



Saudi Arabia: Long-Term Strategy 2025

The Long-Term Strategy 2025 (LTS 2025) marks the culmination of an extensive process of consultation, analysis and thinking. In effect, the work on this strategy began with the Royal Consent on 7/3/1419 (July 2, 1998) giving the responsibility to the Ministry of Economy and Planning to organize a National Symposium on the “Future Vision for the Saudi Economy.” It was expected that this Symposium would review the past performance of the Saudi economy and develop strategic options for dealing with current and future challenges facing the Saudi economy. This, in turn, was expected to provide the foundation for designing a long-term strategy to achieve the future vision for the Saudi Economy. The Symposium organized in Riyadh on October 19-23, 2002 fulfilled these expectations.

The proposed long-term strategy is supported by three pillars. The first pillar of this long-term strategy involves clear articulation of Vision 2025. It defines the direction and destination for the Saudi economy for the next twenty years. The policies required to achieve Vision 2025 constitute the second pillar of the strategy. These policies provide the “means” for achieving the “ends” enunciated in the Kingdom’s Vision 2025. In other word, while the first pillar specifies what the society wants to achieve, the second pillar outlines “how” the society can achieve it. The third pillar consists of follow-up and implementation mechanisms to ensure that aspirations articulated in Vision 2025 are converted into reality on the ground. This pillar operationalizes the old adage: what gets measured gets done.

These three pillars are like the individual legs of a three-legged stool. Each leg is indispensable and equally important to achieve the objectives of the long-term strategy.

This document is divided into five sections. The first section outlines the rationale for the Long-Term Strategy and its inter-relationships with the 8th Plan. Section two presents future vision for Kingdom’s economy in the year 2025. This is followed by a brief description of proposed policies to achieve Vision 2025 in Section three. The fourth section describes the proposed follow-up and monitoring mechanisms to ensure effective implementation of these policies. This is followed by brief concluding comments in section five.

1. 8th Plan in the Context of Long-Term Strategy 2025

With the increasing role of market in the development process, it was natural for the Kingdom to move towards indicative planning. The 8th Development Plan takes the process of indicative planning initiated during the 5th Plan to a more advanced level. In addition to indicating the expected outcomes for the next five years in the 8th Plan, the Long-Term Strategy provides a vision for the next twenty years. That is, LTS 2025 extends the horizon of indicative planning to twenty years. While each development plan gives the details of five years covered by that plan, it is intended as part of a logical sequence to achieve the aspirations articulated in Vision 2025. The proposed relationship between individual plans and the long-term strategy is depicted in Figure 2.



This longer perspective has several distinctive advantages. It allows policy makers to take a longer view of economic development. Thus, sustainability of the planning process becomes an intrinsic part of the five year plans. In addition, it provides a more effective option for dealing with the challenges facing the Saudi economy. In the earlier phase of development, the emphasis of the development strategy was to provide adequate physical, social and intellectual infrastructure. During this phase, development projects in various sectors (health, education, transport, etc.) provided the power to propel the economy forward. The widely-recognized success in the provision of infrastructure was achieved by a public sector led development strategy. However, private sector is expected to be the main engine of growth in the next phase of the development. The new development strategy requires a much greater attention to policies that encourage and support the private sector in playing the expected role. Many of these policies require time horizons that are greater than five years. Finally, many of the challenges facing the contemporary Saudi economy require a long-term perspective to deal with them. For example, a long term strategy is required to deal with the challenges such as: job creation, poverty alleviation, diversification and balanced regional development. Each development plan is expected to be part of the proposed long-term response to deal with these challenges. This, then, is the rationale for developing the 8th Plan in the context of LTS 2025.

2. The First PILLAR: Vision 2025

A strategy is a means towards and end. It is an instrument for achieving society's goals. At the most fundamental level, a strategy is primarily about creating clarity of purpose. When everyone in a government agency or system is clear about its fundamental purpose or purposes, improving performance and achieving future Vision is much easier. Also, this clarity of eventual destination makes it easier to devise means and methods for reaching there. Therefore, the starting point for any strategy has to be a clear articulation of intentions and aspirations of the society. They can be expressed in many different ways. The Vision is the most succinct, yet comprehensive and inclusive way to describe the final destination.

The Long-Term Strategy 2025 is inspired by the following Vision for the Saudi economy:

“By the will of Allah, the Saudi economy in 2025 will be a more diversified, prosperous, private-sector driven economy, providing rewarding job opportunities, quality education, excellent health care and necessary skills to ensure the well-being of all citizens while safeguarding Islamic values and the Kingdom's cultural heritage.”

This Vision simultaneously represents continuity and change. The individual elements of this vision have been part of the planning process in the Kingdom for many years. For example, the desire to have a diversified economy has been mentioned in all previous Plan documents. Similarly, the emphasis on the role of the private sector has now been a guiding principle for development planning for sometime. Yet, this Vision differs from the previous statements in a fundamental way. It does not say that we will try to achieve these goals, rather, it affirms with confidence that the Kingdom will achieve these goals. In other words, this Vision statement implies that the ultimate destination is non-negotiable. Only the means to reach this destination are negotiable. This Vision is not a statement based on historical trends but an attempt to change the trends themselves.

2.1 Measuring Progress towards Vision

To ensure that that the economy is moving in the right direction and to make appropriate changes in the strategy to keep the economy marching towards the Vision, it is essential to translate the Vision statement into quantifiable indicators and milestones. As the saying goes, "what gets measured gets done."

The proposed Vision statement has two distinct aspects. One deals with the material welfare and prosperity. The other aspect of the Vision deals with the quality of life, including the continuity of Kingdom's rich cultural and religious traditions. To ensure that it is possible to

monitor progress on these two fronts, two distinct, though related, yardsticks have been proposed:

- *Doubling of Real Per Capita GDP by 2025*

The per capita GDP will double from its current level of SAR 43,300 at the beginning of 2005 to SAR 98,500 in 2025 at constant 1999 prices.

- *Commensurate increase in the quality of life of Saudi citizens.*

For comprehensive development of the Saudi economy and society, it is important to ensure that the increase in per capita income of Saudi citizens is accompanied by a matching increase in their quality of life. To measure the progress on this front, a multi-dimensional Saudi Quality of Life Index has been proposed.

A balanced and simultaneous increase in the per capita GDP and the Saudi Quality of Life Index will ensure that the Kingdom is moving in the right direction. It is proposed that an annual report on the two fronts will be published to enable Saudi citizens to know the degree of progress made towards the Vision.

The Long-Term Strategy is focused on achieving these two broad objectives and the degree of its success will be judged by the progress made in achieving these two broad goals (doubling of real per capita GDP and commensurate increase in quality of life). Thus, to understand the rationale for the other pillars of the strategy and measure its success, it is important to describe these two aspects in greater details before proceeding further.

2.1.1. Doubling of real per capita GDP by 2025

The GDP (Gross Domestic Production) of a country is a standard measure of economic welfare of a nation. It measures the total value of goods and services produced in the country during a particular year. However, it is possible for the total quantity of goods and services to increase while the average amount available to each person decreases as a result of the population growing faster than the GDP. That is why, per capita GDP at constant prices is considered to be an even more appropriate indicator for measuring the true economic welfare of citizens. Table

[\[1\]](#)

1 shows the expected trend in per capita GDP at constant prices from 2004 to 2024.

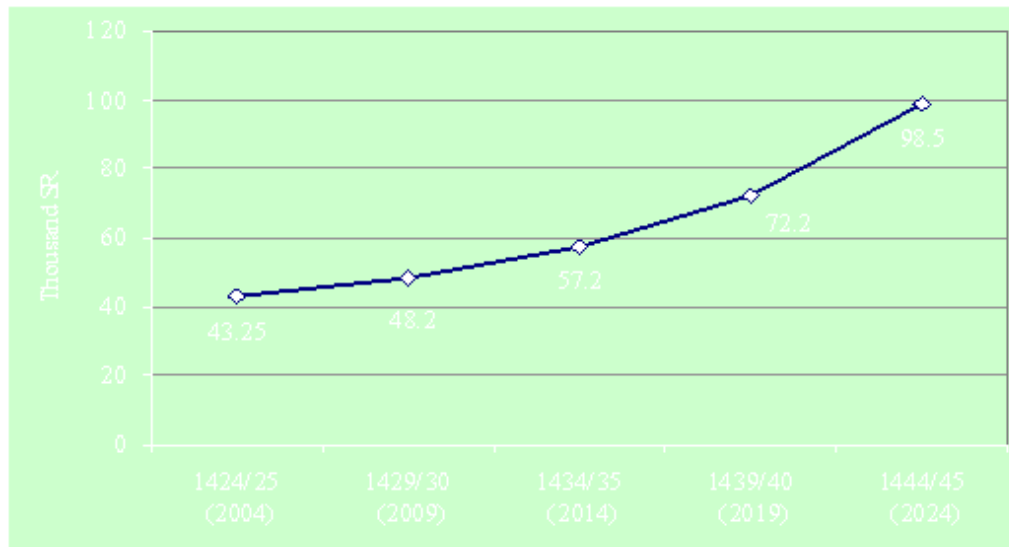
Table 1: GDP and Average Per Capita Income During LTS 2025
(1999 Constant Prices)

Years	GDP (billion)	Average per capita income SR (000)
2004	714.9	43.25
2009	895.2	48.2*
2014	1189.1	57.2
2019	1674.7	72.2
2024	2542.5	98.5
Average annual growth rate (%)		
2005-2009	4.6	2.2
2010-2014	5.8	3.5
2015-2019	7.1	4.8
2020-2024	8.7	6.4
2005-2024	6.6	4.2

Numbers for the real per capita GDP in Table 1 are a result of a rigorous exercise in which a multi-sector general equilibrium model was used to generate a set of internally consistent numbers. To derive these numbers, the target for GDP by 2025 was fixed and the rest of the numbers calculated from the model.

The Long Term Strategy aims at promoting the national economy to the level of advanced economies; hence the average per capita income is targeted to double, from about SR 43,300 by the end of 2004 to SR 98,500 by the end of 2024, at constant prices of 1999. This implies an annual growth rate of 4.2 percent during the strategy period.

Figure 2: Growth of Average Per Capita Income



(1999 Constant Prices)

It is important to understand the implications of this approach. As mentioned earlier, the target for per capita GDP is not based on a mechanical projection of the past trends. It was derived after considering several alternative policy options and scenarios. In the end it was decided that the goal of doubling the real per capita income meets several important criteria. First, according to the econometric models at the Ministry of Economy and Planning, it is a feasible rate of growth—it is challenging yet achievable. The Kingdom has achieved even higher per capita GDP growth in the past. Thus, this target is an attempt to reclaim the glorious history. In fact, this target is the minimum level that the strategy aims to achieve and, God willing, Kingdom will do even better than this. Second, it is a target that is easy to understand, communicate and thus it has a motivating effect.

Given the expected population growth rate, the required average annual growth in the GDP to achieve the indicated rise in GDP per capita is 6.6 percent during the strategy period. This rate is expected to rise from 4.6 percent during the first quarter of the strategy to 8.7 percent during the last quarter.

Pattern of Expenditure During LTS 2025

The achievement and diversification of the economic base require boosting public and

private investments so as to make such investments the main source of economic growth throughout the period of the strategy. As indicated in Table 2 investment expenditure is expected to grow at an average annual rate of 9.3 percent during the period of the strategy (constant prices of 1999), compared with only 5.3 percent for consumption expenditure. Accordingly, the share of investment expenditure in the GDP is expected to grow from 20.5 percent to 33.9 percent compared to a reduction in the share of consumption expenditures from 69.6 percent to 55.1 percent, Figure 3.

It is noteworthy that growth in investment expenditure will mostly come from the growth of private investments at an annual rate of 10.3 percent for the period of the strategy, While the average annual growth rate of public investment will be about 4.0 percent. Accordingly, the contribution of private investment to GDP will increase from 15.4 percent to 30.7 percent during the period, while the contribution of public investment will decrease from 3 percent to 1.8 percent.

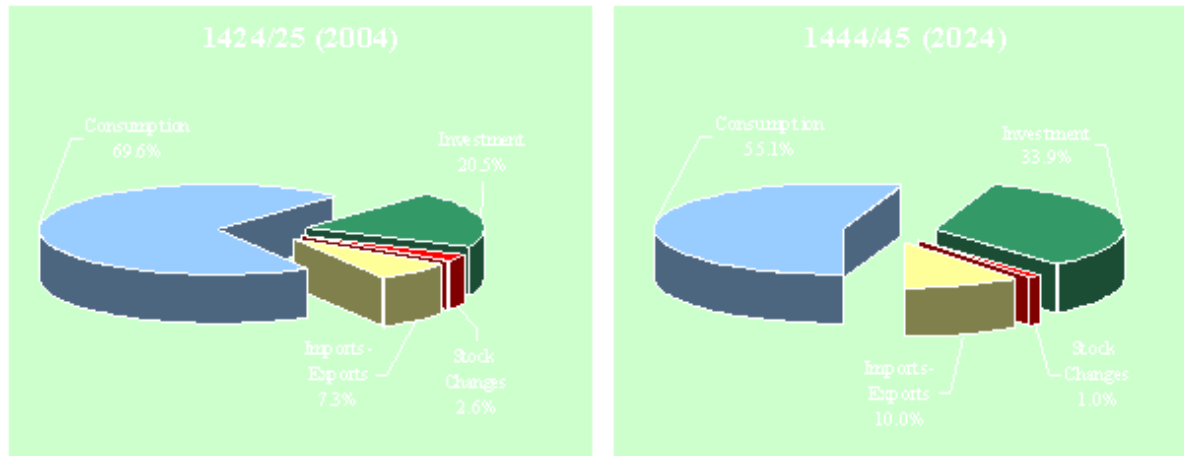
Table 2: Gross Domestic Product by Expenditure Items
(Constant 1999 Prices)

Items	SR Billion					Average annual % growth rate 2005-2024
	2004	2009	2014	2019	2024	
Consumption	497.39	585.78	734.53	989.38	1400.21	5.3
• Public	200.04	231.9	281.06	348.53	466.41	4.3
• Private	297.35	353.88	453.47	640.85	933.80	6.0
Investment	146.61	243.93	332.76	475.44	863.29	9.3
• Public	21.18	24.77	30.51	37.59	46.31	4.0
• Private	110.27	181.24	283.54	412.99	780.93	10.3
Agriculture	3.82	7.06	7.8	7.8	7.79	3.6
Industry	56.42	90.96	128.73	219.05	342.58	9.4
Services	50.03	83.22	147.01	186.14	430.56	11.4
• Oil Sector	15.16	37.92	18.71	24.86	36.05	4.4
Changes in stocks	18.69	22.72	23.88	25.10	26.38	1.7
Exports	252.34	293.02	415.91	574.50	802.49	6.0
• Oil & Gas	181.04	192.67	229.99	260.22	294.41	2.5
• Others	52.22	73.48	148.37	261.61	430.69	11.1

• Services	19.09	26.77	37.55	52.67	77.39	7.3
Imports (-)	200.14	250.27	318.03	389.68	549.83	5.2
GDP	714.9	895.17	1189.05	1674.74	2542.54	6.6

* Approximate data.

Figure 3: Structure of GDP Expenditure During LTS 2025
(Constant 1999 Prices)



The targeted investment flow during the period of the strategy will contribute effectively to increasing total exports at an average annual growth rate of 6.0 percent to represent about 31.6 percent of GDP by the end of 2024 as compared to 35.3 percent at the end of 2004. This will allow an increase in imports for providing the tools and equipment and all other needs for expanding the productivity base.

The higher income levels of the population will enhance the demand for imported goods and services. Imports are expected to grow at an average annual rate of 5.2 percent to reach 21.6 percent of GDP by the end of the strategy period, compared to 27.9 percent at the end of 2004. This reflects the continuous improvement of the balance of payments until the end of 2024.

The decrease in the share of both imports and exports to GDP in 2024 compared to 2004 is attributed to the expected growth in GDP during the strategy period at a rate that exceeds the growth rate of exports and imports.

Table 3 explains the expected impact of economic diversification on the structure of exports which will shift considerably to "other exports" such as exports of manufacturing industries, petrochemicals, oil refining, mining and other non-oil exports. Share of these kinds of exports will increase from 20.7 percent at the end of 2004 to about 53.7 percent by the end of 2024.

The share of oil and gas exports in the structure of exports will decrease from 71.7 percent to 36.7 percent between 2004 and 2024, as "other exports" are expected to grow at an average annual rate of 11.1 percent during the strategy period compared to 2.5 percent for oil and gas. Exports of services are expected to grow at an average annual rate of 7.3 percent during the strategy period, and their share in exports will increase from 7.6 percent in 2004 to about 9.6 percent at the end of the strategy period.

Table 3: Exports Structure at the Beginning and End of the LTS 2025
(Constant 1999 Prices)

	2004		2024	
	Value (SR Billion)	%	Value (SR Billion)	%
Oil and Gas Exports	181.04	71.7	294.41	36.7
Others Exports*	52.22	20.7	430.69	53.7
Services Exports	19.09	7.6	77.39	9.6
Total Exports	252.35	100	802.49	100

* Including, petrochemicals, oil refining, mining and other manufacturing industries – agriculture.

These trends will assist to a great extent in enhancing dependency on non-oil revenues in financing the development process. The gap between imports and non oil exports is expected to narrow from SR 128.8 billion at the end of 2004 to about SR 41.8 billion by the end of 2024.

The achievement of the previously mentioned growth rates and the targeted structure of exports in 2024 reflects the challenges of development and promotion of the competitiveness of the national economy at a time in which its linkages with the international economic system increase.

Trend in Sectoral Shares

The sectoral distribution shown in Table 4 reflects the expected role of the non-oil sectors in realizing the objectives of the strategy as regards the diversification of the economic base and

the achievement of sustainable development, given that the realization of these objectives hinges upon the quality of growth rather than its volume i.e. on the structural development of the economy towards enhancing the role of non-oil and services sectors that possess competitive advantages.

Accordingly, the strategy aims at developing the productive non-oil sectors at an average annual rate of 7.1 percent during the next two decades, as their share in the GDP will increase from 24.9 percent in 2004 to 27.4 in 2024.

Table 4: Sectoral Shares in GDP during LTS 2025
(Constant 1999 Prices)

	SR Billion					Average annual growth rate during the strategy period (%)
	2004	2009	2014	2019	2024	
Non-oil Productive Sectors	178.25	234.22	322.25	445.15	696.02	7.1
Agriculture and Forestry	38.01	44.4	50.32	56.51	62.81	2.5
Industry**	140.24	189.82	271.93	388.64	633.21	7.8
Services Sector****	195.91	258.49	409.02	652.04	1066.16	8.8
Private Sector*****	374.16	492.71	731.27	1097.19	1762.18	8.1
Public Sector	135.06	162.89	180.91	224.34	300.22	4.1
Oil Sector	196.7	225.05	262.49	335.60	455.28	4.3
Import duties	8.98	14.52	14.38	17.61	24.86	5.2
GDP	714.9					

	895.17	1189.05	1674.74	2542.54	6.6
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* Approximate ratio.

** Including petrochemicals, oil refining, and other industries, building and construction, electricity, and mining.

*** Including trade, transport, banking services, insurance, real estate and community services, excluding banking services charges.

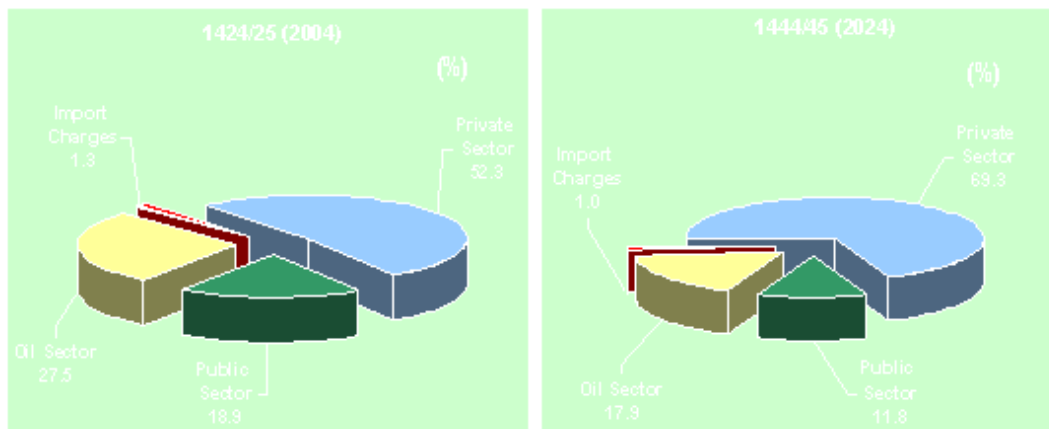
**** Excluding banking services charges.

In harmony with the objectives of diversifying the economic base and utilizing the comparative advantage of the national economy in acquiring new competitive advantages, the industrial sector is expected to play a vital role in achieving an average annual growth rate of 7.8 percent during the strategy period. Its share in GDP is expected to increase from 19.6 percent to 24.9 percent between 2004 and 2024, which will contribute to diversifying the economic base.

The services sector, is expected to be the leading sector in the process of economic diversification during the strategy period due to international advancements in communications and information technology which will be applied in the service sector in the Kingdom. This role will be of more importance with the increasing attention to upgrading the innovative skills of scientific cadres in the Kingdom as well as enhancing the tourist sector and utilizing the geographic position of the Kingdom in providing services that enhance international trade and capital flows through international markets. The LTS expects that the services sector will achieve an average annual growth rate of 8.8 percent and increase its share of GDP in a gradual and continuous manner from 27.4 percent at the beginning of the strategy period to about 41.9 percent by the end of its period in 2024.

The oil sector, is expected to grow at an average annual growth rate of 4.3 percent during the period of the strategy, while its share in the GDP is expected to decrease from 27.5 percent to 17.9 percent. The non-oil sector will represent 82.1 percent of the GDP by the end of the strategy, i. e. growing from about 72.5 percent at the beginning of the strategy as shown in Figure 3. This reflects the increasing role of the private sector in GDP which will grow from 52.3 percent in 2004 to about 69.3 percent in 2024. This represents an average annual growth rate of 8.1 percent at constant prices of (1999) compared with the targeted annual growth rate of 4.1 percent for the public sector.

Figure 4: Sectoral Structure of Gross Domestic Product During LTS 2025



(Constant 199 Prices)

Savings and Investment Balance

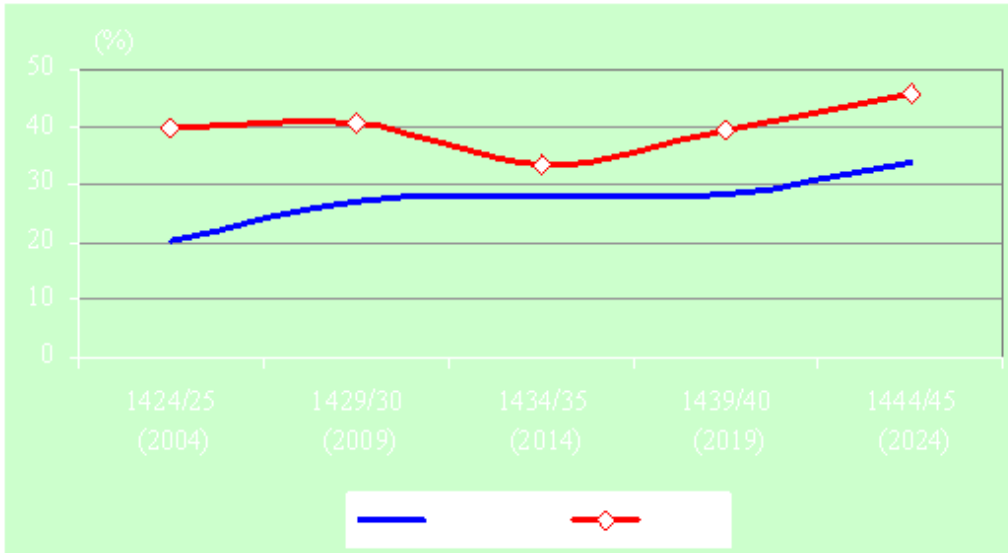
Investment for the implementation of the Long Term Strategy requires approximately SR 8321 billion at constant prices of 1999 to be mobilized from public and private savings. With the implementing of savings incentives during the period as well as increasing public sector savings, it would be possible to provide the required investments financing. Table 5 highlights the increase in the ratio of saving to GDP at constant prices from 39.8 percent at the beginning of the strategy to about 45.6 percent by its end, compared to the increase of the total investment ratio from 20.5 percent to 33.9 percent during the period. Hence, a surplus in the balance of saving and investment of 11.6 percent of the GDP is expected to be realized in 2024 compared to a surplus of 19.3 percent in 2004, Figure 5. Therefore, these savings could be used for investment in expansion of the absorptive capacity of the national economy and improvement of the investment environment in the Kingdom.

Table 5: Real Resources Balance (% of GDP) During LTS 2025

	2004	2009	2014	2019	2024
Saving	39.83	40.82	33.29	39.22	45.58
- Private	26.14	33.3	28.08	32.33	37.15
- Public	13.69	7.52	5.21	6.89	8.43
Investment	20.51	27.25	27.99	28.39	33.95

Balance	19.32	13.57	5.30	10.83	11.63
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Figure 5: Ratio of Investment and Saving to the GDP
(Constant 1999 Prices)



Manpower and Employment

The labor force volume has been identified through the rate of national labor participation and the estimated volume of population at working age. The participation rate is anticipated to increase from 36.9 percent in 2004 to 56.3 percent in 2024. In line with the policy of reducing the volume of foreign labor, reducing unemployment, it is expected that steps aimed at increasing the supply of national labor will go on. The increase of the total labor supply requires raising the contribution of women in the labor force by providing more job opportunities. The contribution of women to the national labor force is expected to grow from 10.3 percent to 30.0 percent during the period of the strategy. This trend which is based on women participation will reduce the foreign labor force by an average annual rate of 2.0 percent during the strategy period as well as provide the opportunities for achieving the Saudization policy as set in the strategy and gradually lower the rate of Saudi unemployment rates, Table 6.

Total manpower is expected to grow at an average annual rate of 2.8 percent, during the term of the strategy, from 8.55 million workers, in 2004 to about 15 million workers in 2024 and the national workforce will jump from 3.5 to 11.8 million workers at an average annual rate of

6.2 percent during the same period. The foreign workforce will decrease from about 4.7 to 3.2 million workers at an average annual rate 2 percent during that period, Table 6. These estimates depend on the assumed increase in national workforce participation from about 36.9 percent to 56.3 percent during the same period, where the labor force participation will increase from around 63.8 percent to 80.0 percent for males and from 10.3 percent to 30 percent for females.

Table 6: Indicators of Manpower and Employment

Indicators	(000s)					Average Annual Growth Rate - (2004-2024)
	2004	2009	2014	2019	2024	
Total manpower*	8549.74	9360.21	11128.66	12813.54	15004.94	2.8
Total Saudi Manpower *	3804.19	4885.96	6757.04	8984.45	11850.18	5.9
Total Labor*	8281.84	9221.30	11028.6	12763.54	15004.94	3.0
Foreign labor*	4745.55	4474.25	4371.62	3829.09	3154.76	-2.0
National labor*	3536.29	4747.05	6657.04	8934.45	11850.18	6.2
Saudi unemployment*	267.90	138.91	100	50	0	--
Total participation rate of Saudi labor (%)	36.9	39.2	45.3	50.4	56.3	--
Manpower Participation rate of Saudi males (%)	63.8	64.5	70.0	75.0	80.0	--
Manpower participation rate of Saudi females (%)	10.27	14.16	19.52	26.90	30.0	--
Ratio of Saudi unemployment (%)	7.04	2.84	1.48	0.56	0.0	--
Indicator of Saudization (%) **	42.7	51.5	60.4	70.00	79.0	--

* Thousand workers.

** Overall labor force = Total labor force – Volume of unemployment.

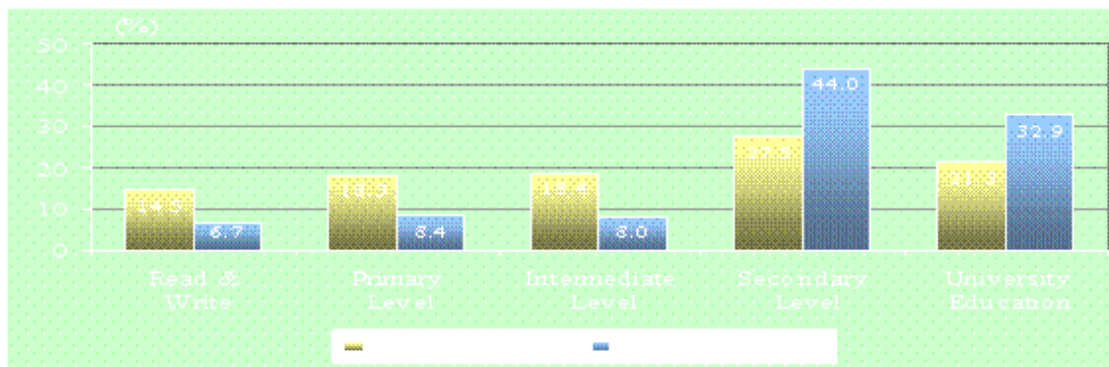
The labor force estimations are also based on the potential demand by various economic sectors according to the long term target for achieving full employment by the year 2024. This means that more job opportunities shall be provided for the national work force, especially in the services sector whose estimated share is about 37.9 percent of the total manpower by the end of the strategy period. The industry sector is expected to absorb 44.3 percent of the total national manpower.

As regards the distribution of national labor force by level of educational attainment, both the nature and scope of the targeted economic development require high degrees of skill and specialization. Accordingly, it is expected that the volume university graduates will grow at an average annual rate of 8.4 percent. This rate is the highest among labor force educated categories and hence their share in total labor force will increase from 27.5 percent to 44.0 percent during the period, Table 7. In contrast the work force of intermediate schools graduates will decrease and the preliminary stage graduates and those without qualifications will experience slight growth during the period. It is noteworthy that the shares of the last three groups will decrease during that period, as the economic activities require high skilled and well qualified labor.

Table 7: Saudi Workforce by level of education

Description	Saudi Workforces (000)					Average Annual Growth Rate - (2004-2024)
	2004	2009	2014	2019	2024	
Total Saudi Manpower	3804.19	4885.96	6757.04	8984.45	11850.18	5.9
- Without qualifications	551.61	547.23	628.4	700.79	793.96	1.8
- Preliminary level	696.17	684.03	783.82	880.48	995.42	1.8
- Intermediate level	699.97	1035.82	1283.84	1338.68	948.01	1.5
- Secondary level	1046.15	1114.00	1891.97	3135.57	5214.08	8.4
- University level	810.29	1504.88	2169.01	2928.93	3898.71	8.2

Figure 6: Development of the National Workforce Structure



(by the level of education)

2.1.2 Increase in the Saudi Quality of Life Index

When a society moves towards living conditions and life style generally regarded as better by its citizens, it is considered to have improved its quality of life. There is no universally valid index that can be applied to all countries. The quality of life is a country-specific concept. Accordingly, the Saudi Quality of Life Index was derived after examining international best practice and customizing it to suite our requirement and concerns in the Kingdom.

The Saudi Quality of Life Index (SQLI) is a composite index based on the indices of the following eleven areas:

1. Income and Distribution
2. Working Life
3. Transport & Communications
4. Health
5. Education
6. Housing
7. Environment
8. Family Life
9. Public Safety
10. Leisure

11. Public Services

A total of 40 indicators were selected to represent the eleven areas. The indicators selected for each area were based on their importance, how best they reflect the particular area and the availability of data on a time series basis. All the indicators were assigned a positive or a negative sign. The indicators with positive signs (e.g., life expectancy, literacy rate) imply that an increase in the numerical value denote improving conditions while those with a negative sign (e.g., infant mortality rate, unemployment rate) denote the reverse. The correction of the trend direction was carried out on the indicators with negative signs so that all upward trends show an improvement in well being, while downward trends indicate the reverse. This was necessary to have a common reading of the trend directions of the various indices, including the Composite Index.

The computation of the SQLI 2002 covers the period 1990-2002 and the year 1994 is treated as the base year. To enable the units in the indices to be comparable, it was necessary to standardize the data by using the track record achieved by each indicator. The standard deviation method was used to standardize each indicator so that it is amenable to aggregation for the derivation of the composite index.

The current value of SQLI is 102.12 and the target for 2025 is a minimum value of 119.61. The details of the raw data and the methodologies are available on the ministry's website (<http://www.planning.gov.sa/>).

3. The Second Pillar: Policies to Achieve Vision 2025

It is has been said that the best way of predicting the future is to invent it. Whereas, the previous section described Kingdom's Vision for 2025, this section will now outline policies and actions required to achieve that Vision. Taken together, these policies constitute the second pillar of the long-term strategy.

The following three step process was adopted to arrive at a core set of 80 policies that are considered essential for achieving Vision 2025.

- i. **Identification of key challenges facing Saudi economy:** To understand the main challenges facing Kingdom, the strategy starts by undertaking a rigorous analysis of the strengths, weaknesses, opportunities and threats facing the Saudi economy. This is referred to as

the SWOT analysis.

ii. **Analysis of options and policy recommendations:** Once the main challenges have been identified, the strategy goes on to propose a set of policies to overcome these challenges.

iii. **Prioritization of policies:** The hallmark of any strategy is its ability to be selective and prioritize issues. The Saudi economy, like most modern economies, is complex and intertwined with contemporary global economic trends. To policy makers, every issue is of great interest. Yet, dealing with all issues simultaneously could lead to dilution of focus and diminution of strategic clarity. Thus, the long-term strategy proposes a framework for prioritization of policies.

In what follows, each step is discussed in greater details.

3.1 Identification of key challenges facing Saudi economy

Any strategic analysis must take a realistic stock of the resources available and the constraints that need to be overcome to achieve the Vision. Thus this section summarizes the strengths, weakness, opportunities and threats confronting Saudi economy in its march towards Vision 2025.

3.1.1 Strengths of the Saudi Economy

Kingdom's optimism and hope for achieving the Vision is based on the many strengths of its economy. Kingdom proposes to consolidate and build on the solid foundations of its economic strength. The list of strong points is indeed very long and thus only the key strengths of the economy are highlighted below:

a. Excellent record of economic success

Few countries in the history of mankind have achieved so much in terms of economic development while maintaining social cohesion and traditions. Though an ancient society and culture, Saudi Arabia is a young nation in terms of planned economic development. Yet what it has achieved in the fields of health, education, and welfare of citizens is considered staggering by fair minded-observers. The growth curves in many of these areas are steeper than almost any other country during the three decades of planned development from 1970 onwards. These achievements have been listed in details in a publication entitled, *Achievement*

of Development Plans: Facts and Figures (21st Issue). This document and all the related figures are available on the internet (<http://www.planning.gov.sa/>).

b. Right priorities

By and large economic growth had the right priorities during the seven development plans. These priorities included emphasis on the human development sectors of education, health, family welfare and infrastructure development.

c. World-class infrastructure

Existence of world-class infrastructure is a major element of competitive advantage for the Saudi economy. Not only was the growth of infrastructure staggering, the quality of the infrastructure is also second to none. The story on this front is described in greater details elsewhere in this document but it is worth noting it again here in the context of the long-term strategy. As an example, the length of the paved roads increased from 8 thousand km in 1970 to 46.9 thousand km in 2001. The number of operating telephone lines increased from 29.4 thousand lines in 1970 to 3.2 million lines in 2001, at an annual rate of 14.6 percent. The mobile phone service was introduced in the Kingdom in 1995 with about 160 thousand lines and today it has reached a level of 2.5 million lines.

d. Good execution of key projects

Whenever Kingdom has set its sights high, it has achieved them. In fact, the Kingdom has successfully implemented several ambitious mega projects of immense national importance. The story of the creation of industrial cities of Jubail and Yanbu is the stuff of legends. These cities were built from scratch in record time. These are not small industrial estates. For example, Jubail industrial city covers an area of 1030 square km and has a capacity to produce 442 thousand cubic meters of desalinated water. The length of the main water network is 860 km. It has an equally extensive electricity and wastewater networks. Similarly, SABIC and Saudi ARAMCO are inspiring stories of project planning and execution. However, these are just a few examples to illustrate the point. The list of similar achievements is indeed very long and is available in detail on the Ministry of Economy and Planning website. Thus, we believe Saudi Arabia has the skills and experience to undertake the execution and implementation of complex projects.

e. Vast Oil and Gas Resources

When outsiders think of Saudi Arabia they think of oil and gas before anything else. This reputation is of course well-deserved. The proven extractable crude oil reserves in fields managed

by Saudi ARAMCO and other companies are estimated to be 262.7 billion barrels. These reserves constitute about a quarter of world's total reserves and make Saudi Arabia the country with the largest reserves in the world. Kingdom is ranked fourth largest in terms of its gas reserves of 228 trillion standard cubic feet. The details of this aspect of Kingdom's economic strength are well known and, hence, suffice it to say, that Kingdom makes judicious use of these God-given resources, it will continue to have assured supply of energy for the foreseeable future.

f. Deep rooted and strong cultural and religious traditions

Saudi Arabia is the birthplace of Islam and part of an ancient civilization. The Islamic and Arab traditions are revered and nurtured by Saudi citizens with great pride and satisfaction. Citizen's common heritage and belief in Islam has provided a strong bond among Saudi citizens. It has created a peaceful and respectful society. The deep-seated love for traditions and culture has prospered along with the economic development of the society. This stability is a source of strength for achieving Kingdom's Vision.

g. The Two Holy Mosques

Kingdom is blessed with the Islam's two most holy mosques at Makkah and Madinah. They have not only made Kingdom a center of affection for the entire Muslim Ummah, but also provide a sense of mission and pride to the Saudi citizens. Millions of pilgrims visit the Two Holy Mosques every year and the Kingdom has given highest possible priority to the maintenance and expansion of facilities at these mosques. This has enabled the number of visiting pilgrims to grow dramatically. Yet the potential for growth is even more inspiring. The orderly execution of the enormous logistical challenges involves with Hajj is also a great source of pride for Kingdom's officials. It gives nation confidence that Saudi society can undertake any challenge once it puts its heart and soul in it.

h. Political Stability

The political and social stability in the Kingdom has been a key success factor for its economic development. This is all the more remarkable considering the tremendous socio-economic changes the Kingdom has gone through in recent decades. The stable political environment has allowed the nation to focus its entire attention on the task economic development.

i. Long tradition of private trading and business

Saudi Arabia has been a key post on the ancient trading routes. Cities such as Jeddah have been center of international trade for centuries. The private enterprise and business culture comes naturally to us. Kingdom's private sector is among the most developed and sophisticated in

the Middle East.

j. Substantial funds available for investment by Saudis

Saudis have substantial funds available for investing. Thus, far, they have invested substantial amounts abroad. But if appropriate opportunities are provided, these funds could be brought back. Similarly, Saudi banks are flush with liquidity. These are funds waiting for opportunities. This availability of capital for investment is a major source of strength for the economy in its drive towards Vision 2025.

k. Superb location—bridge between east and west

The location of Kingdom is another key source of competitive advantage. Kingdom is literally a bridge between east and west. This is dramatically illustrated by the fact that it has one of the highest density of international traffic over its skies. All transcontinental flights in both directions pass over Kingdom. With the completion of the railway line connecting Jeddah and Dammam (land-bridge), we can expect even greater trade over Saudi soil.

l. Size of the market—population plus purchasing power

Saudi Arabia has a huge market. This derives from the combination of a large and growing population and high per capita purchasing power. This market provides all the advantages of economies of scale and predictability.

m. Geographical diversity

Saudi Arabia is blessed with excellent coast lines in the east and west, mountains, deserts, and fertile agricultural lands. This diversity is also a source of strength for economic development. It is a potential source for tourism and industry.

n. Young and healthy population

The population of Saudi Arabia is very young. 60 percent of the people are below the age of 18. This young population has high levels of energy and openness to change. They are computer savvy and aware of contemporary global trends.

3.1.2 Challenges facing the Saudi economy

Any informed and objective observer our economy will quickly agree that the Kingdom is blessed with many strengths. However, these strengths can not automatically guarantee

achievement of Vision 2025. There are some challenges that confront Saudi economy and overcoming them will be the key to our success in achieving the Vision 2025.

The list of challenges facing the Saudi economy is not short. However, to be effective in responding and making a difference, we have to be selective in our approach. There is a wide consensus among informed observers that the following challenges are the most important ones to be overcome for achieving Vision 2025:

- a. Employment generation
- b. Poverty reduction
- c. Improvement in Quality of Life
- d. Achievement of sustainable development by:
 - i. Diversification of the economy
 - ii. Rationalization of water usage
 - iii. Promotion of balanced regional development
 - iv. Improving management of public finances
- e. Improvement in implementation and execution of public policies

Other challenges do exist and should not be ignored. Yet the above mentioned challenges represent the essential challenges that need to be dealt with to have a good chance of achieving Vision 2025. That is, responding to them is a necessary, though not sufficient, condition for achieving Vision 2025. These challenges share two common characteristics—they are very important for achieving Vision 2025 and they are amenable to public policy. However, before looking at their causes, consequences and remedies in greater details in the next section, it is useful to briefly describe them individually.

a. Challenge of Employment generation

The Saudi population is growing at the rate of 2.9 percent and around 50 percent of our population is below 16 years old. The total population of Saudi Arabia is expected to be 36 (??) million in 2025 compared to the current population of 23.3 million. To satisfy the rising expectations, Kingdom needs to provide not only a large number of productive jobs that make economic sense, but also more and better hospitals, schools, houses, roads and other infrastructure facilities.

The magnitude of this challenge becomes even more obvious when we contemplate the need for providing greater opportunities to the growing pool of our talented and capable women. Table

8 shows the trend in Saudi unemployment for the past four years. When compared to developed countries, the numbers suggest that this is an issue that deserves a priority.

Table 8: Trend in Saudi Unemployment

		2000	2001	2002
Saudi Arabia	Male	6.54	6.82	7.6
	Female	17.64	17.32	21.7
	Total	8.15	8.34	9.66
Major Advanced Economies [2]		5.9	5.9	6.4
European Union		8.2	7.4	7.7

While everyone agrees that unemployment is emerging as a key challenge in the Kingdom, it is a recent phenomenon and is as yet not fully understood. A few years back, in fact, there was no official estimation of the unemployment phenomenon. Partly, because it was not considered a major issue. Today, the Central Department of Statistics (CDS) produces annual statistics and the issue is debated widely in the media. While experts agree that unemployment is a major issue, there is less agreement on the magnitude of the problem. Some even argue that our statistics do not adequately capture the full extent of the problem.

Experience shows that widespread unemployment can be a major source of social and economic disruption. Thus, responding to it has to be a very high priority. The generation of jobs is likely to affect many other aspects of the strategy, such as poverty and some aspects of quality of life.

b. Challenge of Poverty reduction

On November 20, 2002, HRH Crown Prince Abdullah, Deputy Premier, Commander of the National Guard and Chairman of the Supreme Economic Council, declared a war on poverty in the Kingdom. His visit to poor citizens' homes in Riyadh highlighted an aspect of Saudi development which no amount of statistics could have captured. In one swift move, dealing with poverty has become a high priority for Kingdom's development strategy. A country cannot enjoy prosperity till all its citizens are taken care of. This is not only consistent with our great Islamic traditions, but taking care of the needy is indeed a way of life for people in the Kingdom. Thus, the war on poverty strikes a chord with all Saudis and the Kingdom is determined to win this war.

c. Improvement in quality of life

The ultimate goal of all economic activity is to improve quality of life. However, there is neither a universally valid definition of quality of life, nor an automatic connection between increases in GDP (measure of economic activity) and quality of life. “Quality of life” is a country-specific and time-specific concept. In other words, each country has its own notion of what constitutes good quality of life. This notion also changes over time as the society evolves.

For Saudi Arabia, the quality of life index was defined in an earlier section of this chapter. This multi-dimensional index is neither expected to be perfect nor a static concept. It was derived after consultations and discussion with a wide cross section of Saudi citizens in public and private sectors and was also influenced by examples from other countries. Thus, it is a reasonable starting point. At the core of this concept lies the desire to improve both the quantity and quality of public services in the areas such as education, health, housing, and communications.

As mentioned earlier, Kingdom can be proud of what it has already achieved in terms of the quantity of public services. Statistics show the impressive growth of services in most sectors. Yet, there is a widespread perception in the Kingdom that there is considerable scope to improve the quality of services. This then is the key challenge.

d. Challenge of Promoting Sustainable Development

Sustainable development is economic development that endures over the long run. It is development that meets the need of the present without compromising the ability of the future generations to meet their own needs. In other words, it is not enough to eradicate unemployment and poverty in the short run only to have them re-emerge in the long run. Kingdom must achieve prosperity for all generations—present and future ones. Kingdom must not appear to be achieving its Vision 2025 by ignoring factors that can some day disrupt its march towards Vision 2025.

The following four challenges have to be met to ensure sustainable development of the Saudi economy:

- i. Diversification of the economy
- ii. Rationalization of water usage
- iii. Promotion of balanced regional development
- iv. Improving management of public finances

i. Diversification of the economy

Diversification of the economy has been key a policy objective ever since the inception of planning in the Kingdom more than thirty years ago. The First Development Plan explicitly enunciated the following general objective of: “Diversifying the national income sources and reducing dependence on oil through enhancing contribution of other producing sectors in GDP.”

There are several benefits of having a diversified economy—most important of which is that it provides for greater economic stability as less reliance is placed on few areas of economic activity that may be subject to business cycles and/or exogenous shocks. It reduces risk and uncertainty because not all areas of economic activity or markets are likely to be adversely affected at the same time. Economic diversification also leads to greater market flexibility for labor and other factors of production, and inter-and intra-industry linkages and trade. This contributes to a more dynamic and adaptable economy that is more likely to withstand economic and financial crisis.

However, as in the case of several other resource rich countries, the Kingdom of Saudi Arabia confronts difficult challenges in fostering diversification of its economy. Rich natural resource endowments do not necessarily bring about economic growth. The research findings indicate, there is in fact an inverse relationship between the average annual growth in per capita GDP and natural resource exports as a share of GDP. Other oil rich economies such as Nigeria and Venezuela have had for example, negative rates of per capita income growth between 1965-97. This pattern is not only restricted to oil but also to countries dependent on commodities such as coffee, cocoa, fish, forestry, and various mineral products. A variety of reasons are attributed by experts to explain the inverse relationship between the growth in per capita income and the relative importance of natural resources in an economy. First, the over valuation or appreciation of the currency skews the composition of exports away from more manufactured or value added exports. These latter types of exports generally tend to have greater linkages in the economy. Second, natural resource rich economies are often prone towards rent-seeking behavior by producers who seek (and are granted) various privileges and subsidies, and/or protection from competitive pressures by tariff and non-tariff barriers. In addition, the government and the people may be imbued with a false sense of economic security, and as a consequence may not invest in developing other capabilities such as in education, labor and managerial skills, R&D technology, and the like.

Our wise leadership has been aware of these pitfalls of heavy reliance on one single product and thus successive development plans have emphasized the need for greater diversification of the economy.

ii. Rationalization of water usage

The Kingdom of Saudi Arabia is widely recognized for its impressive achievements in the field of water. Today 97% of our population has access to clean drinking water. This is one of the best rates in the world. We have also shown to the world our ability to have a highly successful agriculture. We managed to achieve total food security in less than a generation.

Rapid population growth along with expansion of irrigated farming, urbanization, increased economic activities and improvement of the standard of living have brought about a substantial increase in demand for water. Unfortunately, this rapid growth in the demand has come at a high price in terms of burden on Kingdom's limited water resources. If the present trends continue, Kingdom's growth and development could be derailed as a result of permanent damage to our precious non-renewable water resources.

The Kingdom does not have any reliable surface water. Thus, it has to depend on groundwater, desalination and reclamation of wastewater to meet its water needs. Examination of trends in the demand and supply for water, makes the urgency of the situation clear.

Kingdom has to think of water resource as being similar to its oil and gas resources. Both are non-renewable and there is a finite amount available for use. Unlike oil and gas, the stock of non-renewable water is small compared to the domestic demand.

The last survey conducted by reputable experts using the then state-of-the-art techniques revealed a total stock of 500,000 MCM (Million Cubic Meters) of water. Today, it is estimated to be around 200,000 MCM. This 60% decrease in the stock of non-renewable water occurred in less than 30 years (from 1979-2003). Considering this rate of depletion, water may be the biggest risk to Kingdom's Vision 2025. It is often argued that Kingdom has more stocks than estimated.

However, unless the results of a rigorous study are available, ^[3] it is prudent to be conservative and take measures to mitigate this obvious risk to Vision 2025.

iii. Challenge of Promoting Balanced Regional Development

The 11th Basic Strategic principle of the 7th Development Plan calls for "Achieving balanced development in all regions of the Kingdom and enhancing their contribution towards overall development..." In fact, balanced regional development has been a strategic objective of development planning ever since the launch of the First Development Plan in 1969.

The importance of this issue was further reinforced by the adoption of the National Spatial Strategy by the Council of Ministers on August 28, 2000 (Decree No. 127). This strategy pointed

to the widening gap between growing and lagging regions. It attributes some of this imbalance to the fast pace of migration from rural areas and polarization of urban population in a few large cities.

There is a general agreement with the serious concern expressed in the National Spatial Strategy about the viability of the existing urban system and regional distribution of the projected increase in population. Imbalance in regional development poses a serious hurdle to the achievement of the proposed Vision 2025. Kingdom might be able to double its per capita income but its quality of life index is likely to suffer. Thus, regional imbalances are not sustainable.

It is worth pondering over a few key issues to grasp the seriousness of thi challenge. First, urban population tends to cluster in few urban centers, namely Riyadh, Dammam metropolitan area, Jeddah, Medinah, Makkah and Taif. Unless the current trend in concentration of urban population in the largest cities is rectified, these cities may suffer from deterioration in their environment, in the form of congestion, pollution, high unemployment and urban sprawl

Second, there is an apparent rise in the disparity gap – between rural regions on one hand and cities on the other – in terms of the adequacy of infrastructure needed to support actual and future needs. Continuation of the past trends of concentrating services and economic activities in primary cities will result in marginalizing rural areas and secondary cities

Similarly, Industrial development continues to locate within few cities, mainly the largest ones.

iv. Improving management of public finances

The massive development of Saudi economy was made possible by a judicious use of oil revenues for development of physical and human infrastructure. However, Kingdom’s desire to quickly make Saudi Arabia a modern economy has stretched its financial resources.

Following challenges resulting from Kingdom’s stretched financial resources have the potential to make its developmental efforts unsustainable over the long run and consequently derail its journey towards Vision 2025.

- a. Recurrent deficits and increasing size of Kingdom’s national debt
- b. Wide fluctuations in the revenues and expenditures as result of oil prices
- c. Low rate of savings to compensate for the depreciation of capital.

The long-term strategy attaches high priority to dealing with each of these important issues. However, before proceeding further, it is important to fully understand the nature of the challenge posed by these factors.

► Challenge of Budgetary Deficits

The European Union has laid down the following guidelines for its members:

- The budget deficit should not exceed 3 percent of the GDP, and
- The government debt may not exceed 60 percent of the GDP.

The Saudi economy has incurred a deficit greater than 3% for most of the years in the past decade. In fact, since 1983, we have had surplus only in one year (2000). Though official numbers are not available, cumulative debt is estimated to be equal to 100 % of the GDP.

► Challenge of Wide Fluctuations in Revenues and Expenditures

Kingdom faces a daunting fiscal policy challenge posed by wide fluctuations in oil revenues and consequent fluctuations in expenditures. It makes it very difficult to plan on a predictable basis. Also, these fluctuations have often forced Ministry of Finance to curtail planned projects to deal with these fluctuations. This has tended to erode the confidence of government agencies in plan process. Sudden increases in revenues have not been helpful either. To undertake projects, a lot of thinking and planning has to precede. Thus, sudden availability of surplus funds often leads to wasteful uses.

► Challenge of Increasing the Savings Rate

An economy is sustainable if it saves more than the depreciation on its man-made and natural capital. An assessment of sustainable development based on the World Development Indicators of the World Bank suggests that the current situation is not characterized by healthy degree of sustainability.[\[4\]](#)

The World Development Indicators of the World Bank on “understanding savings” cover results for 153 nations. Such results have been published since 1999. The sustainability of economic development of a nation is endangered if the sustainability indicator is negative. Some of the highest negative sustainability indicators are reported for oil producing countries.

Adjusted net savings as percent of national income are low in:

Nigeria	– 26.9 %
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Kuwait	- 22.7 %
Saudi Arabia	- 19.1 %
Russian Federation	- 9.8 %
Iran	- 5.6 %
Venezuela	- 4.4 %

The sustainability indicator is high in the following selected countries:

Norway	+ 21.6 %
Malaysia	+ 18.5 %
Japan	+ 14.2 %
France	+ 14.1%

The European Union as a highly developed area reaches an average of + 11.8 %, whereas the indicator for the United States is +9.2 %. Several important other oil producing countries like the United Kingdom (+7.4 %), Mexico (+ 5.9 %) and Indonesia (+4.0 %) generate positive sustainability indicators. In the United Kingdom, the rapid decline of natural resources (oil and gas) in the North Sea combined with a relatively low savings rate endangers a sustainable development of the nation.

The annual oil production of Saudi Arabia is presently in the range of 1 percent of its proven petroleum reserves. Therefore a much lower depreciation of the natural capital could be envisaged than presented in the World Bank series, depending on how the mid- to distant future is discounted. However, a more conservative assessment will still reveal that the sustainability indicator for Saudi Arabia at present is hardly positive.

The massive build-up of the physical capital stock for government services during the Second and Third Plan period has led to a rapid increase of replacement requirements in the following years. The current level of gross investment is not even enough to cover the capital consumption.

v. Improvement in implementation and execution of policies and programs

There is a broad consensus among informed observers that there is a wide implementation gap. In fact, many believe that effective implementation and follow-up is Kingdom's biggest challenge. If the decisions taken by higher authorities are implemented effectively, Kingdom would have no problem achieving Vision 2025. It is possible to give many examples of this implementation gap, but suffice it to point to the slow pace of privatization and reform of the industrial estates.

The problem of implementation afflicts all levels of the government. Many project and programs for which money has been approved are delayed. There are frequent cost and time overruns. Improving the capacity of the government to implement policies and programs has been called the mother of reforms. If this capacity is underdeveloped, then the implementation of all other reforms is likely to be adversely affected. Thus, improving the government's capacity for effective implementation of its policies and programs is a central focus of the proposed long-term strategy.

The first wave of economic growth in the Kingdom was based on a strategy of promoting development of the country's infrastructure through publicly-funded projects. Kingdom was recognized for its achievements and expertise in executing and managing large projects.

In this new phase of development, Kingdom's new challenge is to manage execution of policies and programs that promote competitive advantage with the same efficiency as it managed large projects. Thus, Kingdom's challenge is to develop experience in managing policies as effectively as it managed projects in the past. Given Kingdom's past record of executing important projects, there is every reason to be optimistic about meeting this challenge. Yet, it is worth noting that the skills required for executing and implementing policies are not necessarily the same as those required for managing infrastructure projects. Policies and programs by their very nature are not as concrete and tangible as projects. They do not have clearly defined milestones and are harder to monitor. Thus, this challenge should not be underestimated.

3.1.3 Opportunities available to the Saudi economy

In addition to the inherent strengths of the Saudi economy, some opportunities have also presented themselves. Success happens when opportunities meet preparedness. That is, for these opportunities to translate into results, Kingdom has to be prepared and do its part. Otherwise, Kingdom may not be able to make full use of the potential benefits offered by these opportunities. Thus the proposed long-term strategy seeks to ensure that full use of these evolving opportunities is made in responding to the challenges facing Saudi economy.

a. Saudi private sector is looking for investment opportunities in KSA

Since the unfortunate and tragic events of September 11, 2001, there has been a major change in world psychology. Perceptions and world view of peoples in different countries have undergone dramatic transformation. Change in the relative preference of Saudi investors is one such outcome of these developments. Many Saudi investors are looking at domestic investment opportunities in the Kingdom with greater interest. This represents a massive potential investment in any conceivable project. The Saudi investors are as sophisticated

and informed as any in the world. They can bring not only money but modern management and know-how to these projects.

b. Saudi private sector has matured and is capable of taking the lead in the development process.

As mentioned earlier, private business and trading have thrived in the Kingdom from ancient times. In fact, Saudi culture and society have placed great emphasis on self reliance and entrepreneurship. Thus, it is not surprising that the role of private sector has always been emphasized in all development plans starting with the first one in 1969. However, the 6th Development Plan was an important milestone for the role of private sector in the Saudi economy. It announced the government's strategic policy of not allowing government to undertake any activity that could be performed by the private sector. Instead of following the public sector, the Saudi private sector is today capable of leading the change and economic development.

Today, we have some of the world's best private enterprises in the Kingdom. For example, five Saudi companies listed in the latest Financial Times' list of the 500 largest corporations in the world. It is the same number of companies as listed for Russia, and a higher number than for several OECD member countries. One corporation from the United Arab Emirates is also listed, but none from any other Arab country. The five Saudi companies are: the Saudi Electricity Corporation (SEC); the Saudi Telecommunications Corporation (STC); the Saudi Basic Industries Corporation (SABIC); and two Saudi banks: the Saudi American Bank (SAMBA) and Al-Rajhi Bank. The first three still are majority-owned by the Government, but are expected to float more of their shares to the public in the future.

The Saudi private sector's share in GDP stood at 51 percent in 2001. It also provided 86 percent of the jobs in 2001.

c. Key institutions and regulations already in place

The pace of institutional and regulatory reform has accelerated considerably in the recent past. The creation of the Supreme Economic Council has acted as a catalyst for further important reforms. Some examples of notable reforms are:

- i. Creation of regulatory bodies for communication, electricity, and industrial estates and technology zones.
- ii. Creation of focal points for the promotion of tourism (Supreme Commission for Tourism), Investment (SAGIA), human resource development (Human Resource

Development Fund), minerals development (Supreme Council for Petroleum and Mineral Affairs).

iii. Laws relating to foreign investment, capital markets, telecommunication, privatization, and real estate.

International experience has shown that for systematic development of private enterprise, it is important to clarify the regulatory framework. The above-mentioned institutional reforms have set the stage for the next big spurt in the growth of the private sector. However, these institutions represent an opportunity and not a guarantee for reforms.

d. Global recovery will fuel the demand for oil in medium term and provide a good platform for take-off

Given that the Saudi economy is still oil-driven, the price of oil is an important consideration in the timing for any development strategy. The long run is always harder to predict, particularly in the volatile oil sector. Any geo-political development can make a dramatic impact. However, it appears that in the short to medium term, the oil markets are likely to favor the Kingdom. The entire world is coming out of a prolonged global downturn and it is reasonable to assume that demand for oil will be strong. The increase in supply of oil will dampen the price but is unlikely to engender a collapse or a serious decline in oil prices. This, then, augurs well for launching the long-term strategy. The national focus can be maintained on the tough task of implementing the proposed long-term strategy.

e. Emerging technologies can revolutionize traditional public systems

New technologies in a wide variety of fields provide opportunities to leap frog ahead of traditional systems in education, health, public services, and public management. Many countries are using these rapid developments in ICT (Information & Communication Technologies) to re-engineer and re-invent their traditional systems. Malaysia perhaps represents one of the most successful cases of leveraging ICT to leapfrog and be at par with developed nations. In addition to E-Government initiatives like electronic procurement, project monitoring and electronic delivery of services, Malaysians have launched highly innovative e-health and smart school initiatives. Thus, these are not experimental technologies or projects. They are the backbone of Malaysia's success in achieving its goal of becoming a developed generation (Malaysian Vision 2020). The Kingdom should seize this opportunity and gain the much needed competitive advantage.

f. Consensus in the Kingdom on the need for reform

There is a widespread agreement on the need for reform. Everybody agrees on the need for

reform, the debate is only on the speed and specific content of reform initiative. Thus, the long-term strategy is treading on highly fertile soil. Any seeds for reform will prosper and take roots quickly. It is an historic opportunity that should be leveraged to realize Kingdom's Vision 2025.

3.1.4 Possible threats to Saudi economy

In designing a strategy, it is also important to be aware of potential developments that may distract from the central path to the Vision. Fortunately, most of these trends and developments can be mitigated if anticipated and internalized in the design of the strategy. Kingdom needs to keep a close watch on the following factors:

a. Growing expectations as a result of information and communications revolution

The information revolution in the Kingdom is at its height. With the onset of twin catalysts—internet and cell phones, the information exposure from satellite TV has reached new levels. It is fair to say that the computer-savvy youth are as aware of the world around them as any of their contemporaries in the world. Naturally, it is reasonable to assume that they have similar aspirations and expectations about life-styles and careers. If this trend is harnessed thoughtfully, it can be a force for good. The strategy will have to adjust not only its contents but also its speed to respond to this information revolution.

b. Rapid change in the neighboring countries

While changes in the distant part of the world can make interesting case studies, changes in the neighborhood have a profound affect on both the psychic and material welfare of a country. Investors looking for opportunities are more likely to compare neighbors before making their location decision. Similarly, Saudi businesses are likely to make their decision to migrate or stay based on the relative investment climate in neighboring countries.

It is a fact Kingdom's neighbors in the GCC are changing at a tremendous pace and the success of their reforms can not be attributed to their small size alone. A deeper analysis of the decision making and implementation record will reveal that the lessons of their experience are very relevant and pertinent for the Kingdom.

c. Increasing global competition

Increased global competition is a major factor to consider in any strategic analysis of a nation. With the Kingdom joining the GCC customs union and the impending WTO accession, the challenge posed by global competition is likely to increase at an accelerating pace. The pace of this trend cannot be controlled by any one individual country. Thus, the strategy has to take

the existence of global competition as given and devise ways to thrive in a competitive environment.

Once Kingdom joins WTO, its trade regime will have to become more transparent and trade barriers will need to be dismantled gradually. The stability of rules and regulations coupled with the ongoing investment law reform process will greatly enhance the environment for attracting domestic and foreign investments and expanding joint ventures. However, the private sector in general and SMEs in particular will face a number of challenges through increased openness and competition.

In general the previous restrictions on international investment and trade e.g. restrictive business visa sponsorship, inability of foreigners to own land, mandatory joint ventures and restrictive import licensing will need to be reviewed. This will imply increased competition from overseas products but also increased interest in investing in the local market.

3.2 Identification of options and policy recommendations

After identifying the key challenges, the Long-Term Strategy 2025 examines all possible ways to tackle these challenges. It reviews the causes behind these challenges and potential remedies available to the Kingdom to surmount these challenges. As can be anticipated, the list of actions required is indeed very long to permit senior policy-makers to focus on implementation as well as effective monitoring and follow-up. Thus, LTS 2025 narrows down the policies and programs to a manageable number. In designing responses to the strategic challenges, LTS 2025 gives priority to policies that seem to solve multiple problems simultaneously. Education is a prime example of this category. It not only improves quality of life, it is a key driver of growth and job creation. It also can be instrumental in reducing poverty and regional imbalances.

LTS 2025 undertakes a further prioritization of the recommended solutions to sharpen the focus of the strategy. It prioritizes recommendations along the following three dimensions:

(1) Level of Priority:

LTS 2025 classifies recommendations for action on the basis of their impact on the objective. It uses three categories for this purpose: HIGH, MEDIUM and LOW. The basic message is that it is not worth worrying about the low priority recommendation at the cost of the high priority recommendations.

(ii) Degree of Influence

Governments do not have the same degree of influence on all areas of public policy. In some areas all actions are within the scope of their powers (and jurisdiction). In others, governments can only play a facilitating role as a catalyst. LTS 2025 again use a three way classification here: HIGH, MEDIUM and LOW. High implies those areas of public policy which are fully within the control of the government. Medium and low imply lesser degree of influence.

(iii) Sequencing

Sequencing of policies is as important as the policy itself. For example, it is advisable to allow competition and privatization only after implementing a transparent and effective regulatory framework. Also, it is advisable not to attempt everything at the same time. This again requires sequencing of various actions and programs to get the best results in the shortest possible time.

		Priority Level			
		HIGH	MEDIUM	LOW	
Degree of Influence	HIGH	1	10	19	SHORT TERM
		2	11	20	MEDIUM TERM
		3	12	21	LONG TERM
	MEDIUM	4	13	22	SHORT TERM
		5	14	23	MEDIUM TERM
		6	15	24	LONG TERM
		7	16	25	SHORT TERM

	LOW	8	17	26	MEDIUM TERM	
		9	18	27	LONG TERM	

Figure 7: Conceptual framework for strategy formulation

When these three dimensions are put together, the result is a matrix shown in Figure 7. This matrix is three-dimensional and thus the total number of cells is 27 (= 3 x 3 x 3). Each cell in the matrix has three attributes. For example, Cell # 1 represents high priority, high degree of influence and need to implement it in the short term. In most cases, the classification is a matter of judgment on the part of experts and policymakers. It is not written in stone. Rather, it is indicative of the collective experience as understood by experts at the time of creating the strategy. This matrix is essentially a signaling device for those charged with implementing the strategy. All recommendations resulting from the analysis of potential solutions were classified using this matrix.

The analysis of causes and consequences reveals that more than 250 policies are required to meet the strategic challenges facing the Kingdom. However, a closer look reveals that there is a smaller set of critical policies that would fundamentally determine the success of the proposed long-term strategy. Therefore, in Table 9 we list the key policies that form the core of the strategy. This is not to suggest that other policies are not important. All policies that have been included in LTS 2025, by definition, are important. These policies have been selected on the basis of their importance in achieving Vision 2025.

To select these core policies another round of prioritization was undertaken. It was decided that only around 5 key policies from each of the 15 distinct areas of action would be selected for this set. Thus a total of 80 policies were short-listed as core strategic policies. As shown in Figure 7, most of these policies tend to be in the upper left hand corner of the prioritization matrix. These policies have a higher priority, can be influenced by government and are required to be implemented before proceeding further.

Table 9 uses a color coded scheme to show the impact policies in these 15 areas have on various strategic challenges. Red color shows strong impact and linkages, Blue and Green show successively lesser impact. Thus, the first policy listed under SME development is shown to have a strong impact on jobs creation, poverty alleviation, and hence also quality of life.

Policies that seem to have positive impact on greatest number of objectives are considered to have a relatively higher priority among this set of 80 policies. This second round prioritization will be useful in follow-up and monitoring of the implementation of the LTS 2025.

Table 9: Core set of 80 strategic policies

			STRATEGIC CHALLENGES				
			Jobs	Poverty	Quality of Life	Sustainability	Implementation
Challenge of Job Creation	SME Development	Introduce credit scoring technologies to interested banks	Red	Red	Red	Blue	White
		Create a dedicated National Authority for SMEs	Red	Red	Red	Blue	Green
		Review and reform legal framework and incentives for SMEs	Red	Red	Red	Blue	White
		Establish SME loan guarantee fund	Red	Red	Red	Blue	White
		Introduce alternative mortgage structures	Red	Red	Red	Blue	White
	Tourism Development	Build institutional capacity of the SCT in key areas of responsibility	Red	Red	Red	Blue	Green
		Form and activate private sector tourism trade associations	Red	Red	Red	Blue	White
		Secure adequate, stable long-term funding of public sector tourism organizations	Red	Red	Red	Blue	White
		Increase provision of tourism education and training facilities and programmes	Red	Red	Red	Blue	White
		Increasing the awareness level and accuracy of information about domestic holiday options to Saudi residents	Red	Red	Red	Blue	White
			Red	Red	Red	Blue	White

Challenge of Job Creation	Oil & Gas Development	Aggressively expand production by issuing numerous mid-sized tenders									
		Strongly increase our refining capacity (50% of national oil production refined at home, 25% abroad)									
		Consider privatization of Aramco and divestiture of parts of it in the long run									
		Integrate petrochemical downstream into refining,									
		Negotiate international frameworks of trade and investment cooperation									
	FDI Promotion	Create an independent commercial court									
		Improve business visa system: Develop multi-entry and multi-exit visas									
		Improve data availability for business									
		Give SAGIA adequate licensing authority Remove multiplicity of licensing Let SAGIA play a lead role in this process									
		Sharply reduce examination of tax returns by introducing tax self-assessment Reduce the length of the tax appeals process									
		Improve customs procedures and efficiency									
		Challenge of Job Creation	Labor Market Reforms	Improve information collection and processing regarding labor market—make use of internet technology							
				Introduce greater flexibility in hiring and firing of Saudi workers							
Introduce minimum wage selectively in the future											
Fix aggregate Saudiization targets with greater flexibility for sector wide											

		differences.				
		Introduce Saudiization quota trading system				
Challenge of Poverty Reduction		Decide on a measure of poverty immediately				
		Determine the magnitude of the problem urgently				
		Design rapid response programs for the most vulnerable of the poor				
		Incorporate poverty reduction measures in all government funded investment projects.				
Challenge of Enhancing Quality of Life	Education Reform	Undertake a comprehensive review of the current regulations to determine which can be relaxed or abolished				
		Streamline the current land zoning requirements to facilitate the establishment of private schools				
		Publish information on the annual performance of public and private schools				
		Commission and conduct an in-depth review of current education spending within the education sector				
		Develop of a list of activities that require Government approval prior to opening and ongoing delivery of education services				

Challenge of Enhancing Quality of Life	Health Reform	Create a single health policy-making body for all public programs;							
		Develop a national health information system which includes development of standardized coding and reporting systems							
		Create an effective private health insurance regulatory structure							
		Have access and quality monitoring systems							
		Have effective MIS systems in facilities							
Challenge of Sustainable Development	Diversification: Services sector	Conduct studies sounding out Saudi Arabia's comparative advantage in services, in order to identify our specific "niche"							
		Establish joint information centers related to services activities that are needed in Saudi Arabia,							
		Collect systematic and detailed data on trade in services in the Saudi balance of payments and on services activities efficiency							
		Liberalize all service activities, inviting FDI and competition							
		Create an independent, overarching competition agency							
Challenge of Sustainable Development	Diversification: Exports Promotion	<i>Export Quality Improvement Program</i> (ISO 9000 and similar quality programs)							
		<i>Export Competitiveness Program</i> (product and process deficiencies)							
		<i>Group Promotional Activities</i> (trade fairs etc., also ICT-based activities)							
		Create three-level institutional framework							
		Implement recurrent evaluation mechanisms							
Challenge of	Prudent	Issue a clear statement of water policy							

Sustainable Development	Water Management	Revive benchmarking of water utilities							
		Implement Results-oriented conservation drive							
		Increase PSP in water and wastewater sector (including dams)							
		Tariff reform							
		Update estimates of total water resources							
Challenge of Sustainable Development	Balanced Regional Development	Define the most viable directions for the future growth of cities along with the land use patterns and the road network.							
		Coordinating among concerned agencies the identification of projects to be implemented and public funds needed.							
		MOMRA and MEP to jointly publish the Regional Development Index							
		MEP and MOF to ensure that allocation of projects by respective government agencies is made to correct regional imbalances as reflected in the RDI.							
		Formulation of the regional development strategies in accordance with the guidelines of the National Spatial Strategy.							
	Sustainable Government Finances	Introduce performance and program based							
		Introduce E-procurement in government							
		Introduce a state-of-the art, Financial Management Information System in government							
		Gradually Increase user fees for infrastructure and utilities							
		Create a Stabilization Fund							
		Speed up privatisation process							
Introduce VAT									

Challenge of Effective Implementation	Improving Project Implementation	The MEP should immediately improve the Information System for Project Implementation. This can be done by reviewing and updating the the recommendations of various studies. In particular, serious thought should be given to adopting a system simialar to the one in Malaysia					
		Guideline for procurement should be consisten with international best practice					
		The MEP should set up a Quality Assurance Group					
Challenge of Effective Implementation	Improving Policy Implementation	Each public policy should be accompnied by measurable and verifiable success indicators					
		Each policy should specify who will undertake measurement at what intervals					
		Each polcy should specify who will be held accountable for implementation.					
		A report on all policies should be prepared annually					
		Report progress against pre-determined success indicators					
Challenge of Effective Implementation	Improving Administrative Efficiency	Introduce Implementation Agreements between SEC and government agencies					
		Make ISO 9000 Certification mandatory for all government agencies					
		Require each department to prepare and display Client Charters					
		Award Quality marks to superior government departments					
		Implement E-government					

4. The Third Pillar : Implementation and Follow-up

The entire effort put in developing this strategy will be wasted if it is not implemented and followed-up effectively. During the process developing the strategy, it became clear that most of the ideas that have been identified for overcoming the five strategic challenges have already been suggested at one time or the other in the past. There were, naturally, some differences of opinion among the large number of people consulted on the list of issues to be included and their relative priorities. However, without exception, everyone in the Kingdom who has thought about these issues agrees that Kingdom's record in converting good ideas into results and actions has been rather uneven. Therefore, LTS 2025 seeks to redress the imbalance between generation of ideas and implementation of ideas.

4.1 Implementation mechanisms

Three specific mechanisms are proposed to ensure that the proposed strategy is implemented effectively.

- First, it is proposed that there will be “*Implementation Agreements*” between the Supreme Economic Council and all government agencies. These agreements will ensure that ideas relevant to their agency are operationalized and implemented.
- Second, it is proposed that the current “Operational Plans” be converted into “Strategic Plans.”
- Finally, to ensure that these implementation agreements and strategic plans are supporting the proposed long-term strategy for the Kingdom, each agency will be required to have its own long-term strategy consistent with Vision 2025.

In what follows, we discuss each proposal is discussed in greater details.

4.1.1 Implementation Agreements for government agencies

The concept of an implementation agreement is straightforward. It is, in effect, a performance agreement between a principal and an agent. It is proposed that each government agency will enter into an "implementation agreement" with the Supreme Economic Council acting on behalf of the entire Saudi government. In this agreement, each agency will specify the goals and objectives that they wish to achieve during the fiscal year. They will also specify any specific assistance they need from the government during the relevant period to achieve their objectives. These implementation agreements will include performance indicators and target levels expected from the concerned agency.

It is proposed that each agency will assign a weight of at least 50% to targets that address the

five strategic areas in this strategy. These five areas are:

- i. Employment generation
- ii. Poverty reduction
- iii. Improvement in quality of life
- iv. Achievement of sustainable development
- v. Improvement in implementation and execution of public policies

Government agencies will be able to assign 50% of the weight to other strategic goals relevant to their agency. Table 10 gives an illustration of the relative priorities in designing the contents of these implementation agreements. Against each strategic goal, government agencies will be asked to provide specific policies, programs, projects and activities. In this section, we do not want to go into all the details of designing them. However, it is proposed that these implementation agreements will be designed based on the relevant international experience and best practice. The MEP will act as the secretariat for technical work on this instrument.

The performance of each government agency will be measured against the targets for the various commitments made in the implementation agreements. It is proposed that these results will be published as part of the annual progress report on the implementation of the strategy.

These agreements will be phased out once the Ministry of Finance has transformed its budgeting system into a performance-based budgeting system. It is proposed that at some point (after 2010), all agencies will be preparing a performance agreement as part of their normal budgetary exercise.

Table 10: Illustrative example of contents of implementation agreements

RELATIVE PRIORITIES	STRATEGIC GOALS	Government Agency A	Government Agency B	Government Agency C
50 %	Employment generation	Action 1 Action 2 Action 3	Action 1 Action 2 Action 3	Action 1 Action 2 Action 3
	Poverty reduction	Action 1 Action 2 Action 3	Action 1 Action 2 Action 3	Action 1 Action 2 Action 3
	Improvement in quality of life	Action 1 Action 2 Action 3	Action 1 Action 2 Action 3	Action 1 Action 2 Action 3
	Achievement of sustainable development	Action 1 Action 2 Action 3	Action 1 Action 2 Action 3	Action 1 Action 2 Action 3
	Improvement in implementation and execution of public policies	Action 1 Action 2 Action 3	Action 1 Action 2 Action 3	Action 1 Action 2 Action 3
50 %	Other goals of the government agency	Action 1 Action 2 Action 3	Action 1 Action 2 Action 3	Action 1 Action 2 Action 3
	S = Other goals of the government agency	Action 1 Action 2 Action 3	Action 1 Action 2 Action 3	Action 1 Action 2 Action 3
		Implementation Agreement Content	Implementation agreement content	Implementation agreement content

4.1.2 Transform operational plans into strategic plans

Before the start of the five year development plans, each agency is required to produce an operational plan. This document is supposed to operationalize the policies and programs proposed in the plan document. Currently, these documents are focused on short-term goals of the government agencies. With the adoption of the long-term strategy, it will be essential to

include strategic concerns in the operational plans. Thus, it is proposed to rename these modified documents as “strategic plans.” They have to insure that the short term goals are consistent with the strategic long-term objectives of the nation and the agency. Figure 8 depicts the proposed additions.

To achieve Vision 2025, the entire planning system will have to work in a coordinated and consistent fashion.

4.1.3 Long-term strategy for government agencies

The culture of looking forward and planning to change the future according to one's vision will have to become part of the culture of doing business in government agencies. Before embarking on the national long-term strategy, MEP conducted a survey and found that only a handful of agencies had actually drafted a long-term strategy. Some were in the process of doing so. A review of the existing drafts suggests that MEP will have to play an important role in sharing international best practice in producing these strategies and conduct training programs to ensure that all agencies have a shared understanding of the purpose and methodology of drafting strategies.

4.2 The follow-up and monitoring system

It is said that what gets measured gets done. Thus, follow-up and monitoring are an essential part of designing a strategy. An effective monitoring and evaluation (M&E) system creates desirable incentives for converting ideas into action. Without effective follow-up, the proposed long-term strategy is likely to become yet another exercise in only generating good ideas.

Towards this end of results-orientation, the Long-Term Strategy 2025 proposes following measures:

First, LTS 2025 creates several indices to measure success in key strategic areas. For example, new measures and indices are proposed to measure degree of diversification of the economy and degree of balanced regional development.

Second, strategy proposes that clear targets and success indicators be used for measuring progress of individual five year plan.

Third, it is proposed that an annual follow-up report on progress in the implementation of the strategy will be prepared by MEP and presented to the cabinet. After Cabinet approval, it will be made public.

The report will be divided into two broad parts. The first part will consist of a report on the two main non-negotiable objectives of the Vision 2025. The report will present the achievement with respect to real per capita GDP and the Saudi Quality of Life Index. The second part of the report will present the value of the Strategy Implementation Index at the end of that particular year.

4.2.1 Strategy Implementation Index

The proposed Strategy Implementation Index (SII) will measure the progress made in implementing the 80 key strategic policies mentioned in an earlier section of this chapter. Figure 9 shows a hypothetical example of how this index would look like after we have tracked it for a few years. The numbers used are illustrative and have been used only to explain the concept of SII.

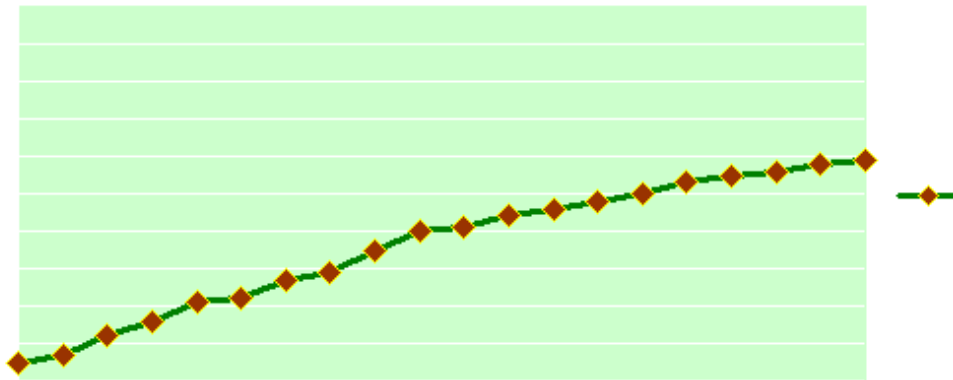


Figure 9: Trend in Strategy Implementation Index (Hypothetical Example)

The purpose of developing and using an index of this kind are to:

- have a common understanding about the progress made in implementing strategic policies;
- motivate all concerned to focus their attention on the implementation efforts;
- make it easier for higher authorities to monitor and follow-up implementation of strategic policies.

The Strategy Implementation Index (SII) is calculated in two broad steps. First, a Policy Implementation Index (PII) is calculated for each of the 80 strategic policies and then all PIIs are combined to give SII for a particular year.

4.2.2 Sequencing of policy implementation

A strategy is different from a detailed strategic plan. The purpose of this document was to present a strategy and not a detailed strategic plan. For each of the proposed policies, concerned government agencies will have to present a detailed implementation plan.

Yet at a broad strategic level, some issues are worth highlighting:

1. We believe that for the strategy to be successful, the value of SII for the core set of 80 policies should be 80% by 2015.
2. LTS 2025 suggests creation of apex institutions for three areas: SME Authority, Exports Promotion Agency, and Competitiveness Council. These institutions have to be in place by 2007 for them to have a meaningful impact.
3. The key message from discussions and analysis in various sector is as follows: if the government implementation machinery is not improved other reforms can not be implemented. In other words, improvement in administrative efficiency of government departments has to be given highest priority. It is rightly regarded as the mother of all reforms. The entire agenda for improving administrative efficiency should be implemented by 2010.

4.2.3 Institutional arrangements for follow-up and monitoring of LTS 2025

The key to the success of this strategy will depend on the effectiveness of the follow-up. In fact, many of the policies in the core group of 80 are already in existence. The issue is not about coming up with a new policy statement, rather it is about energizing the implementation process.

The task of following-up and monitoring the implementation would require a partnership between SEC and MEP. Both bring unique strengths to the partnership. SEC has the nodal role in designing and approving important national policies. MEP has the technical expertise and the data to calculate the SII and produce the technical reports.

5. In Conclusion

If vision is the art of **seeing** the invisible, then strategy is the art of **creating** the invisible. Strategy is not about extrapolating, it is also not about predicting using mechanical models, and it is, in fact, about inventing the future according to the agreed Vision.

To achieve the vision, Kingdom will have to take actions. Strategy is to vision what prose is to poetry. Strategy translates the poetic visions into understandable and actionable policies. Ultimately, a strategy should be judged by actions and not words. That is why, implementation, accountability for results and effective follow-up mechanisms are an integral part of this strategy. As mentioned earlier, LTS 2025 is like a three-legged stool. Vision, Policies and follow-up mechanisms represent these three legs. Like the stool, the strategy will not be useful if one of the three legs is missing or shorter than the others.

[1] The strategy objectives and forecasts will be reviewed and updated at the beginning of each development plan.

[2] United States, Japan, Germany, France, Italy, United Kingdom and Canada.

[3] The newly formed Ministry of Water and Electricity is conducting this study.

[4] The World Bank: 2003 World Development Indicators, Washington D.C. 2003.