WORLD SCENARIO SERIES

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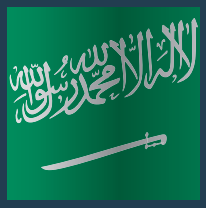
The Kingdom of Saudi Arabia and the World:

Scenarios to 2025



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Section 1 Preface

In recent years the Kingdom of Saudi Arabia (KSA) has been enjoying an economic boom and rising oil prices, registering strong nominal GDP growth since 2002 and budget surpluses since 2003. In that time, while nominal GDP has almost doubled, the government has worked to speed its development by investing in improving infrastructure, strengthening the private sector and upgrading national human resources. Alongside this economic success, a range of reforms have begun to change political consultation in the Kingdom; municipal elections were held in early 2005, and both the size and role of the Consultative Council were expanded.

However, both the KSA and the Gulf Cooperation Council (GCC) region as a whole face major political, economic, social and environmental challenges. Externally, the threat of geopolitical instability has increased, bringing the possibility of a spill-over of unresolved tensions in the region and the prospect of renewed military action by the United States of America. Similarly, a number of global economic risks threaten the KSA's position as a trading partner and participant in global markets, including heightened volatility in regional and international markets and the possibility of increasing friction in the global trading system. Internally, the KSA also faces challenges in addressing a number of social and economic imbalances, including perceived regional disparities in income and opportunity, and rising unemployment. Finally, environmental pressures such as water shortages and increasing pollution have the ability to negatively affect the quality of life in the KSA.

At the World Economic Forum, we are committed to improving the state of the world by promoting dialogue on key issues that face our members and stakeholders. To explore the long-term effects of the challenges and opportunities faced by the KSA and the GCC countries in general, the World Economic Forum developed a set of scenarios for the GCC countries covering a period of 18 years to the year 2025. These scenarios, *The GCC Countries and the World: Scenarios to 2025*, were featured at the World Economic Forum Annual Meeting 2007 in Davos and publicly launched at the World Economic Forum on the Middle East in Jordan in May 2007.

In response to continued interest in the region and individual countries within the GCC grouping, the Forum has now developed in-depth country scenarios for the Kingdom of Saudi Arabia, the Kingdom of Bahrain and the United Arab Emirates. These three sets of "deep-dive" scenarios focus on country-specific issues within the context of the regional scenarios. The resulting scenarios, including this work, *The Kingdom of Saudi Arabia and the World: Scenarios to 2025,* are designed to challenge, elicit new ideas and push the thinking of those involved in business and policy in the region. They are the joint creation of the wide range of individuals who took part in the project and as such go beyond the assumptions and perspectives held by any individual, interest group or organization. While each scenario set has been designed to be read and used on its own, reading all four publications will offer a broader understanding of the possible futures presented for both the region and individual countries.

We hope that these scenarios will spur debate and action. The decisions we make today create tomorrow – and these scenarios raise crucial questions about the strategic decisions that will shape the future of the KSA.

Sherif El Diwany
Director, Middle East Team
World Economic Forum

Introduction to scenarios

Scenarios are stories about the future – informed and provocative narratives which reflect different assumptions about how current trends and issues will play out and what new factors will come into play to create a range of different futures. Good scenarios are plausible, challenging and rigorously constructed to address the most critical questions that decision-makers need to face. The scenarios presented here were developed over a period of 18 months at workshops in Abu Dhabi, Doha, Jordan, London, Manama, New York, Riyadh, Sharm El Sheikh, and Washington D.C. They synthesize the perspectives of more than 300 leaders in business, society, government and academia from both within and outside the GCC countries who participated in workshops, interviews and scenario sessions. Although the scenarios represent 'imagined futures', they are supported by detailed economic and energy modelling provided by our research partners.

For a region as diverse as the GCC countries, no single set of scenarios can claim to describe all possible futures for the region or for any country. Each story that has emerged describes one of many different, plausible futures for the region and the Kingdom of Saudi Arabia, and does not claim to be any more or less likely than any other. Importantly, they are not predictions but rather possibilities and are intended to provoke readers, challenging their assumptions about what may happen and providing a useful shared basis for debate.

How can these scenarios be used?

Leading global companies often engage in constructing large-scale scenarios to help formulate their business and investment strategy. Specifically, scenarios:

- **Enhance the robustness of strategies** by identifying and challenging underlying assumptions and 'business-as-usual thinking' and, hence, contributing to robust and pre-emptive positioning of corporations.
- **Allow better strategic decisions** by discovering and framing uncertainties and better understanding of risks prior to making substantial, irreversible commitments.
- **Raise awareness of the external environment** by helping business communities understand the complex interplay of underlying drivers and critical uncertainties while increasing sensitivity to weak signals that precede a significant change in direction, but often go unnoticed.
- **Provide impetus for current action** by providing users with common languages and concepts for discussing current strategies across various businesses, in a non-threatening context of possible futures.
- **Increase response speed to unexpected events** by visualizing possible futures and mentally rehearsing responses, thereby raising the degree of preparedness and agility.

The World Economic Forum is an independent international organization committed to improving the state of the world by engaging leaders in partnerships to shape global, regional and industry agendas. The Forum is an impartial, not-for-profit organization and is tied to no political, partisan or national interest.

As such, the Forum is ideally positioned to convene the diverse group of individuals at an international level that is necessary to form robust scenarios. The Forum intends to use these scenarios to communicate a shared understanding of the KSA and the broader region and initiate dialogue and action at the international level.

These scenarios are not predictions or forecasts, and are intended to be discussed, challenged, updated and reviewed as time passes. We hope that the scenarios will be used widely both within and outside the Kingdom of Saudi Arabia, encouraging people from diverse backgrounds to engage in a productive discussion of their shared vision of the future.

Fiona Paua
Senior Director, Strategic Insight Teams
World Economic Forum

Section 2

Executive Summary

Section 2 Executive Summary

The Kingdom of Saudi Arabia (KSA) has benefited enormously from oil and gas reserves that have generated vast financial liquidity in the six years between 2001 and 2007. Over that period it has also increasingly opened up to the global economy, becoming a member of the World Trade Organization in December 2005. While providing the government with ample income, the KSA's resource wealth poses a challenge to the future of the country and the region which these scenarios seek to address: How can this wealth be best put to use, and ensure that the KSA both expands and distributes the benefits of development across the population, while overcoming a number of internal and external pressures that could divert it from the path of sustainable prosperity?

The focal questions for the scenarios

From amidst the many key drivers identified by project participants during the construction of both regional and country scenarios, the scenario process identified two 'focal questions' that have the ability to alter the fortunes of the GCC countries in the next two decades. These focal questions are relevant to both the GCC region in general and the KSA in particular:

- Will leaders in the KSA be able to implement the necessary economic and political reforms and enforce the rule of law, both in public and in private governance?
- Will the KSA be able to maintain internal order and stability, in particular vis-à-vis a complex and uncertain regional situation?

These focal questions represent the broad structure of the scenarios as described in the scenario matrix (Figure 2.1). However, as the scenarios were developed, a third critical question emerged as of great importance to participants: will the KSA develop an environment in which businesses and an entrepreneurial spirit can flourish, such that both local and foreign investment are sufficient to sustain real economic diversification and growth?

As important as these questions are, more crucial are the insights that can be gleaned from considering what these questions imply. In positing three possible futures which address these focal questions in different ways, two key themes consistently emerged as being crucial to the future of the KSA:

- Education and innovation: One of the KSA's key challenges is to ensure that its education system is geared toward supporting the growing private sector as a means of aiding diversification and reducing reliance on state-run industries. The scenarios demonstrate that ensuring that highly qualified Saudi workers with relevant skill sets are available in an innovative economy is crucial to the country, in reducing national unemployment and the economy's current reliance on foreign labour. In this way, education and innovation are key to the KSA capitalizing on the present oil wealth and achieving its goals of long-term economic stability.
- Leadership and governance: The evolution of the KSA's leadership and governance structures is a primary driver of the country's future, offering both a challenge and an opportunity to the government. While transparency is increasing and adherence to the rule of law has improved in recent years, there is room for far greater efficiency and openness in government structures. The scenarios indicate that this would reduce opportunities for corruption, increase the effectiveness of public programmes and mollify some critics of the government who have the ability to destabilize the nation.

Scenario paths

Three different paths for the KSA through to 2025 are represented in Figure 2.1, displayed as movements through a matrix defined by the focal questions above.

Will the KSA be able to prevent regional instability from heightening internal tensions to breaking point, while firmly establishing the rule of law and improving systems of governance through institutional reform?

Oasis is a story where the KSA invests heavily in

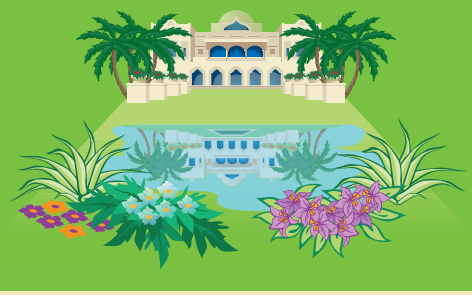
Figure 2.1 **GCC Countries and the World: Scenarios to 2025**

establishing a system of technocratic governance, while top-down institutional reforms lead the private sector to solid growth within a well-organized, cohesive and prosperous regional grouping. Incremental institutional and political reforms improve governance without creating major upheaval. However, concerns about external instability slow economic and social reforms, somewhat limiting the country's growth.

Will the KSA's rulers allow regional unrest to affect the country's internal stability, resulting in the government focusing on managing security at the expense of tough economic and social reform? ***Sandstorm*** is a scenario in which dramatic events in the surrounding region and internal unrest cause the KSA to turn inwards, focusing on managing its populations and minimizing the threat of terrorist actions. Meanwhile, the failure of reforms – coupled with decreasing oil prices – severely compromises the country's budget and economic stability.

Will the KSA succeed in taking advantage of its access to global markets in a more stable regional environment, maximizing the benefits of exposure through bold economic, political and institutional reforms? ***The Fertile Gulf*** is a future where the KSA takes the lead to promote cultural, social and political integration in the broader region, creating the premises for greater external and internal stability. This climate facilitates social and political reforms, eventually resulting in a balancing of gender roles and increased public participation, while the Kingdom plays an increasingly relevant political role within the Arab world and on the international scene.

Oasis



Regional environment

Oasis describes a scenario where regional stability continues to be a challenge for the GCC countries, which are nevertheless able to achieve substantial institutional reforms. The GCC countries develop strong identities and work together to coordinate diplomatic and economic policies through technocratic governance and a strong internal market. Over-regulation slows the process of globalization, impacting the GCC countries, which nevertheless remain an oasis of stability and prosperity in an otherwise troubled region.

The story is written as a consulting report from 2025, reviewing the results of institutional and economic reform policies in the KSA between 2009 and 2025.

Sandstorm

Regional environment

Sandstorm describes a future where regional instability is a defining factor, affecting the ability of GCC countries to effectively carry out much-needed institutional reforms. In a depressed global environment, reform efforts deflate or collapse due to a lack of attention to the root causes of internal issues and a tendency for governments to focus on short-term stability at the expense of long-term solutions. Caught in a shifting, violent environment, the GCC is blinded and unable to navigate its way out of the sandstorm and identify opportunities for prosperity for its populations.

This scenario is written as a Web forum looking at the evolution of the political, economic and social situation in Saudi Arabia from the vantage point of 2025.

The Fertile Gulf

Regional environment

The Fertile Gulf describes the rise of the GCC countries as innovation hubs in a global environment characterized by robust demand for energy and increasing globalization. Regional stability gives the GCC countries the opportunity to focus on enhancing their human capital at all levels, investing heavily in education while proceeding carefully with political and institutional reforms to support their growing economies and societies. In this way, a fertile garden of prosperity is established along the Gulf.

Written as an online publication for entrepreneurs published in 2025, ***The Fertile Gulf*** illustrates the economic, political and social situation in the country and its development.

Country-level dynamics

2007-2012: The government's industrial policy focuses on energy and transportation, while investment programmes in infrastructure, mega-city projects and public works fuel the expansion of the construction sector. Education reforms progress with an increased emphasis on technology and science. A softer oil market and increased welfare costs strain public finances. The GCC grows in influence as a grouping, with a new Economic Coordination and Development Board established to promote regional reform, including The Three Pillars Policy. Within the GCC, the KSA pushes for monetary integration and for concerted policies to contain extremism and promote stability. However, security concerns and the growing influence of Iran lead to increased military spending.

2013-2020: Improvements in education and some labour reform sustain economic growth but fail to reduce unemployment, as demographic shifts outpace private sector expansion. The KSA works with the UAE on alternative energy technologies, attempting to create a new cluster of innovation. Governance is improved through new training, standards for public officials and a commitment to transparency in government spending. This increased institutional effectiveness helps heal internal fractures. The Three Pillars Policy shows good results, as the number of public private partnerships grows rapidly, and measures of diversification and governance improve. Political reforms progress, albeit with difficulty, as the number of moderate voices increases. Increasing external unrest and nuclear proliferation in the region force the KSA to push for tighter GCC relations and stronger security provisions, investing heavily in assets for regional defence.

2021-2025: Saudi society gradually opens up. However, while average measures of quality of life show significant improvements, income disparities remain high both among social classes and regions. The economy experiences stable growth, but the Kingdom remains relatively reliant on energy despite its attempts at diversification and the government continues to look for industry policy-driven solutions. The KSA is required to balance a complex geopolitical situation, as its historical relationships with the US shift and its greater connection with China influences regional politics, including ongoing unrest in Iraq and a tense relationship with Iran.

Country-level dynamics

2007-2012: The KSA is severely affected by the US bombing of Iranian nuclear sites in 2009, which in conjunction with other unsettling events triggers a period of extreme disruption in the broader region, including terror attacks on Saudi oil fields. After a post-bombing peak, the oil price collapses as global demand plunges in a global recession, negatively affecting the KSA's flow of government funding. Market disruptions and a budget deficit halt domestic and foreign investments, causing economic hardship and public discontent. Internal stability is further shaken by terrorist attacks and bombings, and reforms are put on hold as the government attempts to deal with problems related to domestic security.

2013-2020: Under-investment in public infrastructure due to a lack of funding and a distracted government results in a utilities and services crisis, with water, energy and health services all deteriorating. The disenfranchised population is increasingly critical, while the continued failure of the government to provide satisfactory services for its people allows radical groups to gain a greater presence in society, and terrorist attacks become more common. Attempts at social and political reforms relating to education, the labour market and the role of women are hampered by radical forces and religious sensitivities. Regional tensions increase as income disparities widen and living standards are affected. Capital and skills become difficult to attract in an increasingly shaky economic and social situation and unemployment levels reach new highs.

2021-2025: Government attempts to solve the crisis are limited to reactive policies which are unable to prevent further degradation of the economic and social situation. Due to a fast-growing population and increasing pressure on the social system, the KSA is unable to meet the full needs of the population, despite a recovering oil price. Both internal and external stability suffer as a negative cycle of violence continues, and Saudi's international role is limited. Nevertheless, an increasingly vocal Saudi youth culture gives hope for the future, as the engagement of young people in online communities across the GCC offers a new platform for resolving local and regional issues.

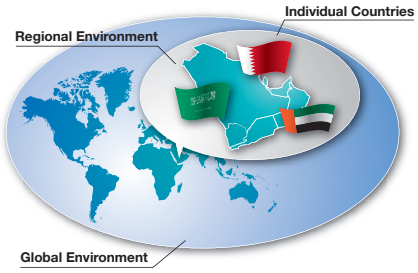
Country-level dynamics

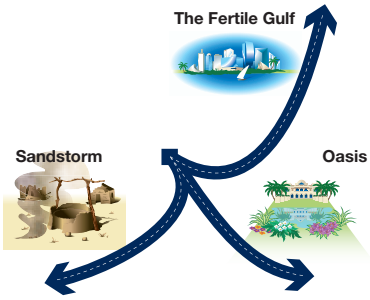
2007-2012: Recognizing the importance of leadership and the need for solutions to long-running problems, the KSA pushes for greater cultural, social and political integration in the broader region. The KSA positions itself as a regional peacemaker, increasing its engagement with surrounding countries and helping to promote greater stability in the broader region. Meanwhile, initiatives and reforms in the education and economic arenas proceed with the creation of new standards, economic cities, investment programmes, and restructuring of public utilities and services. After women receive the right to vote in municipal elections, a controversial "Women at Work" programme is announced and, after initial push-back, achieves success. As negotiations progress and security improves across the wider region, the KSA takes the lead in creating the Gulf Security Cooperation Council, a GCC-affiliated security body including Iraq and Iran.

2013-2020: Improved stability spurs the government to progressive political reform, extending elections to half the Shoura council and involving more women in important government positions. Spurring entrepreneurship is made a priority as positive effects of labour and education reforms emerge, helping the domestic investment climate and increasing FDI. Streamlined regulation aids the growth of the private sector which has increased its influence thanks to a number of high-profile regional privatizations. The tourism industry grows with a new tourist visa announced and Schengen-style integration with the other GCC countries implemented for foreign business travellers. Legal reform strengthens the judiciary and provides for a clearer set of legal procedures, including appeals and anti-discrimination legislation. Social reform improves quality of life. Saudi's real per capita growth stabilizes above 4% per annum by the end of the period as output steadily exceeds population growth with the expansion of the private sector.

2021-2025: The KSA is a dramatically different country than in 2007. Prosperity has spread from the major cities to the regions, and income distribution is more even as workforce participation and wage levels improve across the board. Civil society is highly active, complementing public initiatives. The economy has achieved its targets in both diversification and private sector growth. Financial markets, whilst still sensitive to regional events, provide sophisticated forms of financing, including a range of Islamic securities and supporting entrepreneurial ventures. Islamic institutions still feature strongly as part of government, institutional and social life. However, a more open society has emerged in the Kingdom, contributing to improvements in the quality of life and mutually reinforcing feelings of prosperity.

Figure 2.2





Global and regional environment

These scenarios were constructed within a distinct global and regional environment, drawing from existing global scenarios as well as previous regional work in the form of *The Gulf Cooperation Council (GCC) Countries and the World: Scenarios to 2025.* Figure 2.2 illustrates relationship between the three levels of scenario analysis. As a result, this publication shares the same regional and global environment as its sister publications *The Kingdom of Bahrain and the World: Scenarios to 2025* and *The United Arab Emirates and the World: Scenarios to 2025.*

Comparing the three scenarios

This table provides a comparison of some of the most important aspects of the scenarios, with more quantitative analysis presented in Section 6.

	Oasis	Sandstorm	The Fertile Gulf
Global environment	Globalization continues, tempered by security concerns. More coercive rules and regulations lead to less integration between different cultures and societies.	Security issues, domestic concerns and national focus dominate.	Heightened globalization. More cohesive societies and integrated cultures.
Economic performance	Solid economic growth is supported by robust oil prices and a focus on diversification through industry policy focusing on energy, transportation and mega-city projects. Despite strong growth, the KSA remains reliant on the energy sector and unemployment remains a problem.	Low oil prices due to a price crash in 2011 create budget and debt problems for the KSA's government. Private and non-oil sectors languish in an unfavourable regional and global environment, with the private sector struggling in a shrinking and heavily regulated domestic market.	High oil prices, strong global demand, market liberalization and significant investment in human capital and technology produce rapid GDP growth and encourage diversification. The success of the KSA's economic cities spurs regional development and acts to speed economic integration with the rest of the world.
Social development	Unbalanced development and widening income disparity means social discontent has to be increasingly managed through a reformed welfare state, helped somewhat by more effective institutions.	Significant social tensions emerge, exacerbated by the threat of terrorism, a crumbling social welfare system, worsening GDP per capita and increasing income inequality. Under-investment in education and health lowers available human capital. A strong youth counter-culture emerges despite the social and economic hardship.	The KSA sees balanced social development, characterized by increasing openness and growth in pro-active civil society organizations. The KSA's dominant social values become more liberal and open to change whilst maintaining their core principles.
External relationships	The KSA's relations with Asia and the West are driven by cohesiveness within the GCC grouping and more effective regional cooperation. Regional instability beyond the GCC remains a challenge, but is managed through stronger internal and GCC security arrangements.	The KSA continues to rely on the US for security, driven by regional conflict and reactive external relations. Divisions between GCC countries and a global economic downturn leave the KSA somewhat isolated from the rest of the world.	By taking the lead in improving broader regional security and engaging with a range of international markets, the KSA becomes a respected international player. Regional security agreements with Iran, Iraq and other key actors ensure stability throughout the Gulf.
Leadership and governance	Strong institutional governance supports the KSA's rulers. Minimal democratic reforms, despite greater consultation. Decentralized system of governance focuses on leveraging resources through efficient administration.	Leaders focus on restoring short-term stability and maintaining the status-quo of power relations. Institutional effectiveness and long-term vision neglected in light of domestic and regional tensions.	An increasingly pro-active and forward-looking leadership empowers KSA's population. Participatory governance extends gradually. Leaders focus on resolving regional tensions and creating the conditions for growth and development through market mechanisms and carefully-considered and well-enforced regulation.

Exploring the future of the Kingdom of Saudi Arabia and the World

You are about to read three stories about the future of the KSA. Boxes on selected topics have been included within the scenarios and are presented in creative formats to further illuminate the key drivers that will shape the future of the KSA, as well as provide depth to the stories. We now invite you to turn the pages, travel through time, and see for yourself what the future of the KSA and the world may be like in the next 18 years.

Section 3

Oasis

Section 3 Oasis

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Consulting report by Gulf Foresight for the Gulf Cooperation Council, 2025

An independent review of the Economic Cooperation and Development Board (ECDB) Three Pillars Policy in the Kingdom of Saudi Arabia, 2009 to 2025

Commissioned for the 16th anniversary of the Three Pillars Policy, this report by Gulf Foresight, an independent consultancy, evaluates the success of these reforms and how they have influenced the development of the Kingdom of Saudi Arabia (KSA). The report considers three primary questions:

1. *How has the KSA provided the foundation for balanced economic growth through enabling policies?*
2. *How has economic growth subsequently developed from these foundations?*
3. *What challenges has the KSA encountered in the path of this progress?*

Over the 25 years since the beginning of the 21st century, the Kingdom of Saudi Arabia (KSA) has changed significantly, moving from a secretive, insular nation to a high-growth economy increasingly embracing the outside world. During the same period, the countries comprising the Gulf Cooperation Council (GCC) region together have become the dominant economic and political force in the Middle East, an oasis of stability in a region plagued by periodic bouts of financial instability, volatile oil prices, regional tensions and security concerns.

While the KSA and the GCC countries in general have benefited from steady expansion in trade with Asia, Europe and the US, with global GDP growth averaging between 3% and 3.5% per annum, this oasis of economic prosperity has been created primarily through the assiduous implementation of reforms designed to shift economies away from a resource-reliant model combined with a commitment to regional cooperation. These reforms were shaped and promoted at the regional level by the Three Pillars Policy, instituted in 2009 by the then newly formed GCC Economic Cooperation and Development Board [1]. The KSA played a key role and pursued the Three Pillar Policy's aims – development of public-private partnerships, economic diversification and improved governance – via high levels of integration across the economic and, to some extent, political and social spheres of the GCC countries.

[1] See box page 13: ECDB website, Frequently Asked Questions

For the KSA the reforms and resulting economic growth have been achieved with varying degrees of success through a combination of considered industry policy, government investment in education and infrastructure, and some liberalization of previously highly-regulated parts of the economy. While the KSA's successes have been achieved by strong top-down leadership and policy, there remain ongoing concerns about the sustainability of the reforms and the country's reliance on oil revenues. Leadership and initiative in the private sector lag behind that of the strengthened public sector and considerable domestic challenges remain. Regional instability, including that resulting from nuclear proliferation [2], continue to threaten the KSA's economic and social fabric.

[2] See box page 13: Foreign Policy Magazine

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January 2025

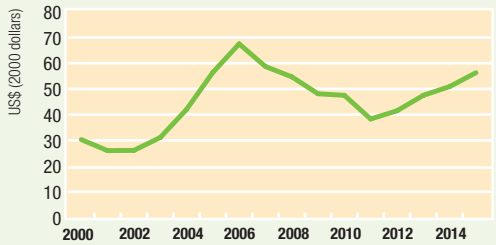
Frequently Asked Questions

Find the answers to frequently asked questions about the Gulf Cooperation Council Economic Cooperation and Development Board

What is The Three Pillars Policy?

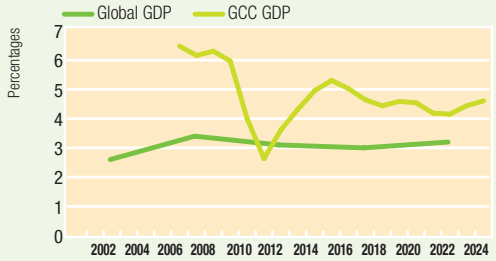
The GCC Economic Cooperation and Development Board (ECDB) was set up in 2009 by the GCC states as a coordinating body and advisory council to the GCC countries' ministries and development bodies, to ensure mutual economic success. It quickly formulated and released what is now called the Three Pillars Policy, a set of principles outlining three policy directions for GCC states towards which to orientate their development. To a large extent, the Three Pillar Policy's aims – development of public-private partnerships, economic diversification and improved governance – have been substantially fulfilled by GCC member countries. As a result, the GCC has become a regional powerhouse, the force of which far surpasses the expectations that many have had for the GCC as a coordinating body. The signing of a series of bilateral trade agreements has meant that the GCC has forged ahead despite a world investment environment hampered by a lack of commitment to furthering globalization. As a consequence, where global growth has averaged 3% over the last 15 years, the GCC states have enjoyed a very respectable average growth rate of 4.75% (see Figures 3.1 and 3.2).

Figure 3.1 **Real Oil Price**



Source: PFC Energy

Figure 3.2 **Global and GCC Real GDP Growth**



Source: PFC Energy

Foreign Policy Magazine

7 January 2022

IAEA forthcoming inspections in the Gulf

Nuclear Proliferation

Over the past decade the withdrawal of the US from Iraq and a general increase in protectionist policies around the world has resulted in a shift in the balance of security guarantees to being regionally determined in the Middle East. For instance, with the US withdrawal, the Kingdom of Saudi Arabia increased the scale and purpose of its military research and began to regard itself as a guarantor of security to other countries in the GCC, and as a counterbalance to Iran's increasing influence in the region, especially in Iraq. When Iran tested its first nuclear weapon in 2014, rumours quickly emerged that Saudi had also acquired nuclear technology, presumably with help from foreign sources.

It seems we have entered a new age of a high-stakes arms race in the region; Egypt refuses to deny rumours of a forthcoming nuclear acquisition and with the recent strengthening of the oil price, other GCC states have increased capital to pursue more clandestine forms of research into nuclear technologies. While oil prices have risen recently to support increased military spending, there are undoubtedly huge opportunity costs to these purchases which are almost certainly not offset by increased security. The IAEA inspections in the Gulf planned for this summer could be a flashpoint for tensions surrounding these issues.

I. Creating an enabling environment

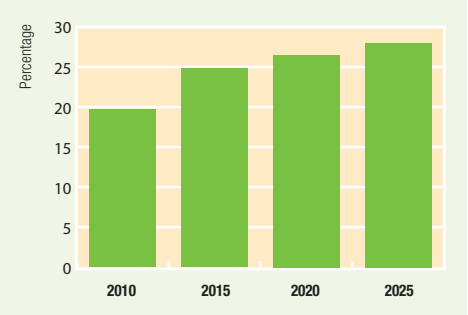
In the first decade of the 21st century, the KSA was slower than other GCC countries to institute reforms perceived as necessary to ensure sustainable growth. The government consistently acknowledged, in theory, the value of the Three Pillars Policy. However, gaining consensus within its complex administrative structures, not suited to swift policy changes, proved difficult. In addition, entrenched interests across the economy were blamed for 'business as usual' policies. In 2016, the Kingdom of Saudi Arabia started a new phase which brought a substantial shift in government policy towards economic, institutional and reform agendas, and decentralization was pursued to improve efficiency across the public service. This had a number of beneficial flow-on effects for the KSA.

First, the re-structuring in 2017 benefited both internal and external stakeholders from clearer policies and processes, improved communication, and faster processing times for businesses and individuals. Second, the re-alignment of structures vis-à-vis reforms enabled swifter action in the area of education and labour policy which had been a critical bottleneck to continued diversification and economic growth. Hence, while the recognition that a shift in education policy was needed to address the KSA's skills gap, it was slowly acted upon between 2005 and 2015 with increasing levels of investment and the establishment of a range of private schools. In 2016 the previously-enacted guidelines on best practice and independent auditing in line with GCC and global standards were implemented alongside a corresponding shift from purely quantitative and input-driven, to qualitative and output-driven methods of assessment. In 2017 came the announcement of major labour market reforms and the establishment of a new government body, the National Labour Council, to implement and enforce labour laws, including expanded rights for expatriate workers, the substantial freeing of labour markets and a new visa system that integrated the labour market across the GCC region. These reforms have borne fruit: the quality of school and university graduates has improved, and the availability of skilled workers now compares favourably within the region, and is fast approaching that of the EU countries.

Third, society in the KSA has opened up considerably, with progress in the area of social reform altering attitudes to the role of women and increasing tolerance throughout the country [3]. Unfortunately, unemployment has once again risen, reflecting the private sector's challenge to grow fast enough to absorb the KSA's national workforce (see Figure 3.3). While employers are reporting that the quality and number of applicants is far greater than it was sixteen years ago, demographics and population growth rates has meant that even with robust economic expansion, the estimated real unemployment rate has risen to over 20% in recent years, causing concern for government and putting additional pressure on the budget.

[3] See box page 15: How open is open?

Figure 3.3 **Saudi Arabia Estimated Unemployment Rates**



Source: PFC Energy

Next

Al-Khaleej Times 21 August, 2019

How Open is Open?

Stephanie Brooks

At the beginning of this century, the Kingdom of Saudi Arabia was famous for veiling its women, its financial statements and its oil reserves. Few would have predicted the changes that have occurred in the Kingdom; even fewer could have predicted that the government would be responsible for the changes. This new openness seems to have resulted from a push-pull dynamic between global and regional environments. On the one hand, Saudi Arabia's involvement in the GCC helped the government liberalize its labour markets and raise its education standards. In order for the Kingdom to be an economic regional force commensurate with its size, it had to reform – indeed it had very little choice if it was to keep up, especially given the problems surrounding it in Iraq and the Levant. At the same time, and ironically in this increasingly protectionist global climate, Saudi had to look beyond its usual trade partners in the West for international expansion opportunities.

But just how open is open? Well, Saudi has worked hard to make the country more investor-friendly and address some of the issues that have attracted external criticism. First, Saudi has been proactive in fighting **terrorism**. In 2009, it led a regional push to develop policies to reduce extremism and increase tolerance through region-wide marketing campaigns and attempts to coordinate national policies on dealing with the threat of terrorism. This was a particularly welcome development with regard to Iraq; with the withdrawal of the bulk of US troops in 2010, violence had worsened and there were fears that it would spill over into Kuwait, Bahrain and the Eastern provinces. Second, there have been efforts to improve the status of **women**, by increasing their participation in the workforce, granting them the right to vote in municipal elections (granted in 2017) and improving their standing under the Basic Law. Indeed in 2017 a female minister, Rima Al-Yousef, was appointed to the finance portfolio. Third, the government has begun delivering on its commitments to improve **transparency** over the past ten years, and has recently begun publishing detailed ministerial spending records and entitlements to senior officials, mollifying some vocal critics. The increasing engagement of the non-governmental sector and civil society with regard to the provision of **social services** and as an unofficial ombudsman has meant that the government is swifter to acknowledge and respond to issues of importance to the public at large. The fact the country is sport-mad at the moment, with an explosion of sports following Saudi's success in the Asia games, has also engaged the general public and civil society with the government and helped forge a national identity.

The 2016 shift in governmental policy led to an increasing proliferation of moderate voices in government, and corresponding protests regarding liberalization from religious bodies. These conservative voices have acted to modify and downplay certain reforms. Nevertheless new policies (including an emphasis on tourism) have been fully supported by the Shoura council. On paper then, Saudi appears far more open. And who knows, maybe this was the best anyone could have hoped for. Even if Saudi women remain veiled, they can at least drive and work now, and this correspondent knows which option she'd prefer. And now I can get the visa to witness these changes for myself.

II. Building on the foundations

How has economic growth developed from these foundations? The government has maintained a focus on both diversification and private sector development and has opted for industry policy as the best way forward. Government policy regarding domestic and foreign investment promotion has tended to focus on **energy and transport industries**, especially seaports, capturing increased value along the energy chain, and the completion and expansion of new "economic cities" such as the King Abdullah Economic City. Despite a softening of oil prices and occasional recalibrations of industry policy to reflect changes in global markets, these reforms were successful in building on the KSA's strengths.

[4] See box page 17: Energy snapshot

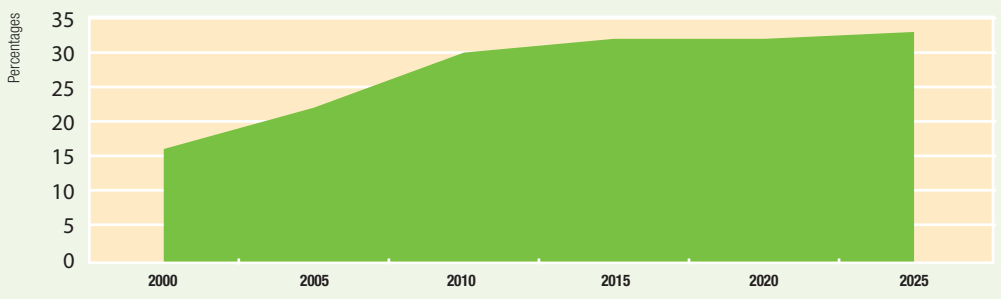
Oil has continued to be the primary source of budget revenue in the Kingdom [4]. R&D efforts in diversifying along the **energy chain** have been effective. Yet, the economy is still largely energy-reliant and consequently not as diversified as it might have been. There are, however, notable success stories within the energy sector; since 2018 the Kingdom has shared considerable success with the UAE in solar energy technology. In addition, the KSA has a long history of government investments and public-private partnerships in nuclear energy, including collaboration with the International Atomic Energy Agency for technology transfer. Oil as a percentage of GDP is today far lower than in 2010.

An interesting and relatively recent area of growth for the KSA is in **military and aerospace technology**. Given the development of Iran's nuclear technology, Iran's volatile diplomatic relationship with the KSA and the US failure in Iraq, it is perhaps not surprising that the Kingdom began to consider the extent of its security arrangements. Since 2010 the government has sought to hedge its reliance on the US and Europe for provision of weapons. In 2014 the government began developing a series of military-industrial complexes throughout the Kingdom, as well as supporting the scheme by establishing funds for a range of new scientific and technical education institutions. International agreements were also reached to share technologies, with China and Russia both participating in exchange programs. Though the KSA's history of purchasing such technology signifies that the country currently lacks comparative advantage in this sphere, the investments are not purely political; they have undeniably created opportunities for Saudi companies in the sector, and have increased both the quality and quantity of science graduates.

A complementary factor of these economic successes has been the rising female employment participation rates, which has risen from 15% at the beginning of the century to over 32% today (see Figure 3.4). The inclusion of large numbers of women in the workforce, the vast majority of which are highly-skilled workers, has provided the economy with internal resources to match its growth. This trend has also acted to accelerate social change, as increasing numbers of independent professional women have impacted government policies.

In terms of its geographic focus, **China and Japan** have consistently risen in importance, due in part to significant levels of funding towards mega city projects and increased protectionism in other markets. SABIC and other Saudi companies have expanded in China, which will overtake the US as the KSA's main oil customer by 2030.

Figure 3.4 **Saudi Arabia Female Participation in Employment**



Source: PFC Energy

Next

PFC Energy

Markets & Country Strategies
Market Intelligence Service

Energy snapshot, 1 July 2010

The outlook for the Saudi energy sector from 2010 to 2015

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Growth in Saudi's real GDP averaged 7% during the five years ending in 2010, displaying strong expansion of the economy even in a period of depressed oil prices. Our projections show that real output will continue to rise, averaging an estimated 6% per year from 2011 to 2015. Using year 2000 prices as a basis, with Saudi's population growing at about 3% per year, we expect this growth to raise the level of real GDP per capita to approximately $13,000 in 2015 (see Figure 3.5).

What does this imply for energy demand? Looking at the trends in five year intervals, Saudi's energy demand rose relative to both real GDP and population between 1980 and 2005 (see Figure 3.6). From 2005, however, demand relative to real GDP fell, and demand per unit real GDP is expected to move lower from now through to 2015. However, due to robust economic growth, demand per capita is expected to continue to move upward. Saudi energy demand is dominated by four uses – transportation, industry, non-energy and power generation. Demand is expected to increase rapidly from 5.5% to 9% in all sectors over the next 5 years with demand in non-energy (petrochemicals) expected to grow the fastest (see Figure 3.7).

On the supply side, oil and gas are expected to continue to dominate domestic supply of energy with oil supplying about 54% of the growth and gas supplying the balance. Renewables currently feature in this balance, but volumes are expected to remain very small. We expect renewables to take an increasing share in the five years following 2015, assuming that the current investments in alternative technology come to fruition (see Figure 3.8). Meanwhile, Saudi gas demand has traditionally been dominated by power generation and industrial use with total volumes being set by domestic production. Going forward, power generation and industrial use will continue to grow rapidly, but non-energy (petrochemicals) will become increasingly important, accounting for over 10% of gas demand in 2015 (see Figure 3.9).

Fig. 3.5: Saudi Arabia Economic Indicators

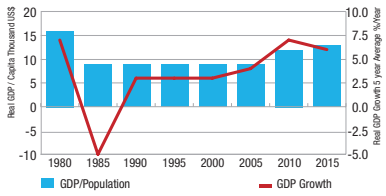


Fig. 3.6: Saudi Arabia Energy Demand and Real GDP

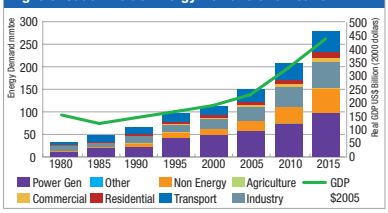


Fig. 3.7: Saudi Arabia Primary Energy by Fuel

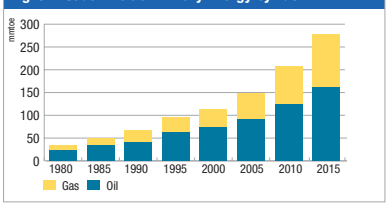


Fig. 3.8: Saudi Arabia Energy Indicators

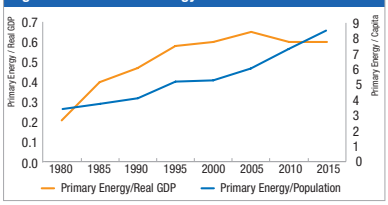
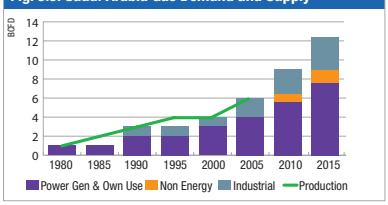


Fig. 3.9: Saudi Arabia Gas Demand and Supply



III. Key challenges

The reforms outlined above required significant expense on the part of the KSA government; unfortunately the regional and domestic circumstances have not been entirely conducive to absorbing these costs of adjustment. This section outlines some of the key challenges the Kingdom has faced over this period in addition to unemployment.

First, the rapid changes that have occurred and the regional stance that the KSA has taken were reputedly the subject of great internal government debate. Little information is known about how the royal family and religious, economic and public interests were reconciled to the reform programme. However it seems that a shakeup in power structures resulted in consensus on key issues that has held for almost 10 years. It is unknown how stable this consensus is; maintaining it remains a challenge for the KSA's future development.

Second, the restructuring of government institutions that began in 2009 has proved in hindsight to be essential to the KSA's development as a nation, particularly as it occurred in the context of **budgetary problems** for the country. The budget deficit persisting between 2008 and 2015 was driven on the revenue side by declining oil prices, caused by poor coordination of suppliers, global capacity increases and a softening in demand exacerbated by friction in global markets. Oil prices fell below US$ 40 per barrel in 2011 despite OPEC's efforts to maintain a price floor of US$ 50. On the cost side, persistent regional instability (exacerbated by nuclear proliferation) and demographic pressures caused government spending on defense and welfare to rise significantly, creating pressure on national accounts. As a result, the debt load that had been paid down in the period of high oil prices from 2003-2008 resurfaced. This budgetary situation made spending tight, and some of the more ambitious plans for reform became increasingly unrealistic as external debt rose [5].

[5] See box page 19: SaudiWatch Economic Blog

There were also a number of false-starts in achieving the necessary **labour and education** reforms needed to produce a competitive workforce. The KSA joined the GCC "Skills Accreditation and Harmonization" scheme in 2013, working to define and produce a regional skills accreditation programme for professional workers as a means of improving information and competition in labour markets. However the GCC efforts were not wholly successful in opening up the labour markets in the Kingdom; still highly restricted, the skills accreditation schemes tended, at least in the first five years, to favour a highly selective group of individuals.

Finally, several of the **mega-city projects** suffered from the lower-than-expected oil price and increased friction in global trade. Hence when the mega cities began to come on line, they had a lower occupancy and FDI inflows than projected. This was partly attributed to heightened internal competition within the GCC for FDI flows. These issues, which also affected other free zones in the region, were addressed at the GCC ECDB conference in 2015 in Manama, and resulted in commitments of greater coordination and information sharing across the GCC states to improve economic planning and minimize disruptive intra-regional competition.

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SaudiWatch Economic Blog

in Financial Press | Fiscal update

Fiscal update

February 2, 2017 | 07:19 AM

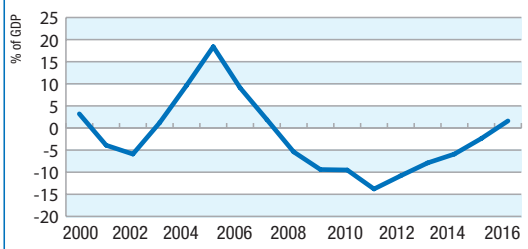
It looks like the government has finally managed to get the budget back into surplus, albeit a relatively small one (see Figure 3.10). Preliminary figures released today show that last year Saudi Arabia ran a budget surplus equivalent to US$ 44 billion, following 8 years of serious deficits. As usual, the difference was dictated by changing oil revenues, which jumped 28% from US$ 298 billion to US$ 383 billion. Total revenues moved from US$ 440 billion to US$ 540 billion, while total expenditures decreased slightly from US$ 500 billion to US$ 497 billion.

What does this mean for the economy? First, there is still a long way to go in terms of diversification and reliance on oil. The government is going to need to think about other sources of income if it wants to avoid a repetition of the last eight years of rising debt. The outlook for oil looks good. But to ensure Saudi's economy is sustainable in the long term, the country can't rest on its laurels.

Second, for all our recent successes in reforms, it is clear that we will once again need to pump more money into infrastructure. The increase in government spending from 2005 to 2010 was much needed to address some of the bottlenecks in infrastructure (both in terms of physical infrastructure and investment in health and education systems) caused by underinvestment in the 1990s. However, since 2011, expenditures have stalled with the bulk of increased spending going to rising operational costs, including incentive payments for public servants. While the increase in efficiency of the public service is appreciated by all (and the public salary bill has in fact shrunk substantially over the past 10 years), with a growing population and increasing demands on public infrastructure created by a growing middle class, it is time to once again embark on measured investment in physical and human capital.

Third, a major challenge has been the emergence of an arms race in the region. Saudi Arabia's decision to develop domestic military capability and a civilian nuclear programme underscores this threat, which has significantly impacted the national budget as well as causing increased tensions with Iran and Israel. Saudi's size and diplomatic relations make it the obvious choice to take regional leadership in the defence area to prevent further damage to relationships across and around the Gulf. This challenge is linked to the wider problem of regional instability, which continues to concern domestic and foreign investors alike. Along with a new push by the government to regain momentum in the Arab-Israeli peace process and improve relations with Iran, the Saudi private sector could play an important role by encouraging pragmatic moderation, increasing communication amongst business sectors across political and cultural divides, and designing strategies to boost long-term economic growth in the country and the region.

Fig. 3.10: Saudi Arabia Budget Balance



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IV. Conclusions

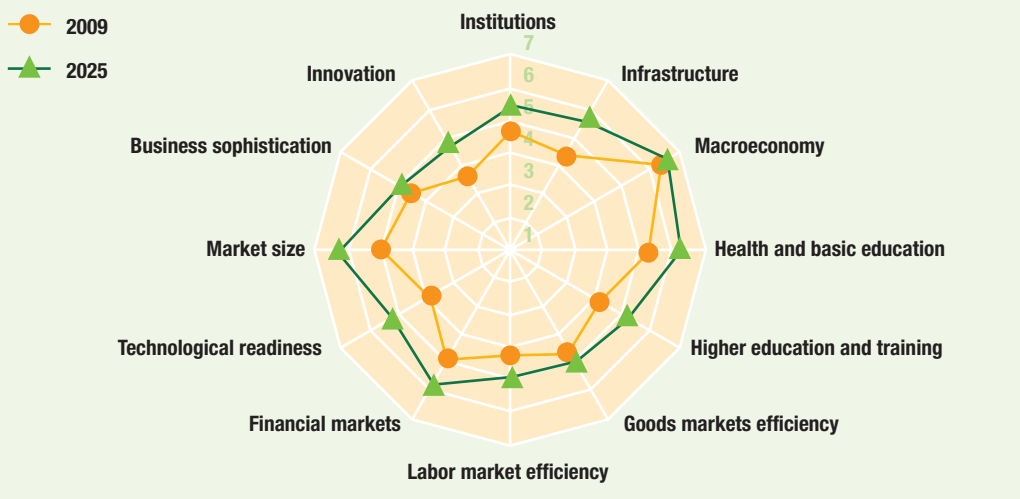
The Three Pillars Policy has been useful for the KSA, in unifying the government around critical goals for economic development. The policy has also served as a common language for the GCC countries in working together, and thereby insulating themselves from the surrounding instability.

Over the last 15 years, the KSA has been hampered by weaknesses in the global market, in the oil price and in its ability to manage regional relationships outside the GCC countries. However, despite these challenges, the KSA has used its size, natural endowments and relationships within the GCC to extremely good effect, dominating regional manufacturing and creating a range of new opportunities through the government's careful application of industry policy. The country's record in competitiveness and its improvement on key factors, particularly technological readiness and higher-education and training are proof that government initiatives have improved the KSA's business environment (see Figure 3.11). If the Kingdom is to continue to prosper, a concerted effort is required to encourage and cultivate domestic-driven innovation, which still falls behind global benchmarks in terms of input (e.g. private and public-sector investment) and output (e.g. patent registrations).

In 2025 the KSA is at a crossroad. For the past ten years, the country has increasingly positioned itself as a regional protector, acting as a counterbalance to Iran and a stabilising force vis-à-vis the conflict in Iraq. With other countries' acquisition of nuclear technology and the consequent threat of nuclear proliferation, the balance of power in the region has changed. While competition between GCC states has been minimized by the Three Pillars Policy, this situation may be reversed as the geopolitical power balance becomes increasingly unsteady. Twenty years ago, the Kingdom was castigated for its associations with the United States. Today, it risks criticism if it seeks to develop security ties with China, which has been increasing its naval presence in the Indian Ocean. However, if the KSA's privileged position in the region is to be secured, it needs to continually improve relations with all its regional and global partners, ensuring that the surrounding geopolitical instability does not become a domestic barrier to its economic and social success.

To date, the oasis of stability and progress that is the GCC region has proved resilient to the encroaching desert of violence and instability. How long this oasis can be maintained depends not only on the continual innovation of the GCC countries themselves, but also on helping the desert bloom.

Figure 3.11 **Saudi Arabia Competitiveness Indicators 2009 and 2025**



Source: World Economic Forum

Section 4

Sandstorm

Section 4 Sandstorm

http://www.weforum.org/pdf/scenarios/gcc_ksa/sandstorm.pdf

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WEB FORUM

Al-Khaleej Online

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Welcome

Welcome to our ongoing series of web discussions on Gulf issues.
This web forum is dedicated to the evolving political, economic and social situation in Saudi Arabia.

Posted by Bilal Baroom
Moderator
26/5/2025 15:10

Bilal Baroom, our moderator for this discussion, is a reporter in our Riyadh office of Al-Khaleej.

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Baroom: Welcome to your daily dose of Al-Khaleej online. If you're on this page, you've either stumbled across it on the semantic web or you're interested in discussing the big issues facing the GCC region today. Following our special broadcast program on Al-Khaleej cable yesterday, which discussed the past 25 years of the GCC region, this Web forum is your chance to discuss the issues raised on the show which apply specifically to Saudi Arabia.

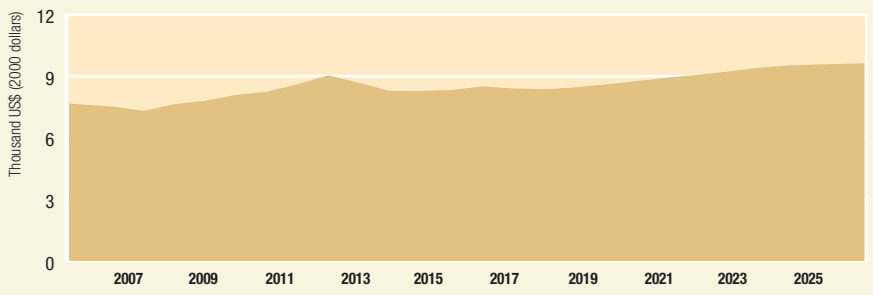
To put this forum in context, here's a quick rundown of what it's been like in Saudi Arabia since the turn of the century. The country has been through a storm of economic, social and political turmoil that may not have ended yet. In spite (and perhaps because) of the massive hydrocarbon resources that seemed such an unequalled opportunity for the Kingdom at the beginning of the twenty-first century, regional instability has destabilized the Kingdom and caused ripples across the entire Middle East and, indeed, the world[1]. We've had huge public debts, static private and non-oil sectors, and an extremely volatile oil price. The oil price and economy seem to be picking up according to recent figures, but history tells us that the country can't turn itself around by financial liquidity alone. In the last 20 years we've had the failure of educational and social reforms, terrorist attacks, water crises and social unrest. Capital flight, both financial and intellectual, is at worrying levels. The Kingdom's current GDP per capita is almost identical to what it was 20 years ago (see Figure 4.1).

Is there any hope for us to get out of this situation? Are the signs that the economy is picking up again cause for celebration or cynicism? Write in with your insights on the reasons for the situation in which we find ourselves – with the hope that the next generation will not only be aware of our mistakes, but also know how to avoid them.

Link

[1] See box page 23: Foreign Policy Review

Figure 4.1 **Saudi Arabia Real GDP per Capita**



Source: PFC Energy

NEXT

After the dust has settled

The Long View (Weekly Opinion) Foreign Policy Review v.35 4 April 2014

MICHAEL SWORD, EDITOR

Last week in Riyadh, a GCC ministerial-level conference discussed the tensions that have dogged the region over the last five years and reached the predictable conclusion that they are essentially attributable to the US air strikes on Iran in 2009. This seems an overly simplistic interpretation. In fact, experts agree that this regional tension can be more accurately explained as a confluence of events up to and beyond these strikes. It is a convincing argument, and also illustrative of the events surrounding the strikes, so worth repeating here.

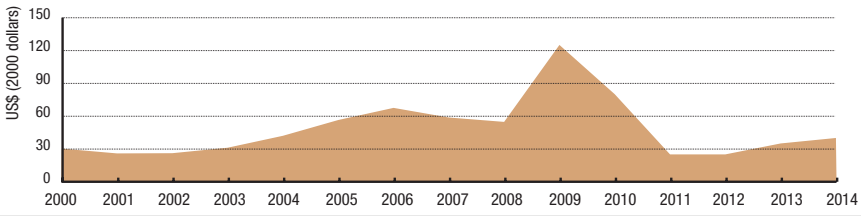
The US's sabre-rattling against Iran had been going on for some time when, in 2009, a rhetorical war of words between Washington and Tehran heightened tensions in the region and increased the volatility of the oil price. By this time, Iraq had descended into a full-scale civil war fuelled by a proliferation of externally funded, well-organized sectarian and ethnic militias. The Iraqi government, its own forces outnumbered, had essentially lost any semblance of control in the country and was on the point of collapse. Due to domestic political pressures, the US had little option but to withdraw the bulk of its troops from the country, and compensated by increasing its strategic presence in other Gulf states, a decision that further heightened tensions across the region. Concurrently, Israeli-Palestinian negotiations broke down over the perennial issue of the proposed borders of the Palestinian state.

Then, on 21 November 2009, the US aggressively responded to the suggestion of an Iranian nuclear capability by making a series of air strikes on industrial complexes across Iran. These strikes further unsettled the international oil markets as Iran launched retaliatory attacks on American installations and interests in the region, and declared the Straits of Hormuz closed to crude oil and LNG tankers other than its own. Subsequent clashes between Iranian fast-attack boats and US naval forces dramatically increased the risk for transiting tankers; indeed, one tanker, the Oryx, was caught in the conflict and caused a severe oil spill along the coast of Saudi Arabia that could not be attended to by either Bahraini or Saudi environmental teams due to the lack of security along the coast.

As a consequence of the conflict, the price of oil surged to US$ 130 per barrel (See Figure 4.2). Travel warnings for the region were issued by western governments, resulting in a collapse of tourist and business travellers. Although the armed conflict between Iran and the US had stabilized by the beginning of 2010, fear of further unrest caused a widespread exodus of expatriate and migrant workers from the region and productivity sagged. As the Chinese and western economies began slowing, largely due to disrupted markets and the increased price of oil, the world moved inexorably towards a global recession and the oil price went into freefall, with OPEC able to do very little about it. By 2011, the oil price had bottomed out at US$ 20 a barrel, rising to average just over US$ 30 for the year.

Which brings us to today. Lower oil prices have failed to stimulate the global economy over the last three years as investors and companies come to terms with depressed stock prices and fears of further instability around the world. The 'long boom', the longest period of sustained global growth the world had witnessed, had finally ended and left us with a highly adverse regional environment. The experts are right, it wasn't just the strikes that caused the current situation, but in my view we still could have done without them.

Figure 4.2: Real Oil Price



Source: PFC Energy

When we could afford to diversify, we failed to do so – and now we can't

Posted by AttarOffshore
Oil economist
26/5/2025 15:28

AttarOffshore: Baroom, you asked how we reached this situation today. I have a simple answer: oil. It's the ultimate paradox for the Kingdom; it offered us the resources to reform, but the sheer financial liquidity it produced also acted as a disincentive to change. When we could afford to diversify, we failed to do so – and now we can't. Let me give you three reasons why oil is a fundamental driver of where we are today.

1. Oil determines our GDP. Because we have failed to diversify, our fortunes have remained inextricably linked to oil and both have dropped. The interruption to Iranian oil supplies from the US military attack in 2009, and the attempt by Iran to bomb GCC offshore production facilities, meant that the oil price spiked and Saudi excess capacity was reduced. Then we had the terrorist bombings of the oil fields in 2010, which reduced this capacity to crisis point. It was increasingly difficult to meet demand, which drove the oil price up. Unfortunately, as has been well-documented elsewhere, given the range of structural weaknesses in global markets, the global economy wasn't able to continue expanding with oil prices suddenly at US$ 130-150/barrel and so demand slumped, taking the oil price with it [2].

2. Oil fields are symbolic targets in any oil-dependent economy. The eastern province has always been a focal point for Shia tension, and so a combination of frequent protests, Al-Qaeda operatives and a significant increase in number of civilian casualties that everyone attributed to sectarian tensions, made it increasingly difficult for oil facilities to operate in the region. As well as further affecting the volatility of the oil price, the tension also spread to the rest of the country, heavily contributing to the domestic terrorism we experience today.

3. Oil has increased the geopolitical complexities that the Kingdom now faces. First there were the difficulties among the US, Iran and Saudi in the aftermath of the 2009 air strikes. Second, despite the Kingdom's mistrust of the US, the government found itself under intense pressure to cooperate in an intelligence-sharing agreement with the US and the UK to restore a 'green zone' of oil production protection in the eastern province. This came as a result of increasing terrorist threats to the oil fields and caused no end of problems for the government in Riyadh, especially with rumours that American security forces were covertly working in this 'green zone'.

The low and volatile price of oil has meant that we haven't been able to afford reform. I'm hopeful that with rising oil prices now that will change, but even with recent budgets looking healthier it will certainly not be easy.

Link

[2] See box page 25: MEsecurity.com

COMMENTS (1 - 4 of 429):

7ussein7 – 26/5/2025 15:45 – Post Reply
Oil isn't everything, what about the private sector? Not all countries have the luxury of wealth coming out of the ground. Look at Bahrain. They've had a rough time too, but their recovery will be driven by increasing output from a value-adding economy. That's what Saudi needs!

Farooha34 – 26/5/2025 15:51 – Post Reply
We're ignoring the big issue here - that even when we had money it wasn't distributed properly. We should have found a way to ensure that everyone was looked after when we had the chance. What about establishing an education fund for everyone in the country, with contributions measured as a percentage of our oil revenues? This would guarantee a minimum spending on upgrading education, and if each family could choose whether to spend it in the public or private sector. I'm sure lots of good private schools would spring up overnight!

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Reflections on terrorism in Saudi Arabia

By Malika Ismaily
23 January 2019

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In the early hours of this morning, a car bomb exploded in the centre of Jeddah, killing two security guards. The car was parked outside a major shopping centre, and initial speculation from the authorities suggests that it was timed to explode during shopping hours, but had gone off early. Read the full report in the Saudi Press here.

Despite being the first incident of the year for Saudi, it is unlikely that the international press will pick up the report; a search of the semantic web shows that the attack is currently breaking news only in the Gulf region. But, no matter how insensitive the press becomes to these kind of events, it seems like 2019 will be another year where we look worriedly at parked vehicles as we step out of office buildings, hotels and malls.

We are seeing an increase in terror attacks throughout the region, with more than 40 separate terrorism-linked incidents in the GCC countries last year. Interestingly, these days no country is immune: even the UAE lost its perceived immunity to terrorism in 2010 when a successful terrorist attack against a community of western expatriate workers in Abu Dhabi killed 6 people and injured hundreds. And of course the best-known attack in the region was on April 4, 2018. The attack on the Heritage Shopping Centre in Dubai meant to target visiting government officials, but instead 372 innocent people died when the building collapsed following a series of bomb explosions in and around the building.

As I've said before, we can't let this become our norm here in the Gulf. We have to address the violence at all levels of society. If we don't, the direction of our country will inevitably be defined by an atmosphere of extremism and a fear of violent retaliation.

Next week, there will be a series of marches in major cities across the region to protest the use of terrorism. I urge everyone to be involved in the Arab Peace Marches, both to show the world that we demand an end to this insidious violence against each other and to register your discontent with the current state of affairs. Visit www.arabpeacemarches.net for more details.

...

Moud – 26/5/2025 15:53 – Post Reply
It seems as if the only oil supplier to benefit from all of this was Iran. In 2011, after a year of drastically reduced revenues, Iran began to export oil and gas, signing many development contracts and largely ignoring its OPEC quota. What I, and I suspect almost everyone else, never anticipated was that the US, sick of suffering from volatile oil prices, would make no effort to hinder these exports; business is business, even if you've been waging a virtual proxy war.

NEXT

Not enough infrastructure, not enough time

Posted by Abdul-aziz Alanaimi
Former government advisor
26/5/2025 18:05

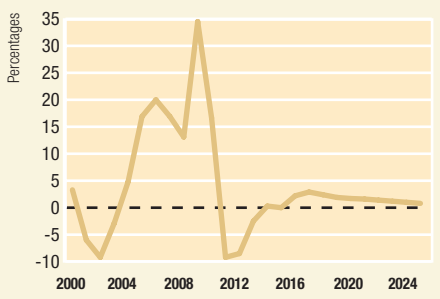
Alanaimi: AttarOffshore, you say we didn't diversify beyond oil. As an advisor to the government for the past fifteen years, let me tell you why we couldn't, but why we might be able to now.

Firstly, despite all the good intentions of the Saudi government to strengthen the private sector, with the uncertainties that AttarOffshore mentions, general business confidence dropped dramatically in the Middle East. The effect of US$ 130 barrel oil prices in 2009 on global investment and the psychology of the market led investors to doubt the viability and sustainability of Abu Dhabi, Dubai, Bahrain, Qatar and Saudi Arabia all competing in similar market areas, such as real estate, tourism, aluminium and petrochemicals. As the US and Iranian conflict settled back into rhetoric, FDI continued to slow. The development of some mega-cities were delayed and then began to stall as the economy spiraled down, dragging the oil price with it until both bottomed out in 2011.

Secondly, this spiral was compounded because we suffered from chronic underinvestment in infrastructure dating back to the 1990s, which wasn't adequately addressed when we had the money to do so. Although it had been partially alleviated by investments between 2002 and 2007, there were still major gaps in the provision of education and health services that became obvious as economic growth stalled. The under-funding of state hospitals, combined with the widespread incidence of diabetes and other chronic health conditions, created a series of public health crises in 2013 and 2016. It became increasingly apparent that the government was finding it difficult to support its population in some of the most basic of services. Other civil society and Islamic groups, some with political agendas not entirely restricted to providing basic health care, attempted to fill the gap. Finally, we had recurring water and utilities crises between 2012 and 2018. Parts of Riyadh and Jeddah were periodically browned out and experienced chronic water shortages, aggravating tensions between the cities. This lack of infrastructure has continually hampered efforts by the private sector to expand, as well as causing considerable frustration with the government.

In addition to the above, there were a whole host of other reasons why the government didn't diversify, including the fact that it was distracted by other, more immediate concerns. For example, in 2011 the budget deficit was 12% and the current account deficit was over 30% (see Figure 4.3). And though AttarOffshore does not say as much, he does hint at the fact there was a growing public fear of sectarian movements and rising regional tensions within the Kingdom. This wasn't helped by the competition between provinces for resources. Tensions were exacerbated by media reports of the discovery of large stockpiles of Iranian-made weapons in the eastern province. Unfortunately, these reports played right into Al Qaeda's hands and the panic that resulted from various vidcom transmissions also led to capital and human resource flight (the latter predominantly to Asia) [3]. In this environment, even minor attempts to reform experienced limited success as a consequence of continual blocking by various interest groups.

Figure 4.3 **UAE Budget Balance**



Source: PFC Energy

Link

[3] See box page 27: 'I go. You go. Who stays?'

NEXT

Conference Paper

The 20th Annual Gulf Futures Conference,
Doha, Qatar
15 July 2021

'I go. You go. Who stays?'

Sinking ships and Saudi Arabia

By Gulf Research Alliance

This paper considers the ways the government of Saudi Arabia might slow the current human resources flight out of the Kingdom. With the global recession, Saudi's economic downturn and the distractions of internal instability, domestic investment has lagged and people are leaving in record numbers. This trend is far more severe when one estimates the number of illegal departures out of the country. Furthermore, these numbers continue to rise despite the increasing difficulty of Saudi citizens in securing visas to European countries and the US. Capital in Saudi Arabia is also fleeing despite rising protectionism world-wide. Although some capital is returning from forays into foreign direct investment (such as SABIC's retreat from China last year due to what the company complained were "unacceptable regulatory changes and anti-competitive practices"), illegal capital outflow is now estimated at 5% of GDP per year. This paper uses empirical data to examine the link between human resource and capital outflows, and estimates the effect of these trends on economic development. The paper concludes that human capital outflow is a critical determining factor in the decline of the Saudi economy, and recommends that Saudi seriously reconsider the image it seeks to present to the world in order to attract expatriate nationals and skilled foreign workers to return.

...

However, today we have a new opportunity. With government expenditures rising and the regional tensions diminishing somewhat, what is needed is for the government to realize that attempting to micro-manage the country isn't working. Handing over more power to the private sector and civil society to do what is needed in a more efficient manner is the only way forward. Whether the government is able to do that is a big question.

COMMENTS (1 – 3 of 258):

Deemza – 26/5/2025 16:33 – Post Reply
The health system is in ruins. I've got a two-month old infant at home with me and she can't stand the heat; I've taken her to hospital twice in the last month suffering from dehydration. They can barely help; the last time they couldn't even find a saline drip for her.

Hosam – 26/5/2025 16:37 – Post Reply
Remember when they blocked that reform which would have allowed women to work in mixed offices in some cities? I'm increasingly unsure now as to whether I'll ever see this change in my lifetime. I swear, if I didn't have my website about arts and crafts with infants and young children, I don't know what I'd do.

Aggarwal23 – 26/5/2025 16:48 – Post Reply
I am genuinely impressed that the government has managed to maintain control in the face of such unrest and criticism, both internal and external. Having said that, we are so focused on making it through one crisis at a time that we never have the time, let alone the wealth or mandate, to consider how to change things for the better. We need to go back to long-term thinking where we invest, rather than spend.

NEXT

Life Online

Posted by Keackiddo
University Student
26/5/2025 17:01

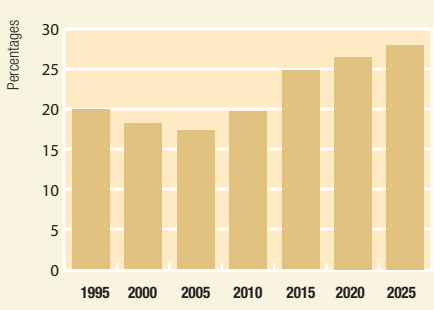
Keackiddo: I'm nineteen years old and live in a gated neighbourhood in the King Abdullah Economic City. I've lived in one secure compound or another all my life, but I spend a lot of time on the internet, talking to various people in vidcoms across the region.

In my opinion, one of the reasons that Saudi Arabia is stuck is that it hasn't taken advantage of new thinking in young people. The government sees only the western influences, not the unique Arab youth culture that has grown, largely online, into a real feeling of shared identity that transcends national and religious boundaries. I think the government has to tap into rather than control this identity. Consider my background for instance. It's pretty different from someone living somewhere like Khamis Mushayt. My father works in risk assessment for international investors in the city. Dad says it's one of the few industries to have done relatively well over the last ten years. So we're lucky – in fact, in comparison to the rest of Saudi, we're extremely well off. I've had access to a fairly complete education, healthcare and access to water. I've even been able to finish an online MBA, though you have to be pretty well-connected to get a good job in either business or the government these days, even in economic cities like my own. But for the vast majority of young people who live outside communities like mine, there are even fewer options (see Figure 4.4). Let's hope that we're entering another bull market where jobs are easier to find!

And this is what I wanted to post about. People have been recruited online to fanatical organizations for decades now, and I know the numbers rise and fall pretty regularly, but as far as I can see, this recent rise isn't slowing down. Although I disagree with them, I can understand these young peoples' motivation to join these organizations. There's not much of a future in their cities and towns; there's high unemployment and a lot of them have never completed their education. For others, there's also the blind feeling that they haven't yet lived in a 'pure' Islamic state and that this is an outcome they should fight for. You'd get this sense of opportunity from any adventure, and unfortunately this is the one adventure open to them. How can these governmental amnesties work for young people when there are so few opportunities to go back home to?

This recruitment drive is tapping into a desire for change in young people that could, if productively channeled, be extremely positive. It's not as if we're sitting back waiting for the country to collapse! There have been a number of other groups that have started up by people my age trying to deal with these problems, but the government should take the time to differentiate between violent groups and non-violent, well-intentioned causes. The government profoundly alienated young people like me by making those arrests in the 2021 Arab Peace Marches. With video phones everywhere these days, if security forces lean too hard on one small group of young people, everyone knows about it. This was clearly the case with the Peace Marches. The simultaneous up-link of footage from marches across the region sent to our vidphones meant that as we marched, we could watch the wider Middle East march and suffer arrests and violence with us. The Peace Marches were a moment of genuine unity that should be seen as an opportunity, not a threat. Let's hope the governments realize this for the future marches we have planned.

Figure 4.4 **Saudi Arabia Unemployment Rate**



Source: PFC Energy

NEXT

FROM: **Jack Khamis**
1/5/2025 13:22

To: William Chiu
CC: Istilah Davidson
BCC:
Subject: **Update from the Gulf**

Dear Bill,

I have another option for us, although it may be a long shot considering how long it took me to get a visa here: Saudi. Seriously. I'm in Jeddah and I think we could do something here, even if at the start it's just a regional office. It's not nearly as bad as everyone has been saying, and the potential here is huge. The country's obviously been hard hit by the recession, but the market potential is amazing. If we find the right partner, we could even consider putting our plant here.

- All reports say the conflicts around the region are easing, and since the global economy has started picking up, it's logical that Saudi will come with it.
- Saudi still has a LOT of oil in the ground and some big plans for what to do with it as the price rises.
- There are 45 million people here who were becoming pretty used to consuming until the recession hit.
- Sooner or later, someone's going to come in and benefit big from education and healthcare; they're both weak, the government is undecided what to do, but the population has high expectations for reform.

If we give some kind of indication of the direction we want to go in, I'm sure the government would seriously consider backing us. They're desperate for investment. I've heard that they're interested in investing in the economic cities that were mothballed in 2012, which would be a good partnership to get in on. Forget the incentives – if I'm right, it's about being in the next hot location for manufacturing. I'll put together some graphs on the plant costs and background economics, but drop Saudi into the phone conference with Edith tomorrow. I think we can explore some interesting ideas here and I don't want a misunderstanding of the situation to mean we miss out on what could be a great deal.

Regards,
JK

...

COMMENTS (1-3 of 267):

Fais – 26/5/2025 17:12 – Post Reply
Hey Kaeckiddo, have you seen the footage of last week's protest in Jeddah? Click on this link and check out the poll on youth issues here.

Nada – 26/5/2025 17:22 – Post Reply
Hmm. There's nothing keeping us together but good taste in music. I wanna go to America!

Jubbly22 – 26/5/2025 17:26 – Post Reply
My brother joined one of those groups a year ago and we didn't even find out where he'd gone until one of his friends came back from the camp with malaria or something. My father went to try and find him but he'd moved on. We haven't heard anything since.

NEXT

What next?

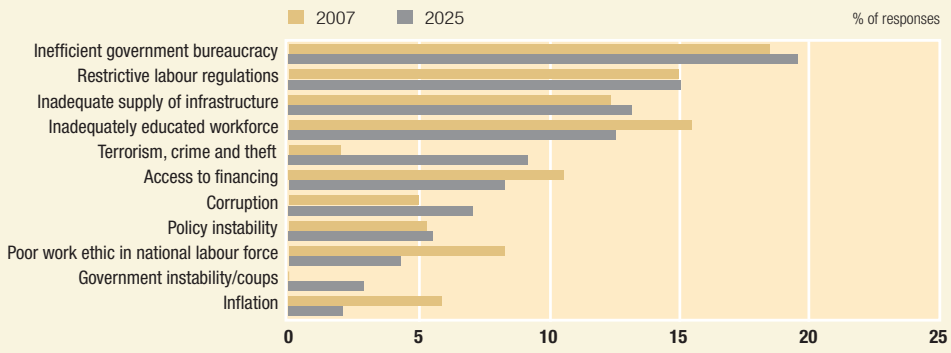
Posted by Bilal Baroom
Moderator
26/5/2025 18:03

Baroom: Thanks everyone for their posts, comments and feedback! Response to this discussion has been overwhelming and there is clearly a huge number of you out there who feel strongly about this subject. Obviously there are many lessons to be learned from what has gone wrong over the last twenty years, and now that the world economy shows signs of picking up once again, it is clear we need to decide where we in Saudi want to go from here. How can we put into place some of the insights you have given us? What are the most urgent corrective actions we can take?

Many of you have pointed out that many of the problems we're experiencing now stem from economic hardship and the fact that resources for development are lacking. Attracting new foreign investment is one of the ways that the government is seeking to address this, however it is clear that we need to focus on a few key issues. Perhaps we should start by addressing the problematic factors for business from a competitiveness viewpoint. According to recent data, inflation rates, national work ethic, education levels and access to financing are less of a problem for doing business in the country. But this doesn't give the full story – today, education is still the fourth most problematic factor in the KSA, and government bureaucracy, restrictive labour regulations and inadequate infrastructure are numbers one to three, all things we've consistently tried to deal with on a national and regional level over the last twenty years. Worryingly, crime and theft (including terrorism) is now in the top five, and some investors are even concerned about government instability (see Figure 4.5).

However, judging by the numerous comments that things are getting better, it is also clear that this situation is not unrecoverable. Here at Al Khaleej we are preparing a special news series focusing on what the youth of the Gulf think on this subject. Watch for more reports here. And keep the spirit of tolerance and acceptance alive!

Figure 4.5 **Most Problematic Factors for Doing Business in Saudi Arabia, 2007 and 2025**



Source: World Economic Forum

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Section 5

The Fertile Gulf

Section 5 The Fertile Gulf

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July 2025

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2025 Country Profile: Saudi Arabia
What you really need to know to do business in Saudi Arabia

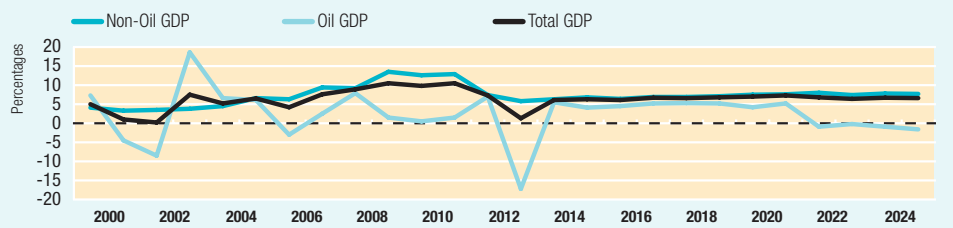
Saudi Arabia. Today, these words evoke a very different set of images from that of 20 years ago, when Saudi was to most people a mysterious, closed country renowned mainly for its segregation of women and massive oil reserves. Now, after 15 years of Saudi Arabia slowly opening itself to the world, I would bet that most people associate the words with diving holidays, alternative energy technologies and, most pertinent for our readers, abundant commercial opportunities.

Indeed, Saudi Arabia, along with the region, has transformed itself [1]. The country's economy has shifted from being a hydrocarbon-based one, where oil revenues merely provided a security blanket for its inhabitants, to a more diversified and entrepreneurial economy. In 2024, approximately 60% of GDP was derived from non-energy industries, up from under 40% in 2005 (see Figure 5.1). Against a backdrop of relatively high oil prices and steady economic growth, the Kingdom has established new strengths in the manufacturing and construction sectors and has emerged as a regional leader in a number of specialised Islamic finance products. These shifts in the economy have been accompanied by improvements in education, public infrastructure and the increasing effectiveness of local councils in drafting and implementing social policy. And although Saudi Arabia remains an absolute monarchy, recent speeches by the King and high-level government officials indicate that a constitutional monarchy is perhaps only a few years away.

Few would have predicted this rate of change. At the beginning of the century, Khaleed Al-Jamal, a respected Saudi economist, commented that making change in the law in Saudi Arabia was akin to tacking a huge yacht in dead calm. However, if there were an America's Cup for national economies, Saudi's yacht today would be swifter, more agile and undoubtedly far more competitive than it would have been in previous decades. For the entrepreneur keen to crew on an up-and-coming world-class vessel, the following article provides a brief outline of how this remarkable transformation has come about and offers a few tips on making the most of the sea change the country has undergone.

[1] See box page 33: Gulf Post: Fifteen years of peace

Figure 5.1 **Saudi Arabia Real GDP Growth**



Source: PFC Energy

Last updated: 03:18 (GMT+04) 10 August 2025 .
Gulf Post

REGION

Fifteen years of peace: 2010 to 2025

Shortly after the turn of the 21st century the Middle East was unequivocally deemed an unstable hot-spot: the Arab-Israeli confrontation was on a downward spiral, the US-Iranian relationship was deteriorating amid fears of nuclear proliferation in the region, Iraq was descending into chaos… the list goes on. At the same time, despite some economists predicting a Chinese hard-landing, the world continued to enjoy the benefits of globalization and economic stability. The challenge for the Gulf region was to participate in the global prosperity without being consumed or distracted by its regional troubles.

With all these historical rifts, who imagined that peace in the Middle East would be possible within a generation? With a few caveats, this seems to be what we have achieved. Of course tremendous efforts were required (and made) to solve the Israel-Palestine conflict. Saudi Arabia pushed itself forward as a regional peacemaker and moderator, and other Arab States and the US followed suit. A treaty of mutual recognition between the Israeli and Palestinian governments was signed in 2011, and the Arab states together contributed US$ 5 billion towards the reconstruction of Palestine. To further boost peace-making in the region, the Gulf Security Cooperation Council (GSCC), an extension of the GCC's security relationships, was established. This was an attempt to enlarge the GCC's security role in the Gulf region, by making overtures to Iraq and Iran for regional peace, marking the expansion of substantive integration beyond the Gulf peninsula and a positive shift in the effectiveness of regional security agreements.

Regional stabilization was not the only progressive achievement of the GCC countries. First, limited monetary integration was achieved in 2010 between the GCC countries (except Oman, who joined three years later) and went smoother than expected, resulting in increased intra-GCC infrastructure and trade, with the new Dinar immediately floated. Serious efforts were made in 2010 to implement a set of standards to encourage complementarity, maximize the opportunities for growth across the region, and minimize race-to-the-bottom competition. Recognizing Saudi Arabia's economic power, the GCC Central Bank was nominally established in Riyadh, with a rotating presidency amongst GCC members. In reality, GCC monetary policy remains a hybrid model, which each country still maintaining its own central bank. Second, enhanced transportation links were installed to support increased intra-GCC trade. An example of this is the high-speed Magnetic Levitation (MAGLEV) system now linking the Emirates to Riyadh and beyond, which has affected the distribution and reach of trade and industries. (see Figure 5.2 and 5.3). Third, in 2021, the GCC adopted a common visa policy, building on initiatives of bilateral visitor visas among the UAE, Bahrain and Qatar in 2015. For some time now, the governments of the Middle East have been clearly on the same page vis-à-vis how open the region should be to the rest of the world and how its relationship with the United States should develop.

This integration has undoubtedly brought prosperity for the region, but at a cost. Rising consumption has created major environmental issues which must be tackled from a regional standpoint. Thanks to greater agreement between states, today this may be a possibility. However it would have been nice to combine peace and greater economic prosperity in the region with a healthy environment.

Figure 5.3

Saudi Arabia Industry Contribution to GDP 2007-2025

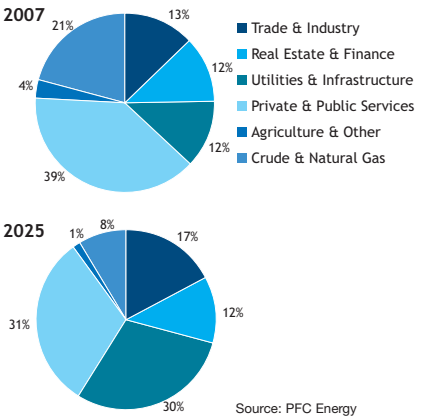
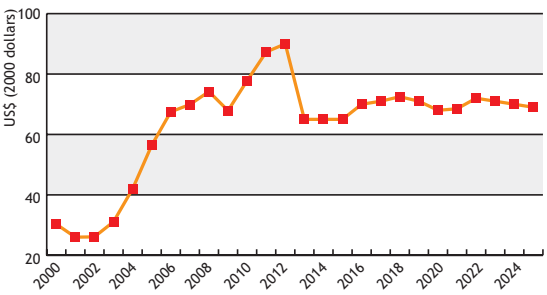


Figure 5.2

Real Oil Price



CREATING OPPORTUNITIES

"Saudi Arabia is still the King of the Desert. Many of its accomplishments in the past fifteen years came from adjusting the political infrastructure according to the demands for a robust and accountable long-term business environment. Of course, social rules were accommodated one by one, slowly but steadily, and the younger generations took this opportunity to push for an accelerated rate of change."

Former government official, Jubail

Thanks to a forward-looking and realistic belief in the benefits of market mechanisms, Saudi Arabia has successfully enacted many reforms, including increased transparency in political infrastructure, measures to enhance and retain human capital, and the development of a conducive environment for new business opportunities. Following a relatively slow pace of change after the turn of the century, an ambitious program of reforms was instituted between 2011 and 2015, which included edicts reforming labour markets, SAGIA and foreign investment laws, all of which made the private sector more accountable and significantly empowered. From an entrepreneurial perspective, this provided the fertile ground for start-ups.

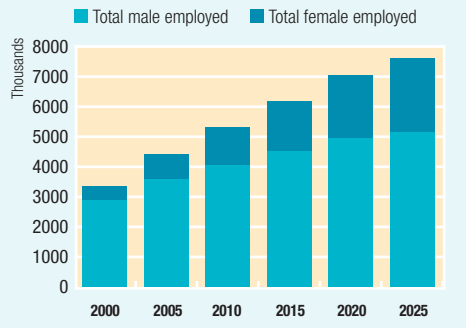
The current rapid growth of the **construction** and **manufacturing industries** dates from 2011, although its impact wasn't really felt until five or six years later. These, like other sectors, have been driven by demographics. Once, the Kingdom's young population was considered a weakness; today it is one of its keys to success. Saudi now has over 45 million inhabitants, most of whom are sophisticated consumers driving demand for housing, commercial buildings and consumer goods. 38% of the population are also productively contributing to the economy, up from just 25% in 2007, helping power the GCC's largest economy (see Figure 5.4).

On the **financial** front, the Kingdom instituted limited monetary integration with the GCC in 2010 with little difficulty. Saudi used this occasion to bolster its financial credibility, helping to diversify its economy away from oil through enlarging the banking sector. The government's decision to market Saudi Arabia as a global role model for Sharia-based finance was extremely effective in placing the Kingdom, along with Bahrain, at the hub of movement towards global harmonisation of Islamic finance.

An emergent industry for Saudi Arabia (and a major milestone in openness) was launched in 2014 with the "Visit the Kingdom" visa system that increased available annual foreign tourist visas tenfold, from the pilot system of 50,000 per year to 500,000. This demand-led approach to developing the tourism sector was apparently triggered by the launch of two new economic cities in a bid to increase foreign investment and boost visitor numbers to resort areas. This policy replaced a focus on internal tourism, and also led to a large increase in students seeking to study hospitality-related subjects at Saudi's new universities [2].

[2] See box page 35: Islamic Finance International Frequently Asked Questions

Figure 5.4 **Employment in Saudi Arabia by Gender**



Source: PFC Energy

Frequently Asked Questions

Back Close

Q. What is Sharia-compliant securitization?

Islamic financing generally requires that the advancement of funds be linked to the performance of the assets that back the financing. For a securitization structure to be Sharia-compliant, the assets being securitized must themselves also be compliant. While conventional securitization structures incorporate guarantees, derivative products, interest-bearing receivables, interest-bearing liquidity facilities, synthetic instruments, and other features that are derivatives of interest rates, our Sharia-compliant securities deal only with non-interest bearing assets and cash flows. While some would argue that Sharia law can be interpreted as rejecting derivative instruments, this issue has been addressed by careful scholarship and innovative financial engineering. Our organization, a joint-venture between two of the largest banks in Bahrain and Saudi Arabia, is committed to ensuring that our securities are all Sharia-compliant.

Q. Who oversees the decisions about Sharia-compliant investment?

Islamic Sharia is a series of interpretations of the Holy Qu'ran, the Sunnah, judgement by other scholars, and consensus agreement, and as such does not have a unified set of codified laws. However, the recently instated Islamic Banking Regulatory Commission, established in Bahrain earlier this year, oversees our interpretations on Islamic securities and their enforcement. In addition, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) – again based in Bahrain – has issued standards on accounting, auditing, governance, ethical, and Sharia standards, including a statement on capital adequacy. This centralized established database reinforced common understanding, terminologies, and accumulation of cases from the wider Islamic countries – not only in the Middle East, but also in Asia and including the still-expanding communities in the West.

The use of internalized Islamic standards by the Islamic banking and finance industry has enabled the industry to realize the full benefits of accurate and transparent financial reporting. Though integration is expected to take 4 years, the AAOIFI database (now also accepted in Saudi Arabia) is expected to support the growth of securitization. Moreover, the International Swaps and Derivatives Association (ISDA) has ensured that the views of Sharia scholars and market participants on derivative products were fed into the centralized database, providing reassurance on their compliance status.

Q. How big is the Islamic securities market?

Trading in Islamic securities has grown by over 50% per year over the past three years, and now accounts for over 25% of all tradable products in daily volumes on exchanges across the Middle East. This is expected to continue to grow in the coming months and years, mirroring the success of derivative instruments in other financial markets.

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INSTITUTIONAL SUPPORT AND SET-UP IN SAUDI ARABIA

"Given its track record, a lot of entrepreneurial-minded people had reservations about starting a business in Saudi Arabia. But part of being an entrepreneur is to take a calculated risk, and that is what I did 17 years ago, knowing that change is the one constant. One change led to another, and soon the country was in an uncharted territory – which is precisely the environment an entrepreneur hopes for."

System Software Entrepreneur, Jeddah

Ten years ago, if you were a local or foreign entrepreneur looking for a business opportunity in the Gulf area, you probably would have opted for Qatar, the UAE or Bahrain, all having done much to streamline regulation and limit red tape in starting up a business. Though Saudi had reformed its wider financial services, it was still difficult to gain access to credit if you were young or not in traditional banking industries. Even if you used one of various micro-financing schemes available throughout the Kingdom, the judicial system and labour laws still inhibited one's ability to hire and fire skilled workers, regardless of whether they were nationals or foreign workers. It's hard to point to one particular policy that began to genuinely transform the Kingdom into the climate today that positively encourages entrepreneurial risk-taking. It's likely that the Saudi government observed some of the high profile entrepreneurial success stories in figures like Najeeb Essa from Bahrain (see *GCC Regional Scenarios*) and realised Saudi could fall behind in an increasingly innovation-driven international economy.

To start with, the Saudi government instituted an **overhaul of business regulation** by bringing together the numerous ministerial powers regarding private-sector operations, and consulting extensively with the Chambers of Commerce to update and consolidate all investment regulation. For a brief period this caused a major upheaval in the Saudi public sector and between regions as well as creating confusion for many businesses. However, the success of the effort was proven in 2013, when this magazine rated Saudi's business environment "most improved" in a survey of 52 economies.

Another a crucial change was the gradual acceptance of so-called "**lifelong learning**", and the proliferation of executive training courses by private companies throughout the Kingdom. These programs even spread to the public sector; when the judicial system was reviewed in 2014, the decision to send judges on a training course firmly underlined the role of retraining as a way to maintain the effectiveness of a workforce. They also consolidated a real transformation in education that was quietly under way throughout the decade. Though Bahrain and the UAE had stolen the limelight somewhat with their much vaunted international campuses and IP sharing agreements a decade earlier, Saudi Arabia has also seen substantial payoffs from human capital enhancements instituted by the Kingdom of Saudi Arabia Education Authority (KSAEA). As a result, rather than experiencing a brain drain to other GCC states, Saudi Arabia began to develop a reputation for providing a prosperous, private sector driven economy, with rewarding job opportunities and quality education [3].

[3] See box page 37: Interview with an entrepreneur

Finally, Saudi's **social environment** is better aligned with the needs of business, involving more groups of society in the economic revival of the nation. The evidence of Saudi's ability to look at itself critically came in 2014, when a complete census was taken, made publicly available and became a catalyst for socially-minded change. Civil societies that were playing an instrumental role in improving the rights of women and children and removing segregation were further encouraged by the government, and received extensive international media attention. For example, in a bid to improve labour force participation (and presumably also to improve Saudi's image), a "Women at Work" programme initiated by civil society and fully supported by the government and Chamber of Commerce was announced in the Shoura Council in 2010 to enhance the standing of women at work.

All these developments, along with improved access to capital through both traditional and Islamic banking systems, justifies Saudi's current position on our "Ease of doing business" scale as 5th in the Middle East, an improvement from 6th last year (overtaking Egypt) and up from 27th in 2005.

Interview with an Entrepreneur

EntrepreneurshipOnline.com

Aliyah Khalaf, Director of KnowledgeSource, the leading teacher-training and executive education provider in Saudi Arabia.

January 2025

Q. How did you start your business?

Having been brought up in a very creative family, I wanted to give other girls opportunities to learn creative thinking and critical writing. Following my Post Graduate Certificate in Education at Bristol University in the United Kingdom, funded by the Ibn Sina Programme (see *The GCC Countries and the World: Scenarios to 2025*), I returned to Saudi and started a tutoring agency, offering after-school and weekend tutorials for girls. Given the curricula changes at the time, an additional emphasis on maths and science was a natural complement to classes in critical thinking. I soon discovered a high demand and was tutoring intensively after school and weekends, so I searched for other teachers who'd be interested in working for me. I may have been overly picky for the right qualification and attitude, but it was surprisingly difficult to find sufficiently-qualified teachers. When I asked some eager candidates to come back after further training, I discovered there were minimal opportunities for teachers to re-train in the Kingdom.

Q. Was there institutional support for your business?

Yes, particularly with the establishment of the Kingdom of Saudi Arabia Education Authority (KSAEA) in 2009 *[an independent body that provides advice on school curriculum development and to conduct evaluations of schools across the Kingdom]*. It began to be increasingly important for schools to make sure that their teachers had access to professional development. The KSAEA looked very positively on retraining and it was one obvious way for a school to move up the national rankings. That was a major reason I started running my own induction courses for the teachers I decided to hire. After a while I started to receive requests from schools to run teachers retraining courses.

Q. How did your business expand?

I expanded both geographically and gender-wise. The decision to start some co-ed classes was highly controversial at the start. By 2016, I had three tutoring centres, in Riyadh, Jeddah, and Al Jubayl, each employing about thirty tutors, who were teaching approximately 900 students per week at each centre. Then I decided to branch out into teacher training.

By this time I had made many connections and understood what kind of retraining was in demand domestically and internationally, what teachers needed to know about evolving curricula and how to deal with new technology. In 2019, with the support of KSAEA, I opened the Centre for Professional Development, based in Riyadh and closely working with the government. It offers short-term courses that are directly tailored to curricula standards and more general courses in teaching strategies. It's been a hit. I took the company public in Riyadh in 2023 in order to expand to the rest of the GCC region and eventually to the wider Middle East.

There are distinct trends upwards in terms of job satisfaction and pay in both the private and public schools. These trends reflect an increase in quality of teaching and new incentives to reward teachers. My company has been sending out surveys to teachers across the country since 2015 to gain a sense of what the challenges are year by year, and we've always included a section that measures job satisfaction. Today, it's a pretty prestigious thing to be a teacher. Teachers make an impact on the student's future, and it is rewarding to see them succeed. With this focus on education from both private sector operators like me and the government, Saudi Arabia has dramatically improved in the Programme for International Student Assessment (PISA) ratings.

WHAT IS IT LIKE TO LIVE AND WORK IN SAUDI ARABIA?

"Saudi has been making a huge effort to maintain its values in the face of change and I think this is what makes it special. Saudi Arabia has long been off-limits to foreign leisure travelers, but now there is ample opportunity to explore a unique country – one where long-standing and rigorously-defended core values can be seen coexisting alongside modern life."

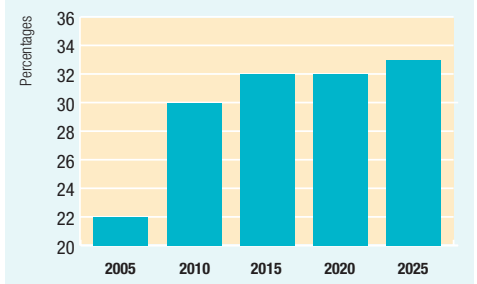
CEO DiscoverSaudi, Riyadh

What is it like to work and live in Saudi Arabia these days? Well, while the proliferation of gleaming new office towers means that the KSA's cities have outwardly changed dramatically, business is still dominated by building personal relationships. Although these days you no longer have to employ an agent to introduce you to local businessmen – the chambers of commerce provide the easiest point of entry. Women still wear the hijab and the majority focus on traditional activities. Yet, the proportion of women in the workforce is now 35% and you will often see a young Saudi girl driving to work (see Figure 5.5). Women are also now free of restrictions on travel, resulting in a massive upsurge in regional commuting. Daily calls to prayer still empty shops and offices. But there have been recent moves to ease restrictions on the practice of other religions, and the religious police now play far more of an advisory role as opposed to old-style policing.

In many ways Saudi Arabia is as pleasant and open a place to live and work as any of the neighbouring Arab countries. It also has a lower crime rate than the average OECD country. The Kingdom has made big efforts to improve the quality of life of both locals and expatriates over the past ten years. This began with the introduction of formerly prohibited entertainment such as theatre and film in specific areas. Recently the government has further relaxed its policies on public entertainment, responding to demand from an increasingly powerful youth voice. While this may have troubled many conservatives (and you will find much debate amongst the older generation over the dilution of Saudi culture and the problem of youth immorality), there is no doubt that these policies have enhanced Saudi's economic strength by slowing the brain drain of nationals, encouraging the return of nationals who had left, and lowering the cost of employing foreigners.

For the ordinary Saudi, income disparity has visibly decreased with better mechanisms for income distribution now in place. There has been substantial upgrading of urban and village dwellings. A middle class has grown, albeit at a slower rate than in Bahrain or the UAE, aided by a new generation of entrepreneurs. Finally, although environmental degradation in Saudi and, indeed, the entire Gulf region has been a major topic in the media. Saudi's desert irrigation project in Sirhan and the production of potable, desalinated seawater are poster projects representing forward thinking and environmental management [4].

Figure 5.5 **Saudi Arabia Female Workforce Participation Rate**



Source: PFC Energy

[4] See box page 36: Interview on the environment and water

Skype version 15.6

Topic: Interview on the environment and water

Aisha Mohammed, Deputy Chief, GCC Environment Agency
Khalil Ali, Senior Researcher, Project Team for GCC Environmental Review

Khalil 06.18.2023 - 14.01

Good afternoon Aisha, thanks for your time. As I mentioned in my e-mail I wanted to tease out the ideas that would be valuable for the GCC Environmental Review in 2025 publication.

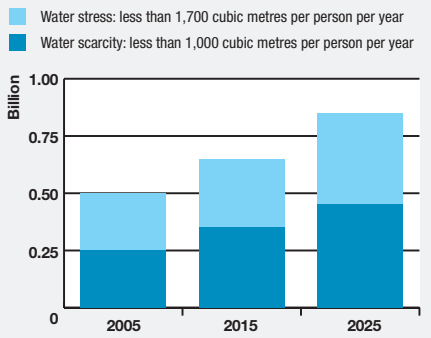
As you know, we've spent some time looking at how much environmental issues have cost us in economic terms. It looks as though we've incurred a greater cost than anticipated through climate change – something along the lines of 5-7% of GDP. However for the region the big issue is still water. As the expert on this in the GCC, can you comment?

Aisha 06.18.2023 - 14.19

Well, of course the cost of reducing emissions could have been limited to around 1% of global GDP per annum. However, despite global consensus on the importance of climate change, we couldn't quite get everyone committed enough to global CO_2 emission levels, particularly the US and China.

But you're right, water is far more important for the Gulf. We have been experiencing a chronic water shortage (see Figure 5.6). By 2025, average water availability in the Arab States will be just over 500 cubic metres per person, having dropped from 1,200 cubic metres in 2005, and demand in the Gulf is actually now 170% of available sustainable water sources. Although we've managed to design good ways to collect rainfall, we haven't solved some of the least visible but most pervasive problems; for example, declining water tables leave aquifers vulnerable to saline contamination and are a result of using groundwater faster than the hydrological cycle can replenish them. Water is most definitely a finite resource in this regard.

Fig. 5.6: Population of Arab States Facing Water Stress or Scarcity



Source: UNDP Human Development Report 2006, World Economic Forum

In addition, water pollution, from oil and other industrial productions, has accelerated, threatening the purity of both coastal and ground water, damaging coastlines, coral reefs, and marine vegetation through oil spills and other discharges. Not good, especially for the tourism industry around the Gulf and Red Sea, as coastlines have been damaged by industrial pollutants.

To rectify the water shortage, conventional desalination has been upgraded to reverse osmosis (which forces water through a membrane and captures salt compounds – a technology less reliant on energy). This has reduced the cost of desalination from more than US$ 1 per cubic meter three decades ago to less than US$ 0.25 now. Of course, as our populations have expanded and so has demand, the total cost of providing this water has risen dramatically, which puts more pressure on our public finances.

Khalil 06.18.2023 - 14.32

So what needs to be done to reverse environmental degradation?

Aisha 06.18.2023 - 14.37

First and foremost, we haven't quite achieved the needed change in our mindset to stop further damage; for consumers, producers and our leaders, environment issues need to be at the centre of decision-making. In parallel, we need full implementation of environmental requirements and enforcement and compliance to environmental legislation. Finally, we need to change policies that currently encourage inefficient land use, overuse of non-renewable water resources, and ecological damage. It's ironic that environmentally-focused industries are now approaching the size of the pharmaceutical industry in 2012, but we still can't solve most of our environmental issues. The world is not running out of water as a whole, but many countries are running out of time to tackle the critical problems.

CONCLUSION

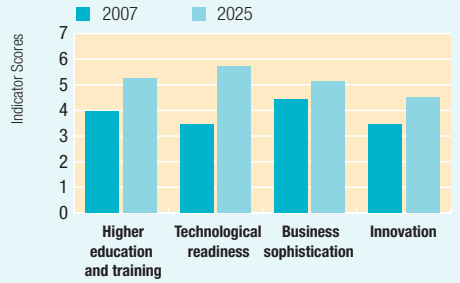
Should you invest in Saudi Arabia? We certainly suggest that it is worth your time to look in further detail at the country profile and your sector, and decide based on your risk profile. Hurry though, as major multinationals and SMEs alike are investing in the GCC's largest economy in large numbers, and if the local stock market is any indication, firms are doing very well. The progress Saudi has made over the past two decades is clear evidence that the country is increasingly a great place to do business.

However, to ensure this continues, the momentum of change needs to continue. The government seems to be encouraging the country to continue down its path of considered and careful reform. In the last five years, the general theme of royal decrees has been delegating and clarifying the division of responsibilities between the Shoura, government and judicial institutions. This does not mean a division of church and state is imminent, nor does it mean adoption of a western value system. The government appears to be proceeding on the assumption that governance structures can be transparent without ceding moral authority.

As a foreign business owner in the Kingdom, this writer can affirm that the processes for setting up a business are relatively straightforward, and one can now live and do business in Saudi Arabia without fear of getting bogged down in red-tape. In terms of competitiveness, large gains have been made over the past 20 years in terms of both business sophistication and innovation, proving that today's commercial environment enables the development of business models better able to compete in the global arena (see Figure 5.7).

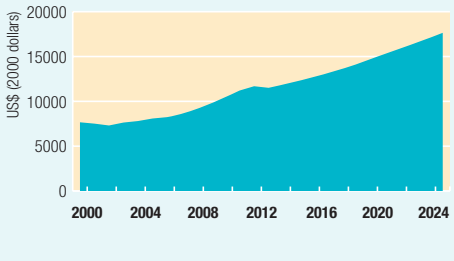
Finally, the quality of life of Saudi citizens and expatriates alike has gradually improved, with the slow relaxation of laws that previously limited much social behaviour now being taken for granted. Experts agree that this has been a critical change in terms of both foreign investment and domestic growth. Over the past 25 years, Saudi society has evolved in such a way that Islamic traditions are respected but there is also a culture of mutual respect, tolerance, personal freedom and access, offering both the KSA's citizens and the outside world a welcoming environment in which to invest, work and live. Those that fear that such change has eroded Saudi's values or its place as the centre of the Muslim world should note that throughout this process care was taken to safeguard Islamic values. At the end of the day, the economic results speak strongly to both entrepreneurs and social scientists alike: real GDP per capita is fast approaching US$ 20,000, with no sign of slowing down, making the KSA a place to seriously consider for your next venture (see Figure 5.8).

Figure 5.7 **Improvements in Key Competitiveness Factors**



Source: World Economic Forum

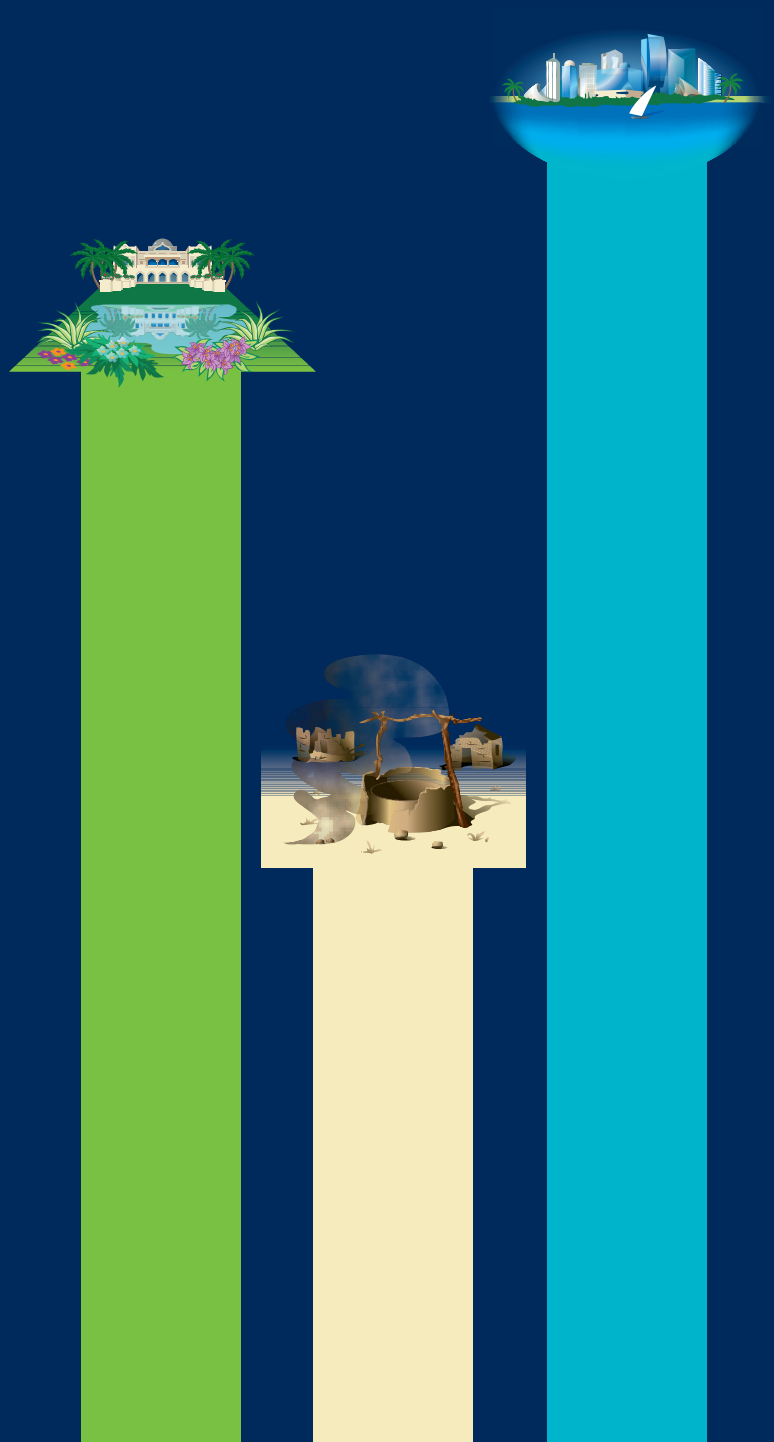
Figure 5.8 **Saudi Arabia Real GDP per Capita**



Source: PFC Energy

Section 6

Comparing the Three Scenarios



Section 6

Comparing the Three Scenarios

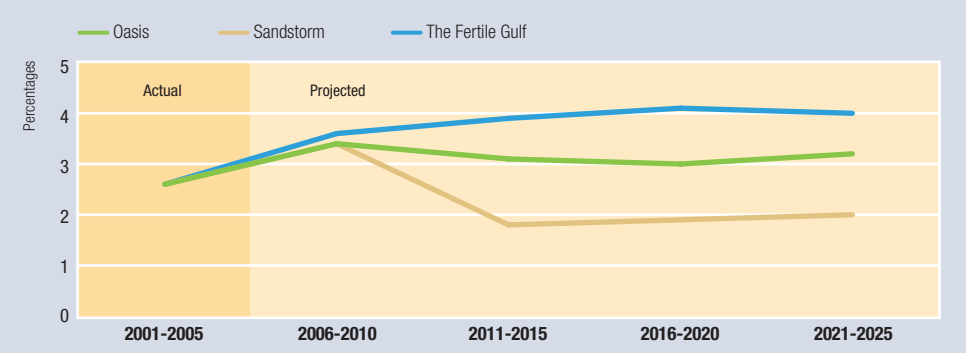
The following section allows a side-by-side comparison of the evolution of the key economic indicators featured in each scenario. The various futures described in the scenarios have been quantified using macroeconomic and project-driven energy modelling to ensure plausibility and consistency.

Global Indicators

1. Global GDP growth

In ***Oasis***, globalization continues despite regional conflict, but friction in global markets caused by security concerns means that global growth averages around 3-3.5% throughout the period. In contrast, in ***Sandstorm***, oil shocks and lack of trust undermines international cooperation and trade integration, causing a global recession in 2010 to 2012, followed by slower growth thereafter. In ***The Fertile Gulf***, the global economy benefits from increasing globalization and trade in a harmonious global environment and reaches average five-year growth rates of over 4%.

Figure 6.1 **Global GDP Growth**



Source: Oxford Economics

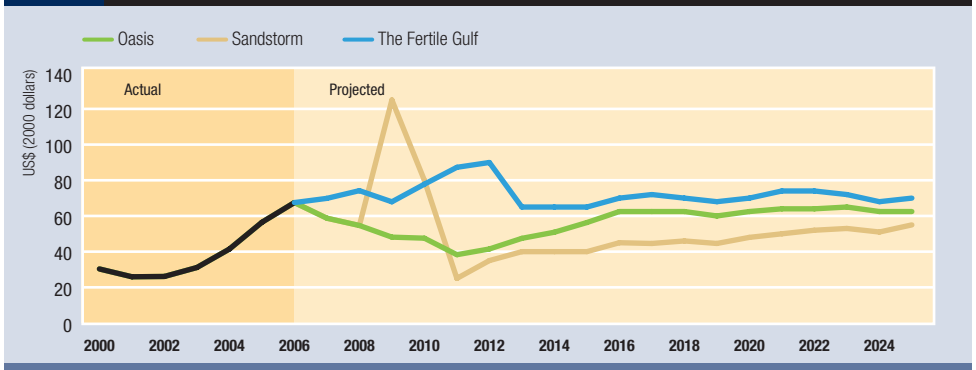
2. Oil price (constant 2000 US$)

In ***Oasis***, a downward slide in real oil prices occurs due in part to a slowing of the world economy and increasing non-OPEC supply as large projects come online. OPEC successfully defends a floor of US$ 45 per barrel. By the end of 2016, there is a rising call on OPEC, excess capacity is reduced and prices achieve a new price range of approximately US$ 100 by the end of the period.

In ***Sandstorm***, a global slowdown causes a fall in oil prices, which dramatically reverses itself due to the US bombing of Iran in 2009, when prices shoot to an average of US$ 125. The resulting regional instability and sudden oil price shock combines with economic weaknesses in the US market to precipitate a global slowdown and a reduction in oil demand over a four year period. Oil prices dramatically decline as OPEC is unable to adjust quickly enough. From 2016, recovery is slow due to festering problems in geopolitics. However, a reduction in non-OPEC supply due to delayed projects enables OPEC to defend a floor of US$ 45 in real terms until 2025.

In ***The Fertile Gulf***, increasing global demand for oil (driven particularly by China and India), capacity constraints and delays affecting some large non-OPEC projects drive a rise in prices from 2009 to 2012. Saudi's excess capacity falls under 2 mbd as production rises above 12 mbd, causing sustained price rises, tempered somewhat by increased output from Iraq. Prices in nominal terms are well over US$ 110 per barrel by 2025.

Figure 6.2 **Real Oil Price**

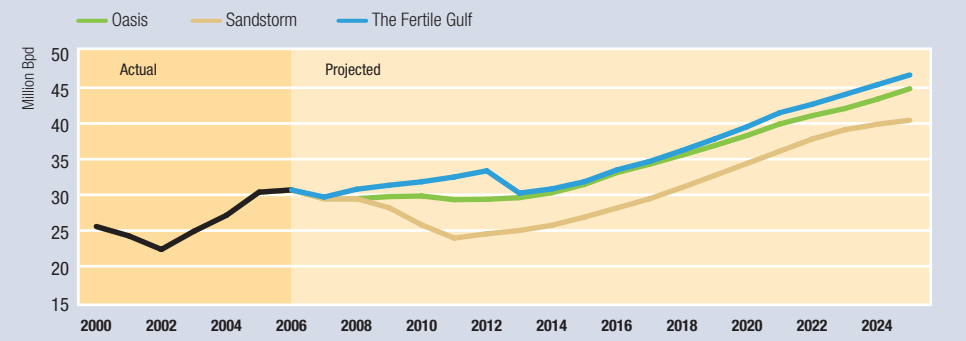


Source: PFC Energy

3. Call on OPEC

The call on OPEC remains very strong, increasing to unprecedented levels in both ***The Fertile Gulf*** and ***Oasis*** scenarios. OPEC demand is lower in ***Sandstorm*** due to a combination of falling global demand and increasing supply from non-OPEC capacity as new projects come online. However, following a global slowdown, increasing demand and non-OPEC capacity restraints cause the call on OPEC to expand through the end of the period.

Figure 6.3 **Call on OPEC**



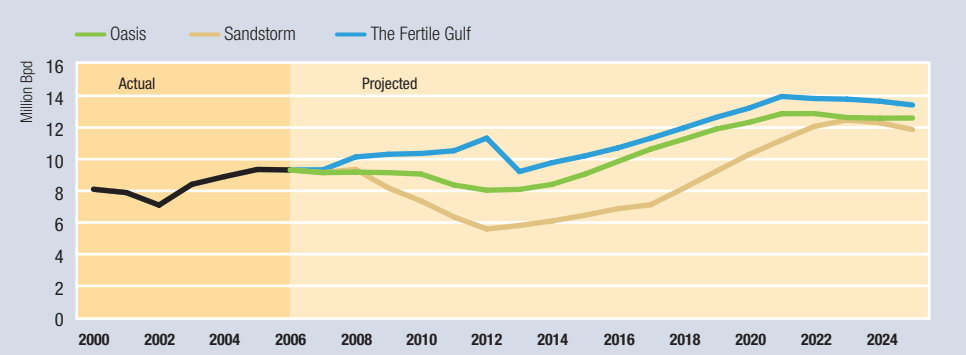
Source: PFC Energy

Country indicators

4. Oil production

Saudi oil production varies with the call on OPEC, as it produces in line with OPEC negotiations on sharing output, although this is exaggerated by its role as swing producer. In all scenarios, Saudi Arabia remains the dominant producer of oil among the GCC countries. In ***Sandstorm***, Saudi Arabia responds to declining demand by lowering its output by 20 to 30%, escalating its reduction in production relative to the call on OPEC.

Figure 6.4 **Saudi Arabia Oil Production**

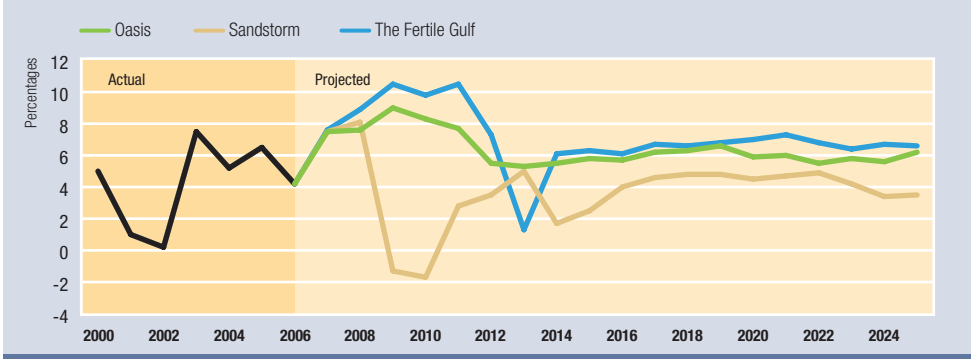


Source: PFC Energy

5. Growth in real GDP

Despite various attempts to diversify, in all the scenarios, GDP growth rates remain highly correlated with the oil price. In ***Oasis***, the KSA experiences steady growth of 6%, although regional instability does create occasional volatility. In ***Sandstorm***, the collapse in oil prices following the US-led bombing of Iran leads to a period of negative growth rates in the KSA before stabilizing at an average of 4%. In ***The Fertile Gulf***, real growth reflects business cycles and a short slow-down caused by energy shortages in 2012, stabilizing at 6-7% over the long term.

Figure 6.5 **Saudi Arabia Real GDP Growth**

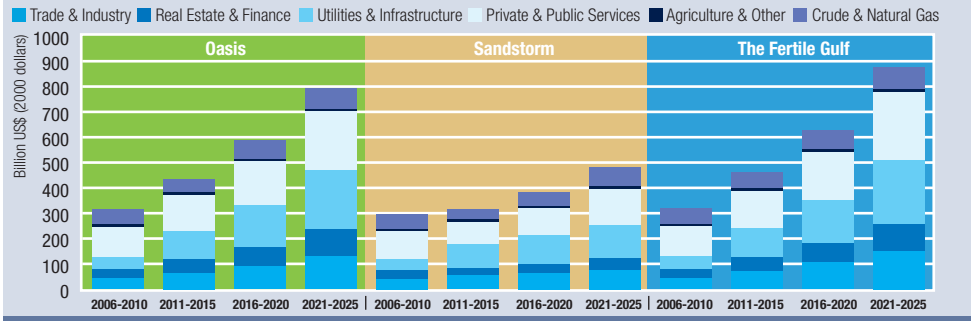


Source: PFC Energy

6. GDP composition

Breaking down the KSA's real GDP figures into sectors shows that all sectors are fairly stable across both ***Oasis*** and ***The Fertile Gulf***. In ***Sandstorm***, however, the Real Estate & Finance and Trade & Industry sectors are relatively smaller, as lower global demand and internal friction hold back real growth.

Figure 6.6 **Saudi Arabia Real GDP by Sector**

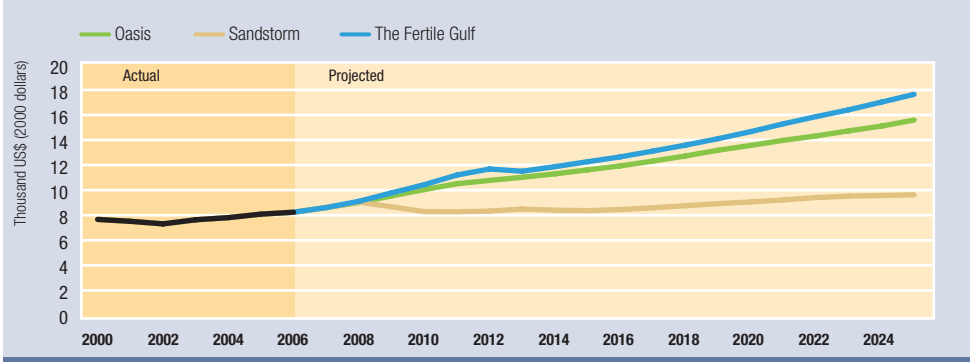


Source: PFC Energy

7. GDP per capita

Real GDP per capita reflects economic output by keeping all commodity prices, including oil, at 2000 prices. This neutralizes the effect of the oil price and other price factors on GDP, providing a more comparable measure of output for the scenarios, although these figures are not adjusted for purchasing power parity. In ***Oasis***, per capita growth rises evenly, reflecting increasing output tempered by demographics and friction in the global trading environment. Per capita growth is strongest in ***The Fertile Gulf***, as real GDP outpaces population increases. In ***Sandstorm***, the domestic recession means GDP per capita falls and then stabilizes, reaching just under US$ 10,000 in 2025.

Figure 6.7 **Saudi Arabia Real GDP per Capita**

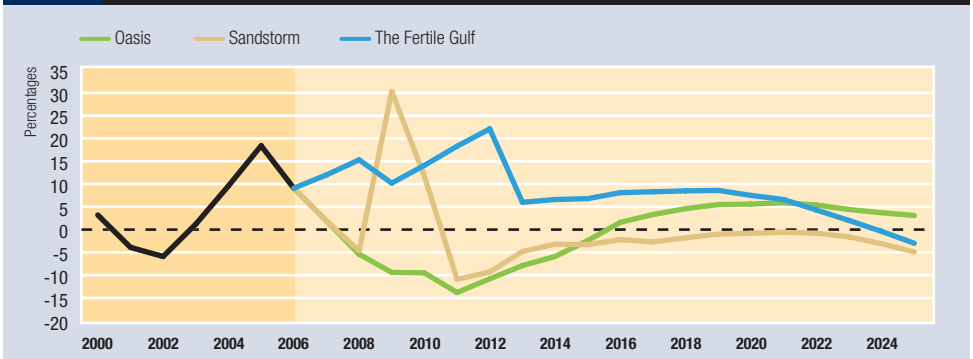


Source: PFC Energy

8. Budget performance

The Saudi government budget remains highly correlated with the oil price in all three scenarios, reflecting the primary source of government finances. In ***Oasis***, declining oil revenues, military expenditure and a rising population create a deficit between 2008 and 2015, corrected by a recovery in the oil price and alternative sources of income. In ***Sandstorm***, the oil price spike in 2009 is followed by a price crash and thus a dramatic fall in oil revenues, creating a deficit from 2011 onwards from which the budget never fully recovers. In ***The Fertile Gulf***, the government receives robust revenues from high oil prices, keeping the budget in surplus until 2023, when increases in oil output from Iran and Iraq push Saudi oil revenues lower than anticipated.

Figure 6.8 **Saudi Arabia Budget Balance (Percentage of GDP)**

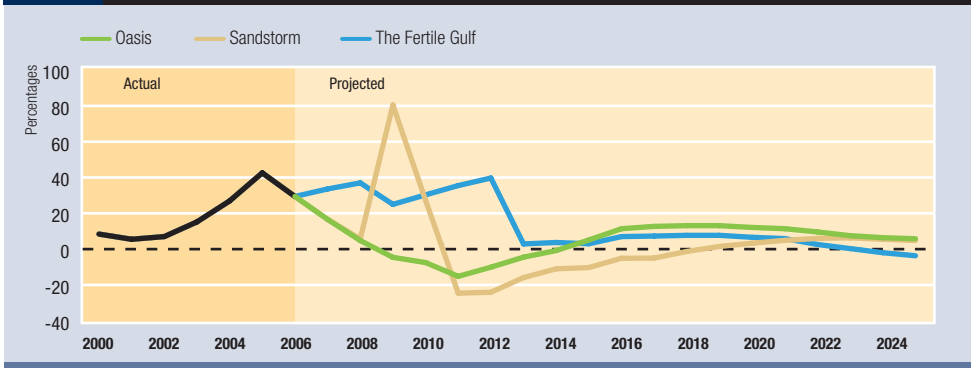


Source: PFC Energy

9. Current account balance

As with the budget balance, the KSA's current account balance reflects both the oil price and global conditions. Falling oil revenues requires the KSA to use reserves to pay for its imports between 2008 and 2014 in ***Oasis***, and 2011 and 2020 in ***Sandstorm***.

Figure 6.9 **Saudi Arabia Current Account Balance (Percentage of GDP)**

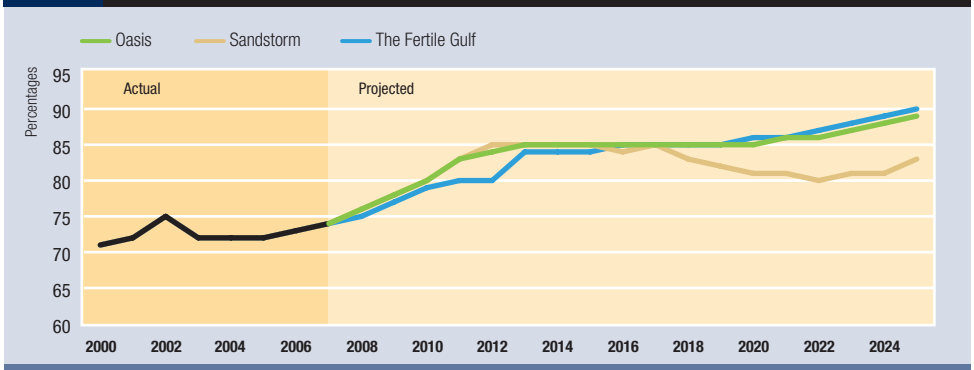


Source: PFC Energy

10. Non-oil sector

The strong growth of the KSA's non-oil sector in real terms continues in ***Oasis*** and ***The Fertile Gulf***. In ***The Fertile Gulf***, the percentage of non-oil contribution to GDP is reduced between 2009 and 2012 as new energy projects come online. Continued growth in the private-sector means that non-oil output contributes 90% of real GDP by 2018. In ***Sandstorm***, even as oil production falls the non-oil sector stagnates. The non-oil sector contribution to GDP declines to an average of 80% over the final period reflecting the global recession and unfavourable local conditions.

Figure 6.10 **Saudi Arabia Share of Non-oil Sector in Real GDP**



Source: PFC Energy

About the data and modelling

To provide a quantitative representation of the GCC regional and country scenarios, the World Economic Forum worked closely with PFC Energy and Oxford Economics. All country-level data were modelled in partnership with PFC Energy.

PFC Energy employs an econometric forecasting model, which is designed to capture the numerous interconnections and trends that will determine a country's economic growth rate. The model was constructed to take several exogenous factors into account, including the respective country's oil and gas production levels, country-specific export price, investment levels throughout the economy, as well as numerous context-altering factors including a global recession, domestic policies and terrorist attacks threatening infrastructure. The charts and other quantitative output contained herein are derived from PFC Energy's proprietary econometric model as well as analytical estimations drawing from numerous experts consulted by the World Economic Forum.

Using the data

The data can be used to develop leading indicators to determine which of the three scenarios is tending to unfold at any point in time. Users should bear in mind that the scenarios and related analysis are descriptions of a set of possible futures as seen from the current perspective. The data, charts and graphs should not be seen as forecasts or predictions; rather they are a cohesive and consistent representation of the quantitative elements of the scenario dynamics. The data provided therefore serve as a guide to possible trends, and should be monitored, interpreted and applied with careful judgement.

Section 7

Conclusion

Section 7

Conclusion

In the six months since the completion of the GCC regional scenarios, the Gulf region has continued to boom. The participants at our scenario-building sessions for the KSA, like participants in our other workshops, remain optimistic about their country's future, focusing on the many opportunities that exist to take advantage of the recent liquidity through expanding the private sector, investing in productive assets and upgrading public infrastructure.

However, all the Gulf countries face a range of external and internal challenges which threaten a stable and prosperous future. History shows that a cycle of reform does not necessarily result in the creation of sustainable wealth and improved social integration. Even without the threat of external disruption or lower oil prices, the KSA must confront a number of internal fractures, including regional differences and attitudes to change. How the government manages competing interests in both the upper echelons of power and in society as a whole will influence the effectiveness and implementation of crucial reforms. In addition, by expanding its role as a regional peacemaker and recognizing the benefits of integration across the region, the KSA can play a critical part in improving stability.

The scenarios suggest that the next five years will be crucial for the region's development, as decisions made now in relation to the domestic and regional context have the ability to cement the present optimism in a framework for solid growth whilst managing potential sources of discontent. The involvement of a range of actors and decision-makers, including government, business, civil society and representatives of all regions, could produce the insights and momentum required to shift the KSA and its neighbours onto a swifter track of development, enabling the country to accelerate its progress without compromising internal and external stability. Alternatively, the scenarios indicate that delay or a reluctance to engage with controversial issues could coincide with external events to create a future where KSA enters a negative cycle of conflict and economic decline, as a result restrained in moving forward on the global stage.

These scenarios offer three very different futures for the KSA, all of which are nevertheless plausible and coherent. We hope that these scenarios will help raise awareness of the important issues facing the country. We also hope they will illuminate the long-term consequences of a confluence of events (both positive and negative) in the short-term. As such, the scenarios can play a key role in raising awareness of the core issues to be addressed by stakeholders.

These scenarios do not, and indeed cannot, predict the future. However, they do take into consideration a wide range of knowledge in order to sketch the boundaries of what is plausible; they present storylines, logical connections and analysis to assist reflection on what is possible.

We hope that these scenarios, like its related publications, ***The Gulf Cooperation Council Countries and the World: Scenarios to 2025***, ***The Kingdom of Bahrain and the Word: Scenarios to 2025***, and ***The United Arab Emirates and the World: Scenarios to 2025***, will stimulate a broad and engaged discussion on the future of the KSA and the region. In this way, we hope that a wide range of stakeholders will be better placed to debate, consider and make decisions that benefit not just the KSA and the GCC countries, but the world at large.

Annex: Recommended Reading

British Petroleum (2006),
"Statistical Review of World Energy 2006"

International Energy Agency (2005),
"World Energy Outlook 2005: Middle East and North Africa Insight"

International Monetary Fund (2002),
"GCC Countries: From Oil Dependence to Diversification"

Organization of the Petroleum Exporting Countries (2005), "OPEC Long-term strategy"

The World Bank (2006),
"World Development Indicators 2006"

United Nations Population Division (2005),
"National trends in population, resources, environment and development: country profiles"

World Economic Forum (2007),
"The Gulf Cooperation Council (GCC) countries and the World: Scenarios to 2025"

World Economic Forum (2007),
"Arab Competitiveness Report 2007"

World Economic Forum (2006),
"Global Competitiveness Report 2006-2007"

World Economic Forum (2007),
"Global Risks 2007"

World Economic Forum (2007),
"Middle East@Risk"

Other sources of information include:

Arab Petroleum Research Center:
www.arab-oil-gas.com

Bahrain - Gateway to the Gulf:
www.bahraingateway.org

Economic Development Board of Bahrain:
www.bahrainedb.com

Energy City Qatar: www.energycity.com

Global Water Intelligence:
www.globalwaterintel.com

Islamic Development Bank: www.isdb.org

Kingdom of Saudi Arabia
Central Department of Statistics:
www.planning.gov.sa/statistic/sindexe.htm

League of Arab States:
www.arableagueonline.org

Organization of Arab Petroleum Exporting Countries (OAPEC): www.oapecorg.org

Organization of the Islamic Conferences:
www.oic-oci.org

State of Qatar - The Planning Council:
www.planning.gov.qa

The Evian Group: www.eviangroup.org

The World Factbook:
www.cia.gov/cia/publications/factbook/index.html

United Nations Conference on Trade and Development (UNCTAD): www.unctad.org

United Nations Development Programme:
www.undp.org

United Nations Environment Programme:
www.unep.org

World Energy Council: www.worldenergy.org

World Trade Organization: www.wto.org

Acknowledgements

This publication is a result of substantial research and a number of workshops and interviews held during the 18 months. The project team is grateful to the many people who responded to our invitation to join our workshops and who gave so generously of their time, energy and insights. In particular, we would like to thank our scenario partner, Olayan Financing Corporation, for their continual support and helping us to convene a set of outstanding workshop participants, without whom this project would not have been possible.

While it is not possible to acknowledge and thank each of the hundreds of academic, social, government and business leaders who have been involved, the project team would like to acknowledge the following participants who were instrumental in leading the discussions at workshops in Manama, Riyadh, Abu Dhabi, London, Sharm El Sheikh, New York, Washington D.C. and the Dead Sea, Jordan. They took up the challenge to think hard about the future and we appreciate their commitment, discipline and courage.

- Adel Al Aali, Bahrain Chamber of Commerce and Industry
- Othman A. Abahussein, Arabian Health Care Supply Co.
- Omar El Abd, A. Rahman Saleh Al Rajhi and Partners Co.
- Dr Khalid Abdullah, Reef Real Estate Finance Company
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