

Chapter 17

Recasting Strategic Opportunities and Challenges for Development in Saudi Arabia

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ABSTRACT

Thanks in part to the current world economy's high demand for oil, Saudi Arabia's economy is cruising along at the present time; however, to make such a growth or development sustainable in the long term requires a transformation of the economy from a heavily oil-dependent one to a more diversified, self-sustaining and private sector-driven economy. Thus, this article focuses on the underlying structural, social and institutional problems or reform challenges of the economy. In so doing, the present article critically examines Saudi Arabia's economic development model, while crisply reassessing the government's recent major policy responses to its development opportunities and challenges. And it offers some tentative suggestions for freshly rethinking about Saudi Arabia's national long-term development strategy and its implementation.

INTRODUCTION

The economy of the Kingdom of Saudi Arabia (KSA) has demonstrated a relatively stable and consistent growth, recording 4.7% of annual average growth for 38 years until 2008. As the World Bank's 2011 Middle East and North Africa Region Economic Update notes, the KSA's current GDP has increased steadily until 2008, when it reached US\$476 billion. While it slipped back to

US\$373 billion in 2009 in the wake of the 2008 global financial crisis, it has been recovering rather quickly since 2010, owing largely to rebounding oil demand and KSA's expanded fiscal spending packages. As a result, KSA's per capita GDP of US\$18,203 as of 2008 plunged to US\$13,901 in 2009, but it bounced back and reached US\$24,246 by 2013, which was about at the same level as South Korea's. Despite the current oil boom, however, there is no guarantee that the KSA will

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sustain the present high growth momentum over the long run. In fact, to the extent that KSA's high dependence on oil revenues continues, volatility and instability may well remain inherent in the performance of its economy.

Thus, this article focuses on the underlying structural, social and institutional problems or reform challenges of the economy, which include the entangling consequences of the distributive politics on the political economy, the resultantly falling level of work ethic and social discipline, and the less-than-adequate functioning of the already-overburdened and inefficient government bureaucracies. In so doing, it offers some tentative suggestions for resolving the structural, institutional reform issues of the country, which would have policy implications for other Gulf Cooperation Council (GCC) countries as well.

The departure point of the present article is what Rodrik (2008b) calls "the central economic paradox of our time: the failure of conventional free market-based "development policy" or the "Washington Consensus" in adequately explaining or guiding development (Serra & Stiglitz 2008). Hence, the article aims to contribute building a practical development strategy that can actually work in the national context of Saudi Arabia, a research output of a painstaking field work from February 2012 to October 2013 which among others, has entailed an umpteen series of intensive and extensive interviews with numerous individuals from the KSA's government ministries, agencies, authorities, universities, civil societies, industrial and commercial enterprise.¹ The thrust of the article is designed not to seek any comprehensive roadmap, but just to help the KSA strategically to jumpstart a process of structural, sustainable and long-term development by way of identifying core historic tasks and key policy actions. Thus, for instance, while fully acknowledging the fact that governance structure or institutional foundations have a critical impact on the success and sustainability of any medium and long-term development process and its policy outcomes

(North, 1990; Brady & Spence, 2010; Acemoglu & Robinson, 2012); it does not address the role of good governance, transparent system of information and professional accountability, or institutionalizing governance reform or capacity building in any comprehensive manner. Instead, the article focuses its attention on institutional set-up and government capacity only to enhance and upgrade the government's policy coordination and implementation mechanism.

This chapter proceeds as follows: The second section critically examines Saudi Arabia at developmental crossroads. The next section crisply reassesses Saudi Arabia's recent major policy responses to its development opportunities and challenges. The following section offers some tentative suggestions for freshly rethinking about Saudi Arabia's national long-term development strategy and its implementation. The last section concludes by way of reemphasizing some of the core thoughts or arguments of the article.

SAUDI ARABIA AT CROSSROADS

Thanks in part to the current world economy's high demand for oil, as stated at the outset, the KSA's economy is cruising along at the present time; however, to make such a growth or development sustainable in the long term requires a transformation of the economy from a heavily oil-dependent one to a more diversified, self-sustaining and private sector-driven economy, which constitutes a central goal of KSA's vision 2025 (MOEP, 2005). Clearly, the KSA's preferred future would include more balance between state and market or a friendly relationship between empowering state and globally competitive market.

By judiciously exploiting the recent oil price boom, more recently, the KSA government has indeed been taking a number of ambitious and significant development initiatives in such foundational sectors as education and human development, communications and information

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