Research Exercise Number 3

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As the price crude oil decreases and their reserves begin to decline, the ruling family of Saudi Arabia must pursue a stronger globalization policy to ensure regime survival. However, any attempt at globalization must also be accompanied with internal structural reforms to create the institutional capacity for these reforms to effectively integrate Saudi citizens into the global economy rather than siphon the gains of globalization to a powerful minority. Its over-reliance on petroleum exports caused a serious case of Dutch Disease, where their agricultural, manufacturing, and services sectors declined and spurred the mass importation of foreign workers, which siphon money from the economy through remittances to their home countries.

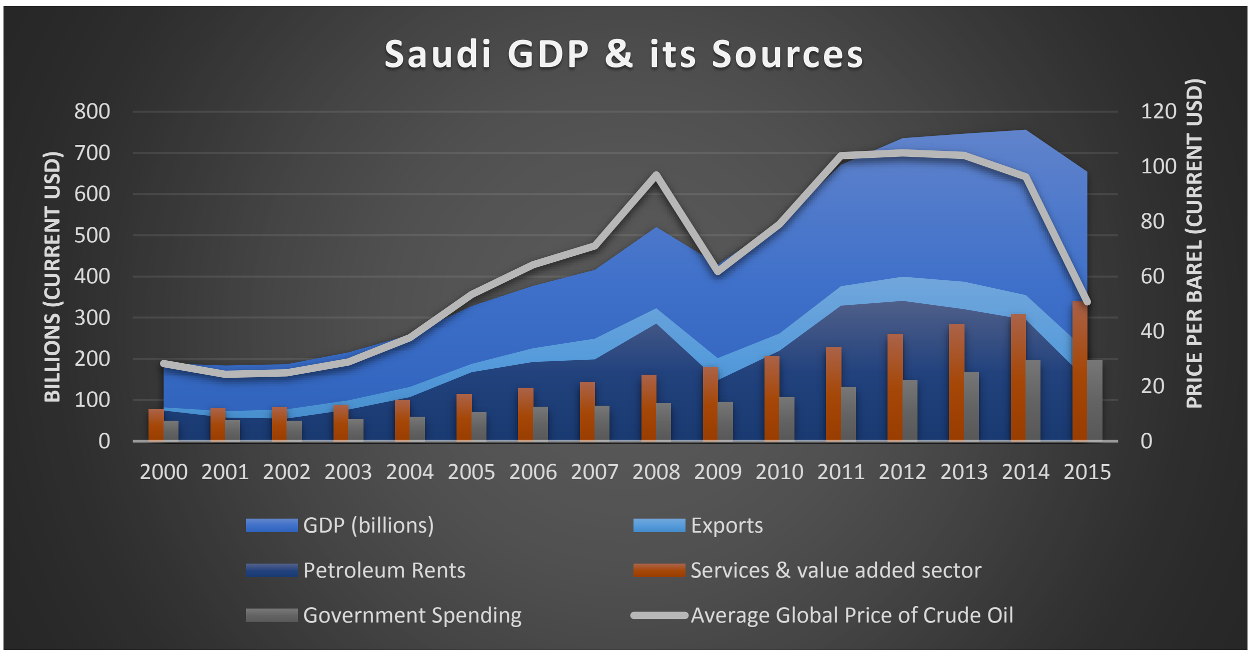

Figure 1. Data sourced from the World Bank's Development Indicators & US Energy Information Administration.

This graph shows the strong correlation between average global prices of crude oil, Saudi exports, and their GDP, which leaves their economy extremely vulnerable to volatile oil prices. Saudi Arabia's trade is open to the international community, but its trade is mostly composed of petroleum products. However, in the past few years the Kingdom has expanded the size of the service and value-added sector of the economy to diversify it and wean itself from oil exports, but it has also increased government spending even as exports and GDP slide downward. This increase in government spending has been speculated to occur because Saudi Arabia is struggling to attract foreign investments in recent years, thus making the Saudi government responsible for funding this economic diversification (see figure 4). The country's reliance on oil exports have triggered Dutch Disease, as seen in the gender and sector employment rates in figures two and three.

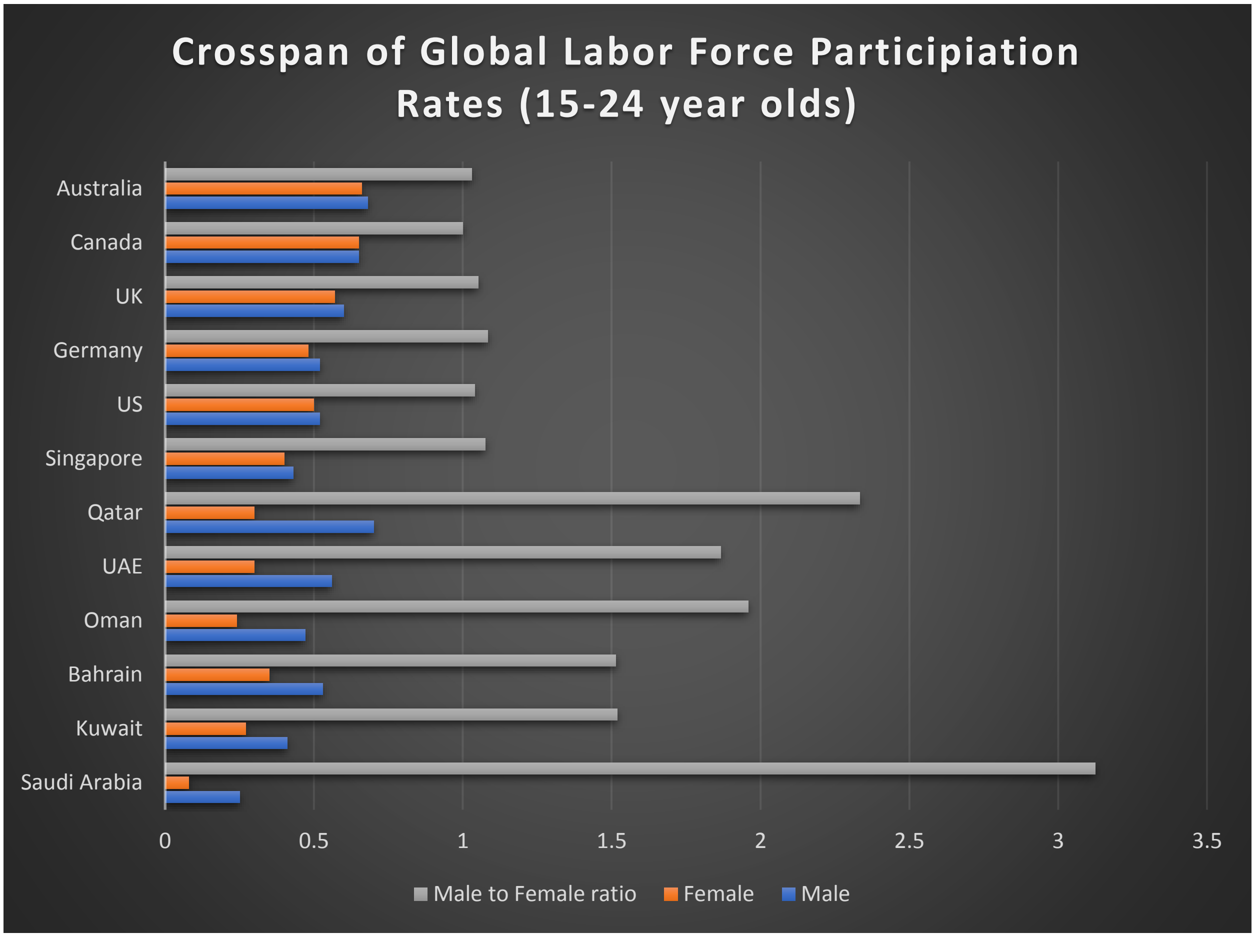

Figure 2. Compares the labor force participation rates of Saudi Arabia with other Gulf Cooperation Council countries (Qatar, UAE, Kuwait, Oman, Bahrain) as well as a handful of western countries. Information synthesized from the World Bank & Saudi Arabia General Authority for Statistics.

This graph shows that Saudi Arabia has abysmally low youth employment participation rates as well as exorbitant gender disparities in employment, a result of a combination of Dutch Disease, low skill and education levels among workers, and the country's fundamentalist Islamic culture. This presents a significant challenge for the country's future, as high rates of youth unemployment exasperate social tensions and turmoil. If Saudi Arabia is unable to properly and efficiently integrate these young citizens into the global economy, they can expect to face more potential unrest within their country—especially as the panacea of oil-backed government benefits dries up.

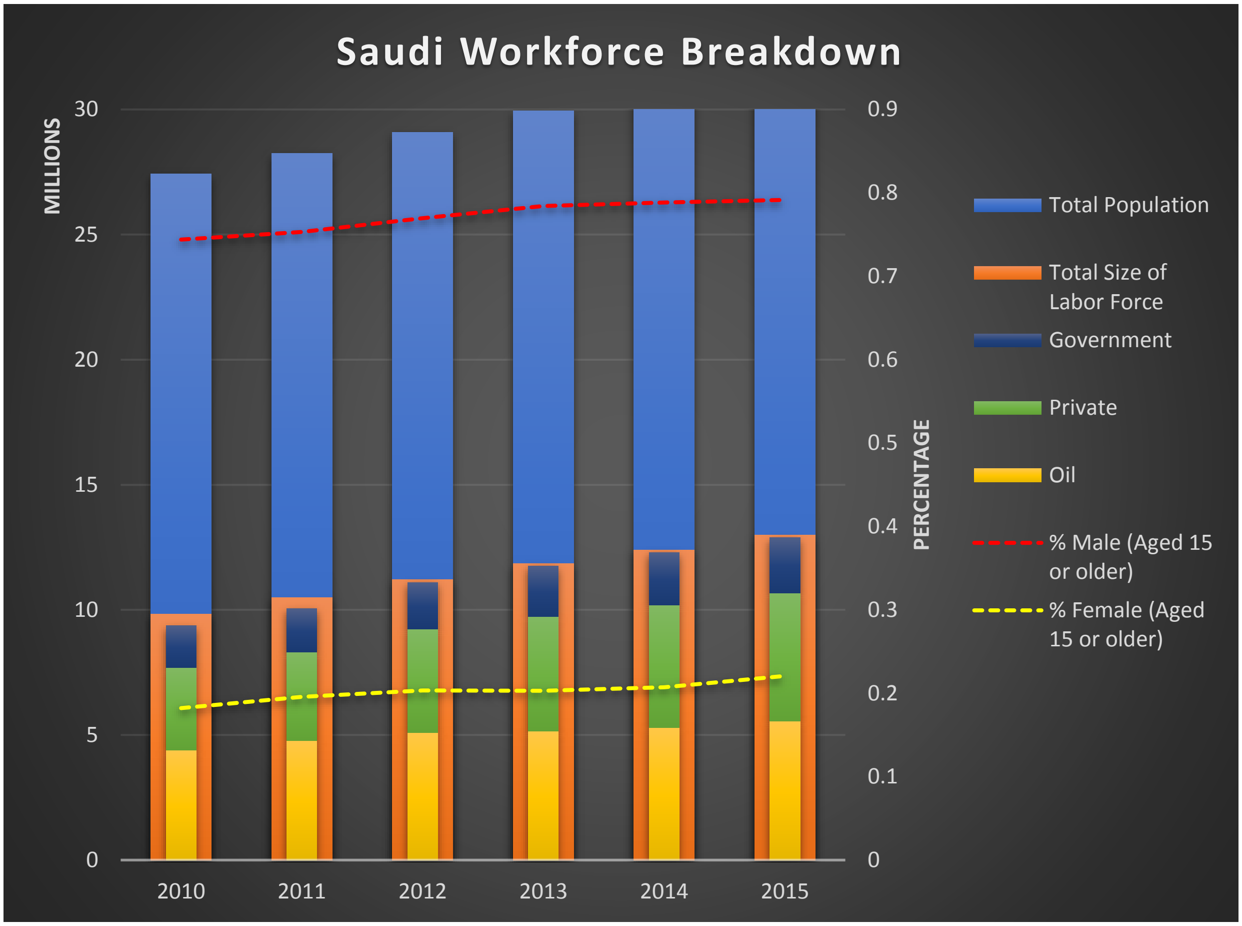

Figure 3. Includes both Saudi nationals and non-Saudi nationals. Data sourced from the International Monetary Fund's World Economic Outlook & the World Bank's

As figure three indicates, in accordance with the hypothesis of Dutch Disease, most employed Saudis are either working for oil companies or for the government. The recent, albeit modest, growth in female workforce participation rates can be explained in figure one, which shows an increase in the size of Saudi Arabia's services sector—a field more inclusive of female workers. Though an increasing number of Saudis are finding employment in the private sector as the price of oil decreases, a 2016 report by Saudi Arabia's Ministry of Labor and Social Development showed that only a third of private sector jobs go to Saudi nationals while the rest go to non-Saudis; many of these jobs are in agriculture, retail/wholesale of goods, and manufacturing. Figure four examines the expanse of non-Saudi workers' remittances and the impact that they have on the country's economy.

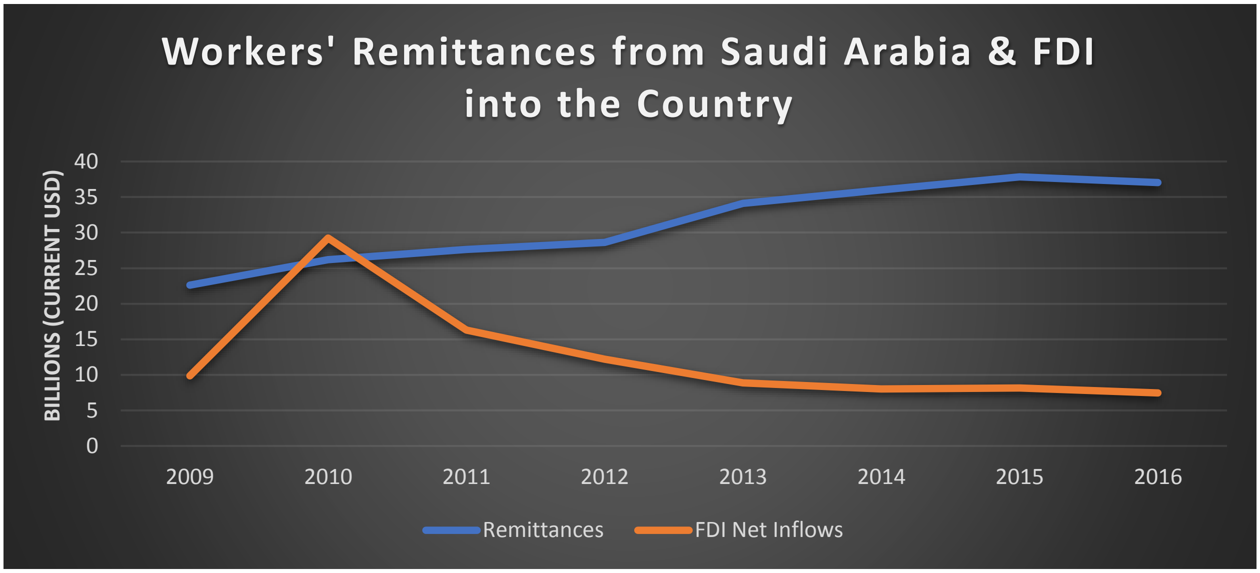

Figure 4: Information gathered from the Saudi Arabian Monetary Agency.

As mentioned previously, Saudi Arabia has struggled to secure Foreign Direct Investments (FDI) in recent years, partially because of their unskilled domestic workforce and political instability in the neighborhood. Furthermore, the high rates of foreign worker remittances from the country leech much-needed capital from the country. Saudi Arabia must find ways to mobilize these outflows of capital inwards by incentivizing foreign workers to keep their money in Saudi savings accounts or convincing foreign companies to invest that money domestically. Saudi Arabia must also fix its higher education systems and government institutions to provide their companies with skilled domestic workers, thus reducing the country's dependence on foreign workers and the outflows of remittances from the country.