



VISION 2030, SAUDI ECONOMY AND COVID-19: AN ASSESSMENT

By
Arhama Siddiq
Research Fellow

Centre for Middle East & Africa (CMEA), ISSI

Edited by
Najam Rafique

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)

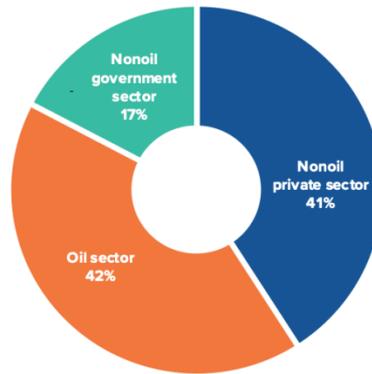


The COVID-19 pandemic has had an evident bearing on Saudi Arabia's economy. The amalgamation of low oil prices and lockdown measures has led to interruptions in many economic sectors, an increase in fiscal deficit and a decline in growth prospects that are expected to amend government obligations towards Vision 2030.

Oil is the leading element that has molded the modern Saudi state and transformed it into a major regional authority. The discovery of black gold in Saudi Arabia in 1938 and its merchandising after World War II, helped fuel a growing Saudi economy. The petroleum sector accounts for 90% of export income, 87% of budget revenues, and 42% of GDP.¹

The figure below shows Quarterly GDP at Constant Prices for the period 2010-2019 and the contribution of private, oil and government sectors to GDP by share.

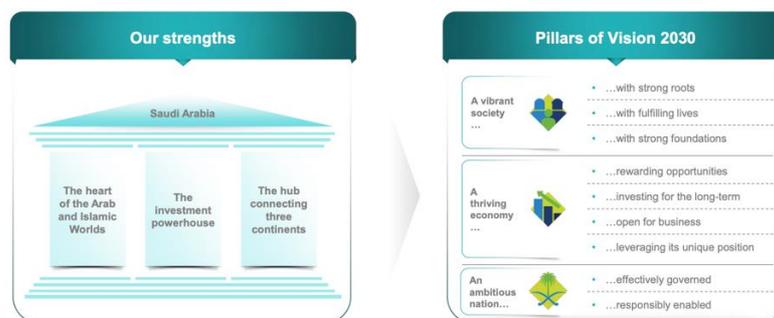
¹ "Saudi Arabia," *CIA World Factbook*. <https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html>



Source: General Authority for Statistics (Saudi Arabia)²

Saudi Vision 2030: A Snapshot

In the backdrop of the collapse of oil prices, King Salman bin Abdulaziz Al Saud and his son Mohammed bin Salman Al Saud (now de-facto ruler), developed a reform plan which they disclosed in 2016. Saudi Vision 2030 builds upon three apparent comparative strengths of Saudi Arabia, namely: the country's principal role in the Islamic world as guardian of the Holy Mosques in Makkah and Medina; monetary strength as a prospective investment center and its geographical position at the crossroads of three continents.



Source: Strategic Objectives and Vision Realization Programs, KSA Vision 2030³

Vision 2030 is to be accomplished through thirteen Vision Realization Programs (VRP) each of which is responsible for creating a strategy and set of projects across a number of the ninety-six strategic objectives. The VRPs include the following: Quality of Life Program, Financial Sector Development Program, Housing Program, Fiscal Balance Program, National Transformation Program, Public Investment Fund Program, Privatization Program, National Companies Promotion Program, National

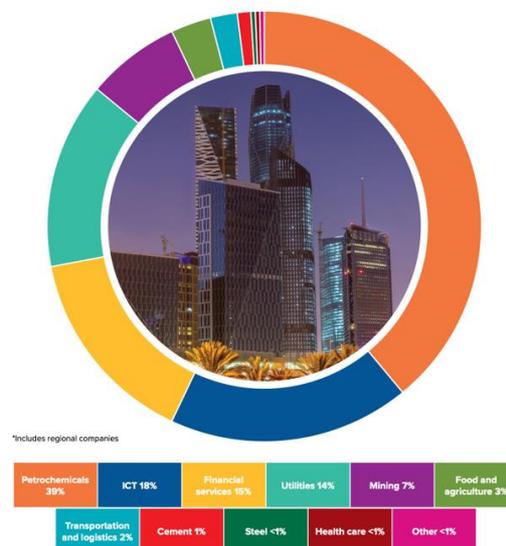
² General Authority for Statistics (Saudi Arabia). <https://www.stats.gov.sa/en/823>

³ Strategic Objectives and Vision Realization Programs, KSA Vision 2030. <https://vision2030.gov.sa/sites/default/files/report/Vision%20Realization%20Programs%20Overview.pdf>

Industrial Development and Logistics Program, Strategic Partnerships Program, Hajj and Umrah Program, Human Capital Development Program and Saudi Character Enrichment Program.⁴

In essence, Saudi Vision 2030, premises on neoliberalism. Among other initiatives, it focuses on privatizing sectors and raising non-oil revenues. Other elements of the vision include increasing the participation of Saudis into the workforce, cultivating role of women in all spheres, attracting Foreign Direct Investment (FDI), and expanding local manufacturing of Saudi defense equipment.

Areas which the Saudi leadership consider promising include mineral excavation, petrochemical products, manufacturing industry including retail and wholesale trade, non-religious tourism, health services, finance, and construction. The figure below shows the Direct Public Investment Fund (PIF) investments in Saudi Companies from 2018–2020.



Source: Atlantic Council⁵

Saudi Economy after Covid-19

In March and April, Saudi foreign reserves declined by \$48.6 billion to \$448.6 billion, which are the lowest they have fallen in 19 years.⁶ In the first quarter of 2020, Saudi Aramco, the world's largest public enterprise, witnessed a decrease of 25% in net income.⁷ The IMF has estimated the breakeven

⁴ "Vision Realization Programs," *KSA Vision 2030*. <https://vision2030.gov.sa/en/programs>

⁵ "Assessing Saudi Vision 2030, A 2020 Review," *Atlantic Council*, June 2020. <https://www.atlanticcouncil.org/wp-content/uploads/2020/06/Assessing-Saudi-Vision-2030-A-2020-review.pdf>

⁶ "Saudi foreign reserves fall at fastest for two decades," *Reuters*, April, 20, 2020. <https://www.reuters.com/article/us-saudi-budget/saudi-foreign-reserves-fall-at-fastest-for-two-decades-idUSKCN22BOW5>

⁷ "Saudi Aramco's first-quarter profit slides 25% as the collapse in oil prices bites," *CNBC*, May 12, 2020.

benchmark for Saudi oil at \$76 per barrel. At the moment, the price of Brent crude oil is \$45 per barrel. Added to this is this year's downsizing of Hajj from the usual 2.5 million pilgrims to about 1000 citizens. Religious tourism constitutes around 20% of Saudi Arabia's non-oil GDP. These challenges also come in the backdrop of the ongoing war in Yemen and constant tensions with Iran.

Data from the Saudi Arabian Monetary Authority displays that three sectors: trade, transport and construction, primarily make up the private sector (more than 60%).⁸ Trade alone employs around 2 million people and makes up almost 14% of the GDP. In view of Covid-19, many small and medium-size enterprises have had to shut down. Such business were supposed to generate 35% of GDP by 2030.⁹

This presents a dilemma for planners of economic diversification. The success of Saudi Vision 2030 requires considerable government spending as well as the ability to draw in foreign assets, predominantly in PIF mega-projects. The IMF has already predicted a reduction of 2.3% in the Saudi economy this year. Taking account of the situation, the Saudi government employed contractionary fiscal measures such as a threefold increase in the value added tax and termination of living increments for public sector employees.

How can Pakistan Benefit?

- Given that over 60% of Pakistan's population comprises of young people, Pakistan's manpower is considered an extremely valuable asset. In light of the decline of Covid-19 cases in Saudi Arabia, economic activities will resume soon. Hence, in order to prepare for this, the Government of Pakistan must train its labor force in line with Saudi needs. Specializations where demand workers will be high are engineering and medicine. The Government of Pakistan should sign a contract with their Saudi counterparts regarding this.
- Pakistan has immense experience in the sports industry. Regarding manufacturing of sports items, export of sport goods to Saudi Arabia should be explored. Moreover, Pakistan has a renowned status in cricket, hockey and squash. Keeping in mind that Vision 2030 lays special emphasis on promotion of sports, Pakistan can use this status as leverage to enter in the Saudi sports industry.

<https://www.cnn.com/2020/05/12/saudi-aramcos-profit-slides-25percent-in-the-first-quarter-as-collapse-in-oil-prices-bites.html>

⁸ "55th Annual Report," *Saudi Monetary Authority*, December 2019.

http://www.sama.gov.sa/en-US/EconomicReports/AnnualReport/Annual_Report_55th-EN.pdf

⁹ "Mohammed bin Salman's Vision 2030: Can Saudi Arabia afford it?" *Middle East Eye*, June 15, 2020. <https://www.middleeasteye.net/news/saudi-arabia-vision-2030-mbs-neom-coronavirus>

- Pakistan and Saudi Arabia already share a long history when it comes to defense ties. Building on that, the Government of Pakistan can engage in joint research and development in the defense sector and in this way help the Saudis develop their local defense industry.
- Vision 2030 aims for economic diversification - a plan which would need new markets and trade routes. In this regard, the China-Pakistan Economic Corridor (CPEC) offers a number of possibilities for trade with Central Asia, East Asia and the Far East.
- Saudi Arabia is looking to fast track its exploitation of natural resources. Keeping this in mind, Pakistan can provide services in exploitation of minerals and other natural resources other than oil.

Conclusion

In order to turn Covid-19 into a golden opportunity some key decisions need to be taken by the Saudi Government. For example, the construction of the \$500 billion mega-city, NEOM, is not realistic and needs to be abandoned. An effective upturn will require a top-down method centered around provisions for youth engagement through investments in education and organizational development. Saudi Arabia can very well convert this crisis into an opportunity, and in doing so realize their vision of becoming a modern, resilient nation.