

The Potential of Saudi Economic Reforms

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Brief Analysis

Few countries have received as much negative attention in Washington as Saudi Arabia over the last two years. Some of this is due to the politics of the Iranian nuclear deal and the Saudi response. It is also due to an attempt to make sense of the unprecedented breakdown of regional stability in the Middle East. The Kingdom, however, now ultimately serves as a convenient scapegoat.

It is certainly fair for U.S. policy makers to question some of Riyadh's policies in the region. For example, it is unclear how the Kingdom's military operations in Yemen or the stoking of sectarian tensions in the Syrian Civil War helps the United States.

On the other hand, the often overlooked fact is that Saudi regional adventurism is fundamentally driven by a sense of insecurity that leads the leadership to think it needs to act unilaterally to project strength. For example, with the Iran deal, the Saudis feel the United States is no longer quite the ally it once was. Long-time allies and bulwarks of regional stability like Egypt's President Mubarak were overthrown almost overnight. The government now faces an even thornier, populist brand of ISIS-style jihadism than its former challenges with al-Qaeda.

Therefore, the most practical approach for the United States is to support efforts to ensure a more healthy, confident, and secure Kingdom -- and this begins with a serious look at the country's ongoing domestic economic reforms. Ever since the Arab Spring, and especially during the past year under the direction of the new King Salman, the country has been undergoing serious economic reforms critical to establishing the foundation for that security. If these reforms continue and expand, they will build a stronger foundation for a mutually beneficial U.S.-Saudi relationship over the long-term.

While they did not receive much attention given more dramatic events elsewhere in the region at the time, in 2011, the government began a series of Labor reforms aimed at solving the drastic long-term unemployment problem, a major aspect of Mubarak and Ali's downfalls. The consensus of international firms working in Saudi Arabia, who have had to adjust their strategies to comply with the new laws, is that the government is taking its economic reforms very seriously.

Further evidence of this commitment to reform is the vaunted "Saudi 2030" plan. Only time will tell if these plans succeed, but based on the amount of political capital the government has expended, as well as the seniority and rank

of the officials involved, it is clear that success is the highest possible government priority. However, the boldness of the Saudi 2030 plans has prompted skeptics to question whether this is a realistic vision. There are two core points made by skeptics.

First, there is a tendency by many in U.S. media to dwell on whether the individual Saudi Princes at the top are “up for the job?” This reflects a pattern amongst Western commentators to overly focus on personalities or to speculate about how rivalries within the Royal Family might affect the country’s politics. This is a mistake.

While policy in Saudi Arabia has a number of high-profile Royals at its head, the success and implementation of major decisions reflect a buy-in from a large number of major stakeholders within the system. No major decision – and these ongoing reforms are a major decision – is made without the general buy-in of dozens of different interest groups, ranging from the religious establishment, but just as importantly the powerful merchant class.

In regards to the 2030 vision, it may be the case that some older Royals are resentful of the 30-year old Deputy Crown Prince’s power. Even so, members of the Royal Family operate as politicians, whose political and financial interests are tied to the country’s successes and failures and to some extent are not unlike politicians in other Democratic countries. The majority of Royals are aware that they have little chance of ascending the throne or obtaining the riches of the royal elite. For these royals, status and power is tied to the healthy maintenance of “the system.” They are well aware of the fate of Mubarak’s senior Egyptian politicians and businessmen still in jail.

The second critique of Saudi’s economic reforms is over their ambition. Are they too ambitious? Will good intentions translate into positive results? Evidence suggests the affirmative, even if only in part. In any case, it is clearly in the US interest for the programs to succeed.

In some ways, even partially successful ambitious policies will benefit the Kingdom.

One example is the Kingdom’s goal to develop an automobile-manufacturing industry. Two years ago the Kingdom opened its first factory and the goal is to eventually produce 300,000 cars per year. To provide the workers needed to staff these industries, the “2030 plan” calls for an increase in vocational enrollment from the current 104,000 students to 950,000 by 2030.

In the highly competitive global economy, it is quite possible the project will not succeed. However, if only implemented in part, it will still provide a significant number of new, good jobs. But even if the plan is a total failure, the experience of failing on a specific high-level industrial project will still provide hundreds of thousands of Saudis relevant experience and skills that can be applied to other areas of the economy.

On the other hand, unsuccessful implementation of highly ambitious policies in other areas could lead to clear negative consequences. One example is the de facto policy of sending 78% of high school students to universities, the highest rate in the world. This policy is based on the historically-unproven assumption of a linear relationship between more degree holders and economic growth and job creation.

It is hard to see how the economy will ever produce enough jobs to provide for these newly educated citizens even in a best-case scenario. Without careful management of opportunities in relation to higher education, Saudi Arabia’s educational reforms could lead to a greater number of disgruntled, unemployed youth, susceptible to the appeal of anti-establishment groups like ISIS. This is a scenario where working closely with an ally like the United States could make a meaningful difference in both domestic and international security.

Nor is the “Saudi 2030” vision, or earlier attempts at reform, without domestic detractors. However, these mainly emerge as a facet of tactical differences within the government over how to implement these reforms, not whether to undergo reform in itself. Under any leadership, Saudi Arabia will have to face two key voices in protest to economic reforms: social conservatives and businessmen.

While the government and senior Royals are in some sense more “liberal” than the population at large, the social conservatism of the Saudi public continues to effect what the government can achieve by way of reforms. There are plenty of situations where, for example, the best candidate for a position is a woman who, given the country’s current social conservatism, is unlikely to be hired. As one Saudi put it, “60 percent of Saudi men will not marry a woman who works in a co-ed work environment.” In this arena, the government can only do so much short-term.

Some businesses are also pushing back against specific aspects of the economic reforms that require them adjust their strategies, especially those regarding labor laws. The Saudi government is in essence forcefully interfering with the free market in an attempt to encourage higher Saudi employment. In practice, this means that Saudi firms that chose not to hire more expensive Saudi nationals may face taxes or other penalties. Some sectors are more able to cope with new requirements than others, but pushback from firms less able to adapt is a constant theme in Saudi media. For example, just this week, the Saudi Labor Minister has had to reject a petition by cell phone companies—an industry reliant on foreign labor—to ease the process.

Nevertheless, Saudi firms know that they will make no money at all in the event of an Egypt-style revolution and will continue to adjust over time. And much of the social conservatism is something only time can solve. There is every reason to believe that with each passing year, social mores will be modified to accommodate with the needs of ongoing reform, and become more in line with those in other Muslim countries.

The country of Saudi Arabia is what it is. That being said, it is in the United States’ interests to work closely with, rather than neglect, the country. With “Saudi 2030,” the Kingdom has a chance to succeed in its economic reform policies, which is the first step to ensuring that Saudi Arabia—led by a government more healthily confident on its domestic front— has a productive relationship with the US over the long-run.

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