

## 'The Arabian Phoenix' Part 2 – Saudi Arabia's Vision 2030

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October 2023

This year marks the half-way point in Saudi Arabia's ambitious Vision 2030. To what extent is the Kingdom of Saudi Arabia (KSA) on track to achieve its goals of diversification economically,



socially and culturally that it outlined in 2016? Last year, KSA achieved the astonishing growth rate of 8.7% – making it the fastest growing G20 economy. Part of that growth derived from KSA's willingness to profit from the surge in oil prices triggered by Russia's invasion of Ukraine. But that was not the only reason. KSA's Vision 2030 initiative is strongly promoting diversification away from its near total dependence on oil revenues and, from one perspective, it is proving very successful.

### Areas of economic diversification

As part of its Vision 2030 strategy, KSA has been promoting multiple areas of economic diversification. Non-oil revenue has risen significantly since 2021, averaging 4.2% in 2022, and set to reach 5% by the year end. The main areas of economic diversification are tourism, entertainment, retail and food, real estate and property, agriculture, financial services, and mining.

Significant investment has been channelled into the **tourism** industry, fuelling infrastructure projects, coastal reclamation projects and historical sites. Investment in religious tourism, particularly in connection with the Hajj and Umrah pilgrimages to Mecca and Medina, has witnessed a marked upswing.

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The **entertainment** sector has seen Vegas style performances from international artists and the hosting of world class sports events, along with the creation of vast entertainment cities like Qiddya. Within the **retail and food** industry, shopping malls, restaurant chains and retail outlets have flourished.

In the **real estate and property sector**, construction has played a crucial role, driven by investments from both the public and private sector. Ground-breaking giga projects like Neom are just one example. In **agriculture**, Saudi Arabia has focused on cultivating farming products well suited to its environment – such as date fruits, for example. In the **financial services** sector, the Tadawul (Saudi Arabia's stock exchange) is making a substantial contribution through its activities.

Perhaps more surprisingly, KSA is turning to the **mining** sector as a key strand in its economic diversification strategy. The Saudi Ministry of Industry and Mineral Resources (SMIMR) is looking to increase private sector investment in the mining sector to 171 billion Saudi riyals (approximately US\$45.7 billion) running up to 2030. The SMIMR believes that KSA mineral resources are valued in excess of US\$1.3 trillion (including phosphates and bauxite in the north, gold, copper, silver, lead, zinc and iron ore in the west). The government is looking for the mining sector to increase its contribution to GDP by a substantial 270% from US\$17 billion to US\$64 billion by 2030.

The ground-breaking joint venture in July 2023 called Manara Minerals – between Saudi mining company Ma'aden and the Public Investment Fund (PIF) – was the first time KSA has made a significant entry into the mining sector. It was a landmark event and the cause of much investment media attention. Here is clear evidence that mining is one of KSA's core – and yet seldom publicised – strategies for diversification from oil. Analysts would be forgiven for surmising that the country continues to be very dependent on natural resources, making it still susceptible to 'Dutch Disease'. Questions remain about the extent to which Vision 2030 relies on the depletion of natural resources rather than genuine, sustainable economic growth.

## **Investments in infrastructure and transportation**

To meet its Vision 2030 goals, the Saudi Arabian Government (SAG) is inviting investors to participate in its billion-dollar, once-in-a-lifetime giga projects – such as Neom, the Red Sea Project and Diriyah Gate, flagships of the nation’s promising tourism industry.

With designated hubs to serve petrochemicals, mining, logistics, manufacturing and digital industries, the SAG is also planning to double the size of Riyadh city.

Foreign businesses currently taking part in Vision 2030 include:

- USA: Airbnb, Air Products & Chemicals Amazon, Boeing, Cisco, General Electric, Google, Honeywell, Microsoft, Oracle, Saudi Aramco – Chevron Dow Chemical Company, Schlumberger, and Starbucks, We Work.
- China: Alibaba Group, China Petroleum & Chemical Corporation (Sinopec), Huawei.
- France: Airbus, Total Energies.
- Germany: Siemens, Volkswagen.
- Italy: Enel.
- India: Reliance Industries.
- Japan: Aramco Asia Japan, Softbank.
- South Korea: Samsung.
- Netherlands: KPMG.
- UK: BP, Deloitte, EY, EDF Energy, McLaren, PwC, Virgin Group.

The following are specifically invested in these giga projects:

- Neom: Airbnb, McLaren, Virgin Group.
- The Line: Fosters + Partners, Siemens, We Work.
- Oxagon: Google, Microsoft.

Despite abundant opportunities, investing in KSA continues to raise concerns about transparency and political risk. Outspoken activists are relentlessly prosecuted and reform on freedom of speech is negligible. Corruption remains a live issue for foreign firms investing in KSA – particularly since the legal framework does not function consistently.

In addition, SAG has imposed stringent and unfavourable terms on foreign investments aimed at improving domestic employment levels under ‘Saudization’ policies.

### **‘Saudization’ quotas**

Despite the ‘welcome’ from SAG, foreign investors are subjected to strict Saudization policies, and this has been a bone of contention. For example:

- Foreign businesses must employ a specific number of Saudi nationals, in some cases, at a greater salary cost than their foreign counterparts. They must also pay significant fees for foreign employee visas.
- Foreign businesses must establish their headquarters in KSA by 2024 if they want to be considered for contracts with SAG (in return for a ten-year exemption from ‘Saudization’ providing access to family work permits, expedited visas, professional accreditation waivers and personal and concierge services). However, if a company complies yet still retains a headquarters in another country, they will lose all these benefits. Strict terms indeed.

- Foreign businesses are forbidden from investing in ten sectors (unless in special partnership) which include: oil exploration, catering to military sector, security or detective services, real estate in holy cities, religious tourism, recruitment, commission agencies, midwifery, physical therapy, fisheries, poison centres, blood banks and quarantine services.

Despite these policies, foreign direct investment (FDI) in KSA has experienced a significant increase in the last two years. In 2023, the total amount of FDI in KSA reached approximately US\$24.5 billion.

### **The evolution of Saudi culture**

The inclusion of women in the workforce has set a benchmark for KSA and is a major improvement to economic and cultural progress, in line with Vision 2030's goals. For many years, women have faced societal and career advancing limitations. Women are now being encouraged and empowered to engage in KSA's workforce.

The initiation of the King Abdullah Scholarship in 2005 has played a vital role in creating opportunities for women to be represented in leadership. This demonstrates KSA's commitment to evolving its society into one that is more internationally aligned. KSA organisations are also adapting strategies to be consistent with international standards and practices. Positioning themselves to better face global market conditions.

### **Concerns**

If the global energy crisis worsens and KSA's diversification plans fail to realise significant returns, KSA could experience a contraction in its growth. The war in Israel complicates matters further, bringing the possibility of rising oil prices. While this could generate more income, it could also impact inflation and growth because of damaged trade relations, destabilisation of the region and damage to investor appetite.

## Summary

As we reach the halfway point of Saudi Arabia's Vision 2030, it is evident that the Kingdom has made significant strides toward economic diversification. The impressive growth rate of 8.7% in 2022, the promotion of various sectors like tourism, entertainment and mining, and the welcoming of foreign investments into giga projects showcase the nation's commitment to this ambitious vision.

However, concerns about transparency, political risks and issues such as corruption persist among foreign investors. The stringent 'Saudization' policies, aimed at improving domestic employment, have also been a point of contention, even as foreign direct investment has seen significant growth. The global energy crisis and the situation in the Middle East pose further threats to KSA's economic stability and growth.

Vision 2030 is playing out as planned, working towards economic and cultural transformation, diversifying revenue dependence, modernising infrastructure, and developing public sectors like health, education, infrastructure and tourism. The Kingdom of Saudi Arabia is in an era of unprecedented change, yet it finds itself a hostage of fortune based on the near future decisions made by a weakened US administration and a fearful Israel.

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