia, etc. However, these firms hired mainly expatriates. In a sense, these industries are failures as they have not benefited young, unemployed Saudis. In the near future, the smaller transformers of these feedstocks will hire thousands of employees to create products for exports to the Far East and South
Asia and for local Gulf markets. Like today, they will be tempted to hire lower cost expatriates to remain competitive in world markets. Thus, the major issue is ensuring that the newly-established chemical producers hire mainly Saudis. All of the new, advanced chemical companies can be expected to require the extensive use of service industries. Thus, all should aim to train and employ Saudis. Ultimately, the employment of Saudis vs. expatriate workers comes down to a question of salaries and productivity. The state has already invested a great deal in advanced engineering universities and research centers. Additionally, it has many technical and vocational schools. If local and foreign investors take advantage of the state’s facilities and provide more training and larger salaries for local employees, it will establish a base of employment that is stable for the overall economy.

The present policies to limit the use of foreign laborers, such as the Nitakat Saudization program and its various iterations, are beginning to make a dent in the number of foreigners in the Kingdom, albeit very slowly. More drastic rules on migration should be defined by the government, bearing in mind that a massive reduction in the number of visas for foreign workers has been strongly opposed by merchants and industrialists alike.
MbS and his government published detailed plans to modernize governance and move the country away from its dependence on oil. Vision 2030 and the National Transformation Plan were presented with great fanfare. The plans emphasized growth in Industries unrelated to oil; in particular, tourism and entertainment were seen as areas for growth. Undoubtedly, many unemployed Saudi youths could find jobs in a growing tourism industry. These industries could absorb large numbers of graduates, who leave school with degrees in communication, business, or social studies. By the same token, entertainment industries like cinema, plastic arts, music, and publishing offer a great deal of opportunities. Previously, Saudi Arabia had no movie theaters, only underground movie makers and very limited opportunities for most of the arts. MbS and King Salman’s suppression of the more extremist views of religion opened society to the arts, movies, and concerts from all over the world, and the Saudi youth flocked to these new possibilities.

The perceived potential of the tourism industry was also pushed by demonstrating to the Saudi public and the world that Saudi Arabia could be a “destination” for visitors both local and foreign. Undoubtedly, Saudi Arabia is home to some remarkable sites. Large portions of the Red Sea shore are unspoiled and beautiful, and the desert is superb and includes archeological sites of great rarity. The rebirth of the old capital city of Durayah near Riyadh, which recently opened to visitors, is very impressive and will appeal to many tourists. On the other hand, nature in the Kingdom can be quite hostile. Summers are long and extremely hot and are expected to become hotter as climate change continues. Compared to other tourist destinations like Thailand, Mexico, the US, or Western Europe, mass tourism is unlikely to take hold.

Plans have included the development of a major technical city, a kind of regional Silicon Valley in the North part of the Red Sea Gulf. Neom, the technical city, was presented with great hoopla as the city of the future managed in part by robots and powered by the largest solar plant in the world. The city was advertised as providing a haven for research and development of the future IT of the world as well as for tourism. The cost was estimated at $500 billion. Amwala, a city further South on the Red Sea shore, is slated to provide high luxury villas to wealthy visitors from all over the world, including Saudis who normally travel overseas for their holidays. This development, again, would cost tens of billions. Another city is planned for tourists near the Maidan Saleh archeological sites to attract interested global tourists. In the area of tourism, Saudi Arabia has one clear advantage: it is well-versed in
handling large numbers of visitors. Two million pilgrims visit Mecca and Medina for the Hajj every year within a one-month period. The pilgrimage is the largest in the world, and is handled very professionally by Saudi Arabia. However, the Hajj is not mass tourism. Saudi Arabia has a natural advantage in having the holy cities of Mecca and Medina on its territory.

This guarantees millions of visitors during the Hajj and the Umrah pilgrimages, but only for Mecca and Medina. On the other hand, visitors to Maidan Saleh, Amwala, or the planned entertainment parks near Riyadh, can choose to go to a wide variety of places. Mecca will always have visitors, while Maidan Saleh, Amwala, or Neom may not.

Furthermore, the investments required for “non-religious” tourist destinations may be designed and managed by large international groups, who will likely charge a great deal for their efforts. Saudi Arabia has had some local destinations for family entertainment for many years, built mainly with local private funds. The new state-promoted amusement parks will compete with the large existing amusement parks built and managed by private Saudi companies that cater to the local population. Unlike the state-sponsored parks, private destinations do not depend on mass tourism by foreign visitors, who may or may not come after COVID-19.

Similarly, the industrial development in Neom will be provided by Western companies that will require large cash outlays to create their own competition on the Red Sea. Neom seeks to establish a new Saudi IT industry from scratch, which will have to compete with much more advanced companies in China, Japan, and the United States. Bringing very advanced IT to Neom appears to be a modern “import substitution” plan, like the ones that failed in Latin America in the 1950s and 1960s. The return on capital stands to be mostly negative for many years, with the possibility that many billions will be wasted.

The Public Investment Fund (PIF) is the main promoter of diversification away from oil into a modern economy based on IT and tourism. PIF is investing in all manner of tech companies, tourism, and finance, including SoftBank’s VisionFund from Japan, which is investing in the “new” economy. PIF seems to believe that the Kingdom must grow in areas unrelated to hydrocarbons, whatever the cost, be ready for a de-carbonized future, and provide jobs for Saudis in the industries of the future.

Some of the partners brought in by the PIF have been less than impressive. SoftBank is barely staying afloat after large losses in the “new economy” in which it invested. Lately, PIF has received an influx of $40 billion to invest in distressed companies, such as Carnival Cruises, airlines, and tourism companies. A very aggressive private hedge fund could do this kind of investment. However, the diversion of funds from the Kingdom’s nest egg for speculative ventures in the name of diversification raises serious questions.
The Compromise

Both the proponents of the traditional carbon-based natural advantage development and those promoting carbon-free development have visions that require the investment of hundreds of billions. However, the present global tragedy of COVID-19 has blocked either vision from taking place. The virus has shut down a large segment of the Saudi economy, severely cut the oil income of the country, and cost the Saudi treasury a great deal of its cash reserves. Therefore, the leadership now must focus on eliminating large “moonshot” plans that are risky and potentially less rewarding. Hence, one can expect the development of Neom, Amwala, and large entertainment centers to be delayed. Instead, less exciting but surer investments in chemicals, metals, fertilizers and related services will grow.

Vision 2030 includes plans to expand the economy in fields outside of entertainment and tourism. It also includes emphasis on mining, which requires extensive research into the mineral resources of the Kingdom, such as rare earths, potash, and copper. These mining products can be taken downstream to manufacture products and fertilizers, with high-value employment for the Saudis. This goal implies a major effort in helping the already-strong research universities and centers of the Kingdom to multiply their activities.

The growth of the more traditional industrial approach is aided by the changes that MBS has forced on society, which makes their acceptance more feasible. His seminal contributions have focused on allowing women to enter the workforce more easily. He has arranged for women to be allowed to mix with men in the work environment. Further, he has reined in most of the corruption and culture of influence peddling in the Kingdom. In 2007, King Abdullah had already arranged for the Kingdom to access the World Trade Organization, which gave the economy the possibility of growing away from traditional monopolies. However, King Abdullah was unable to implement the changes portended by WTO. Now, with MbS in charge, the youth of the Kingdom feel empowered to grow the economy by themselves.
Major funds are being made available to entrepreneurs and new industries are appearing.

Additionally, new laws have been implemented to encourage entrepreneurship. A bankruptcy law has been drafted and adopted, allowing entrepreneurs to take risks more easily. PIF has established some venture capital funds. The governance of the country has become much less bureaucratic and is more advanced in its digitalization.

Thanks to the modern societal vision of MbS and his government, the traditional industrial growth in carbon-based advanced industries will also provide incentive for an entertainment industry to develop on its own, not as an outgrowth of Hollywood, but as a homegrown service industry for the people of Saudi Arabia. This industry may not need large investment by the PIF into large Western companies to grow on its own. Young Saudis already make movies, create impressive art, and offer music to the whole Arab world. Hollywood-type entertainment may only slow down local creativity while draining cash reserves.

In short, emphasizing industrial growth would bring a solid base to the local entrepreneurs in all services, including the arts, local tourism, and locally developed IT companies and services. The present leadership has changed society in the Kingdom. Citizens will now accept the changes it takes to become a successful modern industrial state, based on its natural advantages.

[2] By Downstream, I mean all activities that take place using oil and gas primary products to transform the carbon molecules obtained from the oil and gas to make refined products like gasoline or diesel, and further down the chain by producing petrochemicals like Ethylene, Propylene, Methanol, Benzene, Toluene. Furthermore, downstream will also refer to taking these chemicals to make more advanced chemical and/or plastics. Downstream assumes that value is added by the transformation of the carbon molecules.


[5] Polyol is short for polyether polyols and is made from ethylene oxide and propylene oxide.


[9] Statement by Amin Nasser in 2019

[10] Interview with high ranking officials at Saudi Aramco in January 2018