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The consequences of COVID-19 on the rentier state economy: the case study on Saudi Arabia

Relatrice / Relatore
Ch.ma Prof.ssa Maria Cristina Paciello

Correlatrice / Correlatore
Ch. Prof. Andrea Facchin

Laureanda/o
Douae Tchiche
Matricola 877791

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ABBREVIATIONS

ARAMCO……………………...Arab American Oil Company/Saudi Arabian Oil Company

G20………………………………………………………………….Group of 20 States

GDP…………………………………….…………………. Gross Domestic Product

HDI………………………………………………………..Human Development Index

IEA……………………………………….…………….... International Energy Agency

KSA……………………………………………………….Kingdom of Saudi Arabia

MBS……………………………………………………...……Muhammad bin Salman

OPEC………………………………..….Organization of Petroleum Exporting Countries

PHEIC……………………………….Public Health Emergency of International Concern

RST………………………………………………………………Rentier State Theory

SAR………….…………………………….…………………………..…….Saudi Riyals

VAT………………….…………………….……………………...……Value Added Tax

WHO………………………………………………………World Health Organisation

WTI…..……………………………………………………….West Texas Intermediate

ORB………………………………………………………….OPEC Reference Basket

JTC……………………...…………………………………. Joint Technical Committee

DoC………………………………………………………Declaration of Collaboration

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المقدمة

يهدف العمل البحثي إلى تحليل الانعكاسات الاقتصادية والسياسية على المملكة العربية السعودية ، الناتجة عن انهيار أسعار النفط بسبب تفشي وباء COVID-19 في عام 2020. على وجه الخصوص ، سأبحث في استجابة النظام الملكي فيما يتعلق الإصلاحات الاقتصادية والخطط طويلة المدى التي تتوخاها رؤية 2030 وتأثير تفشي الفيروس على تنفيذ هذه المشاريع وعلى الوضع السياسي الوطني.

لقد تطور اهتمامي بالموضوع بعد متابعة الآثار الأولى لوباء COVID-19 الجديد على الاقتصاد الدولي في مارس الماضي. بوجودي في فيينا ، من خلال برنامج + Erasmus ، تابعت عن كثب الإجراءات التي اتخذتها OPEC ، ومقرها في الواقع ، في العاصمة النمساوية. ومن هنا تما اهتمامي بمتابعة التطورات شبه اليومية لما كان يحدث في سوق النفط الدولي وعمليات كبار اللاعبين بما في ذلك المملكة العربية السعودية. ومع ذلك ، فقد تطور اهتمامي بديناميكيات أسواق النفط والارتباط بالاقتصادات العربية في وقت سابق ، خلال السنة الأولى من دورة الماجستير في جامعة كا فوسكاري في البندقية ، بعد مسار السياسة الاقتصادية للدول الإسلامية ، التي عقدتها الأستاذة Maria Paciello Cristina، التي أشرفت على بحثي. على وجه الخصوص ، كنت مهتمًا بشدة بالنموذج الاقتصادي في الدول العربية والدور الأساسي الذي يلعبه النفط في المنطقة. قبل كل شيء ، أحدث اكتشاف النفط وتسويقه ثورة في المحصلة الاقتصادية والسياسية لجميع الدول العربية تقريبًا ، سواء البلدان المصدرة أو غير المصدرة ، والتي استفادت بشكل مباشر وغير مباشر من الإيرادات النفطية التي تلت العقود. كانت المملكة العربية السعودية حاسمة في المنطقة من هذا المنظور ، كواحدة من الدول المصدرة الرئيسية. علاوة على ذلك ، في منطقة الشرق الأوسط ، لطالما فتنتني المملكة العربية السعودية كثيرًا بخصوصياتها من الناحية السياسية والثقافية وقبل كل شيء الاقتصادي.

لذلك ، فإن اقتصادها يعتمد بشكل شبه كامل على النفط ، مثل الاقتصاد السعودي ، سيتحمل بالتأكيد تداعيات غير مسبوقة في أعقاب أحداث مارس وتفشي الوباء ، ومن هنا كان موضوع بحثي.

ستتطور الدراسة إلى أربعة فصول ، وبالتالي مقسمة: في الفصل الأول ، سأعرض مبدئيًا الإطار التاريخي والسياسي للمملكة وخصائص الاقتصادات القائمة على عائدات النفط ، مع التركيز على كيف أصبحت المملكة العربية السعودية دولة ريعية في الداخل. العقود القليلة الماضية. بعد ذلك ، سنناقش الدور الجيوسياسي الدولي السعودي المستمد من القوة المكتسبة عن طريق النفط ، بدءًا من الحظر النفطي عام 1973 وتأسيس منظمة OPEC. أخيرًا ، ضمن الإطار التاريخي ، سنقوم بتحليل الأزمات الاقتصادية التي تعرضت لها المملكة ، والتي ستساعد بعد ذلك في مناقشة الانكماش الاقتصادي الحالي. لذلك ، سيكون هذا الفصل وصفيًا بشكل أساسي للنموذج الريعي وتاريخ المملكة العربية السعودية ، وكذلك مقارنًا بتحليل للأزمة السابقة التي مرت بها المملكة في العقود الماضية ، بهدف نقل تحليل شامل عن المملكة العربية السعودية. ونقطة انطلاق للبحث في الأزمة الحالية والإصلاحات التي تقوم بها الحكومة السعودية.

في الفصل الثاني ، سأعرض أزمة 2020 ، من خلال إعادة بناء الأحداث الرئيسية في الاقتصاد العالمي ، والتي أدت إلى انهيار الأسعار في سوق النفط والإجراءات التي اتخذها اللاعبون الرئيسيون على الساحة العالمية ، ولا سيما السعودية. العربية وروسيا OPEC. سيقدم هذا الفصل موضوع بحثنا الذي سيتم فحصه بعد ذلك في الفصلين الأخيرين ، حيث يتم تحليل ديناميكيات أسواق النفط والآثار التخريبية التي تمثلها الأوبئة بالنسبة للفصل الأخير. سيكون هذا

التحليل الأولي مفيدًا لفهم العواقب على المملكة. في الواقع ، هنا ستؤخذ الإجراءات السعودية والخلافات مع القوى النفطية الأخرى والاستجابة للسوق في الأشهر الأولى من فيروس كورونا في الاعتبار. علاوة على ذلك ، سيتم التركيز أيضًا على دور OPEC ، احتفالًا بعيدها الستين ، في إعادة توازن الإنتاج العالمي ، من خلال تحليل إجراءات وجهود الدول الأعضاء.

يمثل الفصلين الثالث والرابع جوهر هذا البحث. يتناول تحليل النتائج التي تحملتها المملكة من منظور اقتصادي اجتماعي و سياسي على التوالي في كل فصل. وسيركز الفصل الثالث على وجه الخصوص على آثار الوباء على قطاع الاقتصاد السعودي. سأناقش أولاً قطاع السياحة ، وهو ركيزة التنويع الاقتصادي ضمن خطط الأمير محمد بن سلمان لرؤية 2030 ، فضلاً عن الإصلاحات التقشفية التي أدخلتها الحكومة ، لا سيما زيادة ضريبة القيمة المضافة إلى 15٪ إلى جانب تخفيضات الميزانية. بعد ذلك ، في الفصل الرابع والأخير ، تحليل اجتماعي سياسي لتأثيرات الأزمة على السعوديون مع التركيز على مستويات عدم المساواة التي تفاقمت بسبب الأزمة الأخيرة بين المواطنين السعوديين والعمال المهاجرين ، وتزايد البطالة الشباب والدور الاستبدادي المتزايد للحكومة.

INTRODUCTION:

The research work aims to analyse the economic and political implications on the Saudi Kingdom, resulting from the collapse of oil prices due to the outbreak of the COVID-19 pandemic in 2020. In particular, I will investigate the response of the monarchy in relation to economic reforms, the long-term plans envisaged by Vision 2030 and the impact that the outbreak of the virus has had on the implementation of these projects and on the national political situation.

My interest in the subject has developed after following the first effects of the novel COVID-19 pandemic on the international economy last March. Being in Vienna, through the Erasmus +, program I had closely followed the actions taken by OPEC, based in fact, in the Austrian capital. Hence, my interest in following the almost daily developments of what was happening in the oil market and the operations of major players including Saudi Arabia. However, my interest in the dynamics in the oil markets and the connection with the Arab economies have developed earlier, during the first year of my masters' course at the University Ca' Foscari of Venice, following the course of Economic Policy of Islamic Countries, held by the professor Maria Cristina Paciello, who supervised my research. In particular, I was deeply interested in the economic model of the rentier state in the Arab countries and the fundamental role oil has played, and plays, in the region. Above all how, the discovery and consequent commercialization of oil have revolutionized the economic and political outcome of almost all Arab countries, both the exporting countries and non, which have benefited directly and indirectly from the oil booms that have followed over the decades. The Saudi Kingdom has been crucial in the region from this perspective, as one of the major exporting countries. Furthermore, in the Middle Eastern region, Saudi Arabia has always fascinated me very much for its peculiarities from a political, cultural and above all economic aspect.

Therefore, an economy almost completely reliant on oil, like the Saudi one, would certainly endure unprecedented implications following the events of March and the outbreak of the pandemic hence, the topic for my research.

The study will develop into 4 chapters, thus divided: in the first one, I will initially outline the historical-political framework of the Kingdom and the characteristics of economies based on oil revenues, focusing on how Saudi Arabia came to be a rentier state within the last few decades. Subsequently, we will discuss the Saudi international geopolitical role derived from the power acquired through oil, starting from the 1973 oil embargo and the foundation of the OPEC. Lastly, within the historical framework, we will analyse the economic crises endured by the Kingdom, which will then become helpful in discussing the current economic downturn. Therefore, this chapter will be mainly descriptive of the rentier model and the history of Saudi Arabia, as well as comparative with an analysis on previous crisis endured by the Kingdom in the last decades, with the aim of conveying a comprehensive analysis on the Saudi Kingdom and a starting point to research the current crisis and reforms undertaken by the Saudi government.

In the second chapter, I will introduce the 2020 crisis, through a reconstruction of the main events in the world economy, which led to the collapse of prices in the oil market and actions taken by the main players on the world scene, in particular Saudi Arabia, Russia and OPEC. This chapter will introduce the topic of our research which will be then examined in the last two chapters, analysing the oil markets dynamics and the disruptive effects the pandemics represented for the latter. These initial analysis will be useful to comprehend the consequences on the Kingdom. In fact, here the Saudi actions, disagreements with other oil powers and the response to market in the early months of corona virus will be taken int account. Moreover, a focus will be also dedicated to the role of OPEC, celebrating its sixtieth anniversary, in the rebalancing of the international production, through an analysis of the actions and efforts of the member countries.

The third and the fourth chapter represent the core of this research. The analysis approaches the consequences endured by the Kingdom both from the economic and socio-political perspective, respectively in each chapter. In particular, the third chapter will be centred on the effects of the pandemic on the Saudi economic sector. I will first discuss the tourism sector, the pillar of the economic diversification within Prince Muhammad bin Salman's VISION 2030 plans, as well as the austerity reforms introduced by the government, especially the increase in VAT to 15% alongside the budget cuts. Subsequently, in the fourth and last chapter, a socio-political analysis of the effects of the crisis on the Saudi population will be given with an emphasis on the inequality levels further aggravated by the recent crisis between Saudi citizens and immigrant workers, the growing youth unemployment and the increasingly authoritarian role of the government.

METHODOLOGY

Therefore, the research aims to analyse economic and political consequences of the 2020 COVID-19 driven economic downturn in the Kingdom of Saudi Arabia. In particular, the work intends to answer the questions that I have asked myself about the role played by the global pandemic in the economy of the Kingdom: specifically, to which extent has the pandemic affected a rentier state like Saudi Arabia? Similarly, have been there consequences on domestic politics? What has been the reaction of the monarchy? How did the long-term development projects, such as Vision 2030, have been affected? Which alternatives will the Saudi government invest in the economic diversification to reduce its heavy dependence on oil?

With respect to these questions of research, I will take under analysis the period which spans from ends of December 2019-beginnings of January 2020 as it marked the outbreak of the novel coronavirus in China, up until December 2020. However, when needed further updates up to March 2021 will be included, with the aim of incorporating oil markets' dynamics of the first weeks of the 2021 useful for the research alongside, delayed governmental publications.

The primary sources to which the study will refer to, will mainly be economic and social data provided by the Saudi government resources, flanked and compared with data from international organizations, such as OPEC, the World Bank and the IMF.
Furthermore, the previous literature on the rentier state economic model and the studies related to the development programs of Vision 2030 will also be fundamental. Concerning the historical introduction to the Saudi economy I will rely on the studies of Wynbrandt and Fawaz,[1] alongside Jones[2] with the aim of delineating the introductory first chapter. Furthermore, to comprehend the consequences brought by the current crisis it will be fundamental the analysis of the rentier state model theorized by Luciani and Beblawi, the theory of the two economists will in fact be essential to contextualize the

[1] Wynbrandt, J., Fawaz A. Gerges (2004). A brief history of Saudi Arabia, Checkmark Books.
[2] Jones, T. C. (2010). *Desert Kingdom*. Harvard University Press.

past crises of the Kingdom but above all the recent one, first of all from an economic point of view but also from a socio-political point of view.

In addition, official statements and interviews excerpt by the monarchy and the ministries involved will be added regarding the development of the economic, social and political situation during the months under consideration. Regarding the market trends and oil prices, the main sources for the research have been reports from the International Monetary Fund (IMF), the World Bank, as well as the monthly OPEC bulletins. For the specific developments within the Saudi economy, I have relied on the declarations and reports released by the Finance Ministry, the General Authority of Zakat & Tax (GAZT), alongside the General Authority for Statistics (GASTAT) reports.

With concern to the health crisis, the COVID-19 related data and trends have been extracted from the World Health Organisation (WHO) reports and updates, alongside the national reports of the Saudi Health Ministry in relation to the specific situation within the Kingdom. Regarding the market trends and oil prices, the main sources for the research have been reports from the International Monetary Fund (IMF), the World Bank, and the monthly OPEC bulletins.

As for the secondary sources, as the facts are still developing, I will rely on the daily updates from international business news agencies, in particular, Bloomberg and Reuters and the Saudi Press Agency for the sources in Arabic.

Lastly I would like to mentions the limits encountered in the research. one of the limitations of the research was the topicality of current events that did not allow us to have previous sources on the topics covered. Reliance was therefore, placed on interviews, lectures and webinars held by oil experts from around the world and members of the Saudi crown. In this case it was a work that allowed to obtain the research material directly from the interested parties and in real time. Moreover, due to the measures it has been hard to retrieve physical sources, as libraries and university were inaccessible both in Vienna and in Venice within the containment measures. A further limitation has been posed by the slowness and postponement in the publication of data from governmental sources and research and analysis institutes of the Kingdom, which prolonged the research period. Lastly, as the events are still unfolding it has been difficult to forecast precise and certain projections.

In this context, this study aims to contribute to the still ongoing research on the current crisis, as the globe is still suffering from the COVID-19 pandemic, as cases exponentially increase and the oil industry is still enduring the harsh effects of the prices' collapse during the first quarter of 2020. Therefore, the aim of this study is to be included in a literature at the dawn of analysis of the contemporary economic and health crisis. This thesis sought to provide a broad and up-to-date view of what has been published so far on the subject, with the aim of offering a view that would take into account both the internal and official communications of the Saudi Kingdom, as well as international sources.

CHAPTER I

The economic history of Saudi Arabia from the discovery of oil.

1.1 INTRODUCTION

In the global scenario, the Kingdom of Saudi Arabia holds a crucial amount of economic power not only as the largest oil exporter worldwide, but also as a religious entity, as it is birthplace, as well as guardian of Islam. This duality shaped the politics and economy of the Kingdom both internationally and in the Arab region since its foundation in 1932. Oil, Islam in its conservative Wahhabi doctrine and the royal family are the pillars on which the modern state of Saudi Arabia was founded.

When talking about Saudi Arabia, oil is undoubtedly one of the first associations connected to the Kingdom. Indeed in the last decades the nation has acquired power, not only in the international oil markets, but also in the politics, thanks to the crude production. For this reason in the following chapter I will start by outlining the impact which the discovery of oil had on Saudi Arabia, which I believe it is fundamental to fully comprehend the development and transformation of the Kingdom into a rentier state, likewise the consequences this development had on the nation and its populace from various points of views, ranging from a socio-economic to a political approach. Indeed the historical role which the Kingdom of the Arabic peninsula has played in international geopolitics and the economy, undeniably stems from its natural resource. Their presence in the international economy, as well as political dynamics would have been much different had not it been for the discovery of oil in 1938, the soon to be twentieth century resource per excellence. Despite being a relatively young state, Saudi Arabia has played, and still to this day, a key role in the political and economic global scenario.

For this reason the 1930s, when the Kingdom was founded by the al-Saʿūd family, will be the starting point of this analysis. After having traced the fundamental events which led to the discovery and trade of oil, until the rise to the hegemony over the international oil markets, within the OPEC foundation and the crucial events which led to the 1973 oil embargo against the United Stated, I will move to the central theme of the analysis of this chapter, the economic model of the Kingdom. Saudi Arabia is indeed the perfect example of a Rentier state. The economy of the nation, in fact, bloomed within few decades thanks to the massive oil revenues, therefore, in the third section of the chapter, I will outline the economic model and examine the conditions which apply to the Saudi Arabian Kingdom.

In the concluding section, I will emphasize the impact on the country of the economic model based on external rents which led to the subsequent oil booms and crises. This section will be fundamental for the research question of the thesis that will investigate what consequences the recent COVID-19 pandemic has left on the country's economy. Therefore, in the fifth and last section of the chapter, I will conduct an analysis of the economic crises that the Kingdom has suffered in the past years, which will aim to go back to the underlying causes, and above all to the response of the government. Through the latter, I will attempt to develop a more in-depth analysis and comparison in the following chapters with the current oil crisis caused by the outbreak of the COVID-19 pandemic

1.2. THE DISCOVERY OF OIL IN THE KINGDOM

Following the discovery of crude oil in the neighbouring states of Iran (1908), Iraq (1928), and Bahrain (1932) by American and European geologists and oil companies, the search for oil was started shortly after in the Kingdom as well. The flow of wealth that these countries experienced eventually aroused Saudi's interest in exploring their soil for oil.[3] At the time the main source of income for the monarchy was the pilgrimage to the holy Mecca, the *Hajj*, which yearly attracted thousands of believers from all over the world to perform one of the five pillars recommended in Islam.[4] However, due to the world financial crisis of 1929-1933 the Kingdom was facing a decrease in pilgrimage

[3] Jones, T. C. (2010). *Desert Kingdom*. Harvard University Press. p. 32
[4] *Ivi*., p.28

traffic, which eventually decreased from 100,000 to under 40,000 visitors per year.[5] Additionally, the seasonal and unstable nature of the *Hajj* revenues made them unpredictable and precarious, therefore, it was seen as not suitable in representing a steady source for investments and development for the crown's economic and infrastructural plans.

As researchers affirm, the change in route in the history of the Kingdom derived from the discovery of oil, as Jones states, "the discovery of oil in commercial quantities in 1938 guaranteed the Saudis a safe source of financial security for the foreseeable future and development plans of the Kingdom."[6] Furthermore, it was clear by the end of World War I, that oil was progressively becoming a crucial commodity for the industry and its technical development, which meant that, countries needed a stable supply. Additionally, the conversion from coal to fuel in the industry, the rise of plastics and the culture of consumerism in the global industrialization, resulted in a surge of oil demand.[7] In light of these events, it became clear that ownership of oil production and trade was a crucial element in the success of national goals and in acquiring relevant authority in international politics. With the outbreak of the Second World War, the American's fear of an oil scarcity promoted the intensification of the political relationship with the Kingdom.[8]

At the beginning of the 1930s, when the Saudi government launched the search for water and fossil fuel in their soil, the intervention of foreign scientists, geologists and oil companies has been fundamental to the Kingdom, which, on the contrary, was not technically able to undertake the exploration with its own means. Researchers such as Charles Crane were crucial in determining soil features, discovering the areas that would be rich in oil and methods of drilling.[9] However, more conservative religious groups contested the presence of disbelievers on the holy land of Islam, fearing for the corruption they would bring. The King ʿAbd al-ʿAzīz al-Saʿūd, understood the essential role these companies played in the researches and therefore, found a solution to the most conservative branches of the Saudi society in the Qur'an itself: "Say: O ye that reject

[5] Wynbrandt, J., Fawaz A. Gerges (2004). A brief history of Saudi Arabia, Checkmark Books, p. 190
[6] Jones, T. C., op. cit., p.11
[7] Wynbrandt, J., Fawaz A. Gerges, *op. cit.,* p. 199
[8] Citino, N. J. (2002). *From Arab nationalism to OPEC: Eisenhower, King Sa'ud, and the making of US-Saudi relations,* Bloomington: Indiana University Press, pp. 1-2
[9] Wynbrandt, J., Fawaz A. Gerges, *op. cit.,* p. 191

faith. I worship not that which he worship, nor will ye worship that which I worship. And I will not worship that which ye have been wont to worship, nor will ye worship that which I worship. To you be your way and to me mine."[10] The King therefore, permitted the researchers' intervention creating political and economic relations with Western countries that have endured and shaped the international politics of Saudi Arabia throughout decades.

The partnership with the United States in particular, has been a pivotal element in the Kingdom's history of foreign politics**.** Indeed**,** the Standard Oil Company of California (SOCAL), through its subsidiary California Arabian Standard Oil Company (CASOC) in partnership with Texas Oil Company, formed CALTEX, the predecessor to the Arabian American Oil Company (ARAMCO) subsequently formed in 1944,[11] which gained the oil concession from the Kingdom in July 1933, one year after the unification of the Kingdom, and inaugurated the drilling in 1935. The King opted for the alliance with the United States over Britain for its first ever concession for the oil research on the Saudi soil, as the U.S. had no history of colonialism in the region. Nevertheless, in the concession agreement signed on May 29 1933, King ʿAbd al-ʿAzīz included an "anti-imperial" clause, forbidding the American companies' any influence on the Kingdom's internal affairs.[12] This agreement was the first of many other milestones in the political and economic relationship of the two countries, which was essentially born and based on oil, of which KSA was rich and fundamental for the American economy. As I will analyse deeply in the following section, oil was to become a tool of power for Saudi Arabia in demanding to the U.S. national security and protection from the neighbouring countries[13] and in assuming a crucial geopolitical role. This political-economic agreement created a favourable situation for both parties, ensuring the safety and stability for the Kingdom and guaranteed the access to oil resources to the American government.

Eventually, in 1938 Saudi Arabia struck oil at a depth of 1440 meters in well number 7, within the Dammam oil field,[14] in the south eastern shore of the Persian Gulf,

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[10] *Ivi*., p.193
[11] *Ibidem*.
[12] *Ivi*, p. 192
[13] Jones, T. C., *op. cit.*, pp. 33-34
[14]OPEC (2013). Saudi Arabia Facts and Figures. Retrieved from: http://www.opec.org/opec_web/en/about_us/169.htm

and started producing 1500 barrels per day.[15] After the search for resources in the Saudi soil, it was clear that "what the Kingdom lacked in water was made up for in oil."[16] With the largest proven oil reserves, which made up to 24% of the global oil reserves,[17] the Kingdom could easily satisfy both its own, as well as international demand, therefore, gaining a crucial role in the global energetic market and political scene.

This moment in the history of Saudi Arabia has been a turning point for the recently unified Kingdom in 1932, shifting it in the span of only a few decades from a new born state, to one of the leading economies in the region and in the international oil markets. Although the production was halted during second World War, soon after the production increased vertiginously, from the 500,000 barrels in 1939 to more than 21 million barrels in 1945,[18] due to the high demand after the realization of the fundamental importance of the new commodity had in the industry and in the rebuild of nations in the aftermath of the world conflict.

In 1948,the history of Saudi Arabia hit another fundamental milestone when the American concessionary company ARAMCO began exporting oil after the halt during World War II. Governmental revenues, which had averaged $13–16 million annually between 1938 and 1946, rose to $53.6 million in 1948.[19] The Saudi economy rapidly started to depend increasingly on the oil industry, as it accounted for 85% of the government's revenue and 90% of foreign exchange earning, laying the basis for a rentier state economy model.[20]

1.2.1The creation of OPEC

Nevertheless, the increasing importance of the Kingdom in international markets, the control on the global production and commercialization of fossil fuel was for the almost totality in the hands of foreign companies, named by Enrico Mattei, owner of the Italian Eni, the "Seven Sisters", i.e. a cartel of Seven Anglo-American and Anglo-Dutch oil companies. These major oil corporations managed to control 90% of the global

[15] Wynbrandt, J., Fawaz A. Gerges, *op. cit.*, p. 193
[16] Jones, T. C., *op. cit.*, p.3
[17] Jawadi, F., & Ftiti, Z. (2019). Oil price collapse and challenges to economic transformation of Saudi Arabia: A time-series analysis. Energy Economics, p. 12
[18] Wynbrandt, J., Fawaz A. Gerges, *op. cit.*, p. 198
[19] Niblock, T., & Malik, M. (2007). The political economy of Saudi Arabia. Routledge.p. 36
[20] *Ibidem.*

production, unilaterally determining the quotas of extraction and the price of crude, in an agreement known as the Achnacarry Agreement, which was also known as “As Is” Agreement.[21] The accord between the Majors had the purpose to cartelize the global oil market in order to maintain their businesses profitable and avoid negative fluctuations in price derived from the market competition. In order to comply to this objective, these companies kept the production threshold below the full capacity of the producing countries, preventing surplus which would upset the price structure. Their economic strategy represented negative consequences for the newly emerging producing countries, which were “imprisoned in an economic and political straight-jacket which in the long term was bound to prove intolerable to national sovereignty and interests”, in Seymour words.[22] For instance, the concession excluded producing countries from the ownership and access to widely diversified sources of crude oil supply, as well as the transport, refining and marketing facilities, therefore, leaving in the hands of the foreign companies the horizontal integration, along with the vertical integration.[23] In other words, the late 1950s oil prices were simply administrated prices designed to meet the need of the Major global companies and directly influenced by political pressures.[24]

Nonetheless, by the end of 1950s this price control situation experienced changes and the privileged position of the oil Majors was put in danger by several factors. Primarily, in the global markets, the competition grow after new suppliers, i.e. new American independent companies and the Soviet Union started emerging as players in the oil market. Second, the political crises which derived from the Korean and Suez wars, were undermining the stability of the global markets.[25] This situation thereby, removed the total control from the hands of the Major oil companies and opened favourable conditions for the active participation of the oil exporting countries, which up to this moment, had been excluded from the fossil fuel market dynamics by the companies since the discovery of oil in the region. A further aggravating element which hampered the Anglo-American supremacy and their control on oil reserves, have been the independence movements which rose in the late 1950s in the region. Among the other requests, the reappropriation of the control over national natural resources was one of the priorities in

[21] Seymour, I. (1980). *OPEC: instrument of change*. Springer, p. 1-6.
[22] *Ivi*., p.4
[23] *Ivi*., pp. 2-3
[24] *Ivi*., pp. 10-12
[25] *Ivi*., p.12

the Arab governments' agendas. As a part of the statist development model of the Arab countries during the 1950s, nationalizations were pivotal for Arab governments' and therefore, followed in almost all countries. Due to this the control of the production and export of oil slowly started to be passed in different percentages into the hands of the Arab national governments, whereas the research persisted with the Europeans/Americans who had the means to undertake the researches activities. King ʿAbd al-ʿAzīz in 1950 succeeded in gaining from ARAMCO, a renegotiation of the concession agreements on the system of division of oil revenues derived from oil exports, to a division of the income in a 50/50 ratio between the Kingdom and the foreign oil company. The King's decision was the first move to benefit more from the oil revenues, for the growth and sustainability of the economic development plans of the country, which were limited in the previous concessions agreements.

However, the Major oil companies still exerted a strong influence on oil prices in order to protect their interests and reduce losses caused by the uncertainty of global situation and new profit divisions. Therefore, in 1959 and again in 1960, without consulting the producing governments, the oil Majors reduced the tax reference prices, which resulted in a revenue loss of about 15% for the producing countries.[26] Consequently, in 1959-60, the government's revenues per barrel from crude oil for the Saudi Arabian Light decreased by about 14 cents, reaching 70 cents per barrel in August 1960 from the previous 84 cents at the end of 1957. [27] This could seem as a small percentage, however, for the major Middle Eastern exporters, including Saudi Arabia, this meant an overall loss in income of approximately $270 million.[28] This could have dangerously affected the producing countries' economies in the long run, which grew increasingly dependent on the oil revenues.

These events have stirred the discontent of the oil-producing governments, which led by Venezuela have established an international partnerships to regain control over their production and stabilize market prices.[29] Thus, as a joint of effort from Venezuela and Middle Eastern oil producers, the Organization of the Petroleum Exporting Countries (OPEC**)** was founded in 1960.[30] The organisation resulted in the cooperation of five

[26] *Ivi*., pp. 18-19
[27] *Ivi*., pp. 24-25
[28] *Ibidem*.
[29] *Ivi* , pp. 22-23
[30] Ivi., p. 31-33, 36-37

countries, including the Islamic Republic of Iran, Iraq, Kuwait, Saudi Arabia and Venezuela, following the signature of an agreement in Baghdad, in September 1960.[31] This cooperation later formed the Founder Members of the Organization, with the

> "objective to co-ordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry", .[32]

In other words, the organisation was stressing the fundamental right of the producing countries, which were mainly concentrated in the "Third World", "to exercise their permanent sovereignty over their natural resources in the interest of their national economic and social development and growth."[33] Indeed the creation of OPEC was within the movements for independence and autonomy from Western powers, in particular for Arab countries. In the foundation of OPEC, the efforts of two fundamental oil moguls, namely the Venezuelan Minister of Mines and Hydrocarbons, Juan Pablo Perez Alfonzo and the Saudi Minister of Petroleum and Mineral Affairs, Abdullah Al-Tariki, have been crucial.[34] These oilmen saw a tremendous opportunity in the economic and political situation of the end 1950s and thus, combined the efforts of two regions pressured under the Western control reaching a pivotal key point in the reappropriation of the natural resources and the dismantlement of the Western monopolization of oil markets. Finally, the producing countries could exercise their power on decisions made about their resources and gained a primary role in the international oil dynamics, as the Venezuelan minister stated after the institution of OPEC in Baghdad: "Between us we control 90% of crude exports to world markets, and we are now united. We are making history".[35]

The Organization's headquarters have been placed first in Geneva, Switzerland from the foundation until 1965, which were then moved to Vienna, Austria, on September 1, where they are situated to this date.[36] Throughout the years further producing countries entered OPEC, i.e. Qatar (1961), Indonesia (1962), United Arab Emirates (1967), Algeria (1969) and Nigeria (1971).[37] As it will be discussed in the following chapters, OPEC

[31] OPEC : Member Countries. (2017). Retrieved from www.opec.org.
[32] OPEC: Our Mission. (2020). Retrieved from www.opec.org.
[33] *Ibidem*.
[34] Seymour, I., *op. cit*., p. 29-31
[35] Middle East Economic Survey (MEES), September 16, 1960.
[36] OPEC: Brief History. (2019). Retrieved from www.opec.org.
[37] *Ibidem*.

through the years undertook fundamental decisions in the oil markets, in particular in the recent 2020 crisis its role has been pivotal in balancing the sector.

1.2.2 The 1970s: The Oil Embargo and the first Oil Boom

In 1962 Fayṣal assumed the title of the King, who, in accordance with his father, persisted in maintaining the division between political issues and oil, in his efforts to avoid the use of the latter as a political tool, as he stated: "Oil and politics should not be mixed".[38] However, this position shifted in the early 1970s, due to relevant political events which influenced his vision of the role of Saudi Arabia in international politics.

The Kingdom's relationship with the U.S. had been balanced and stable throughout the years, however, the two governments have never come to an agreement on one issue, the Arab-Israeli conflict. In 1945 the late King ʿAbd al-ʿAzīz and President Roosevelt discussed said subject, with the American president attempting to convince the Saudi King for support in the plan for the settlement of displaced Jews in Palestine. However, the ʿAbd al-ʿAzīz disagreed, as the protector of Islam and to manifest his supremacy in the region, the Palestinian cause has always been a key issue for the Kingdom. Therefore insofar as he claimed the absence of Palestinian involvement in the displacement of the Jewish community, it also follows the non-involvement in providing relief .[39] The relationship between the two powers, began to severe on November 29th 1947, when the United Nations voted for the partition of Palestine with the subsequent creation of the state of Israel which was reinforced by the U.S.'s support. For King Fayṣal, who at the time held the title of crown prince, this represented a betrayal, as he was confident that Roosevelt's promise to his father would be respected in the same way by his successor. This event posed a fundamental element in the following years in the relationship between the countries, as the resulting growing feelings of mistrust King Fayṣal harbored towards the US eventually, resulted in point of break with the foreign government.[40]

In addition to this, the second and decisive American betrayal for the King resulted in 1973, when international politics assumed a pivotal shift of powers, which carried

[38] Al-Rasheed, M. (2002), *A History of Saudi Arabia.* Cambridge, Mass.: Cambridge University Press, p.136

[39] Wynbrandt, J., Fawaz A. Gerges, *op.cit.*, p. 197

[40] *Ivi.*, p. 204

remarkable influences in the economic sphere. On October 6th 1973, with a coordinated attack launched by Egypt and Syria, the Arab-Israeli war, also known as Yom Kippur war, started.[41] Although, Washington requested Saudi Arabia to intervene and call on a ceasefire from Egypt and Syria, the Kingdom which aligned with the Arab action, called on the U.S. to convince Israel to leave the occupied Palestinian territories. This resulted in a stagnating situation and the indifference of the United States. As a result, a crucial intersection of politics and economy took place with the OPEC members assuming a political action by agreeing on a production cut by 5% alongside a monthly rise in prices by 17%. The aim was to pressure on the resolution on the Arab Israelian conflict. In order to maintain the relationship with the Kingdom, President Nixon guaranteed on the United States' impartial role in the conflict. Nevertheless, the U.S. after receiving an emergency request from Israel for a replacement in arms, funded the Israeli army with a $2.2 billion aid. Although this decision undermined America's relationship with Saudi Arabia, it is fundamental to shed light on its crucial role in the American foreign policy, as it represented the defense of the supremacist role of the United States in the region against the Soviet Union, which was supplying Egypt and Syria with firearms, afraid that a win for the Arab side would have meant a larger control from the soviets on the area. This decision marked the end of the relationship between the U.S. and Saudi Arabia and resulted in King Fayṣal's decision to boycott the United States through an oil Embargo.

On October 17th 1973, Saudi Arabia the largest exporter of oil, ordered ARAMCO to withdraw large quantities of crude oil from the market. The sudden shortage of oil led to an exponential increase of prices and caused a shock in the global economy. Furthermore, the Saudi plan, which had been adopted as well by the other ten Arab member countries within OPEC,[42] agreed on the rise of prices by 70% and the cut of their production by a minimum of 5% monthly[43] in order to obtain a "total evacuation of Israeli forces from all Arab territory occupied during the June 1967 war and the legitimate rights of the Palestinian people are restored."[44]

These unilateral actions resulted in a global economic shock: the oil quantities for international commercialization were heavily lessened, causing an unprecedented hike in

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[41] *Ivi*., p. 232
[42] These member countries also reunited under the name of OAPEC (Organization of Arab Petroleum Exporting Countries).
[43] Seymour, I., *op. cit.*, p. 116-117.
[44] *Ibidem*.

prices, for a commodity that was pivotal for the American industry and economy. On the other hand, however, these events resulted in an economic boom in Middle Eastern economies, both for oil producing countries and non. Saudi Arabia, in particular experienced a flow of capital that was never seen before in history,[45] and enabled a series of economic and social development plans, making the relatively new-born Kingdom one of the major economic forces in the international scene. In other words, the Kingdom's Oil embargo against the U.S. in 1973 represented a turning point which has forever changed the balance of KSA's international relations and its economic presence in the global markets. As Jones states, "the consequent oil boom liberated Saudi Arabia from the restraints of pecuniary caution"[46] allowing the government to establish great economic plans which transformed the country. In addition, Saudi Arabia discovered the significance of oil as a political tool which would permit the country to equilibrate their relationship with international powers, in particular the United States, and benefit of its central role within OPEC as a further space to manifest its authority on international markets. Furthermore, the 1973 oil embargo marked a memorable success for OPEC. 13 years after the organization's foundation and battle with foreign companies regarding the local resources, the member countries held full responsibility on the pricing of their crude oil in the markets, marking the end of an era which was formed by the lack of control on their resources, as stated by Seymour. [47]

1.3 THE RENTIER STATE MODEL:

The Oil embargo and the consequent oil boom in the Middle Eastern region, laid the basis for a new economic, and political model known as the *rentier state* in the Saudi Kingdom. This term was originally coined by the Iranian economist, Hossein Mahdavy,[48] referring to Iran, subsequently, it has been applied also to Arab countries by Giacomo Luciani and Hazem Beblawi[49] in a study which furtherly explored the model and its application to the Gulf countries economies. The concept was introduced in the 1970s, when oil economies

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[45] Jones, T. C., *op. cit.*, p.4
[46] *Ibidem*.
[47] Seymour, I. (1980). p. 1.
[48] Mahdavy, Hossein (1970). "Patterns and Problems of Economic Development in Rentier States : the case of Iran". In M. A. Cook (ed.). Studies in the Economic History of the Middle East (1 ed.). London: Routledge. pp. 428–467.
[49] Beblawi, H., & Luciani, G. (Eds.). (2015). *The rentier state*. Routledge.

bloomed in the Arab region and consequently reshaped the global economic relationships. The two authors define the term as, “any state that derives a substantial part of its revenue from foreign sources and any form of rent.”[50] In other words, any form of revenue which is not locally derived from the national productive system, but is constituted by an external rent, which is in Ricardo’s words is, “a reward for ownership of all natural resources.”[51] In the KSA, the largest income of the state was derived from the production and export of oil, therefore an external source of rent not controllable by the state itself but easily affectable from external shocks.

In his study Beblawi further describes the elements required by a state to be considered a rentier, here evaluated how they apply to Saudi Arabia:

- First, the rent revenues must predominate the economy of the state, for at least 40%, as suggested by Luciani,[52] and its nature must be external.[53] In the case of Saudi Arabia, the GDP of 1973 rose almost by 150%, from 40.5 billion in 1972 to 99.3 billion Saudi riyals, of which 90% was represented by oil.[54]
- Secondly, only a small part of the population is engaged in the generation of the rent while the majority is involved only in the distribution and consume.[55] Again, the Kingdom’s economic structure proves how just a small percentage of the work force is engaged in the extraction of oil,[56] causing a great level of unemployment in the nation since the 1990s, with subsequential deep rooted unemployment issues, which will be discussed later.
- Last, but most importantly, the government is the principal recipient of the external wealth.[57] This is a key element in Saudi Arabia since the role and especially the nature of the state has been affected and moulded around this economic model, therefore the economic power grants also political power.[58]

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[50] *Ivi*, p.11
[51] Ricardo, David (1817). "Chapter III". *On the Principles of Political Economy and Taxation*, p. 509
[52] Beblawi, H., & Luciani, G., op.cit, p. 70
[53] *Ivi*., p. 51
[54] Wynbrandt, J., Fawaz A. Gerges, op.cit, p. 233
[55] Beblawi, H., & Luciani, G., op.cit., p. 51.
[56] *Ivi*., p. 67
[57] *Ivi*., p. 52
[58] *Ivi*., p. 53

In particular, the state holds a central role within this economic model and as a consequence of its predominant position in the reception of the generated revenues, it is the prime mover of the economy, assuming the role of wealth distributor. The oil revenue gathered by the state is, in fact, subsequently redistributed to the population, through the welfare system. Thus, in other words, the economy of the oil states is arranged as a "hierarchy of layers of rentiers with the state at the top of the pyramid"[59] in a system which is further reinforced by the tribal culture of the Gulf countries of exchange of favours and loyalty.[60] As a result in this system, the citizenship assumes an essential status as a source, not only of political rights but also of economic benefits, in particular we will analyse the extremely different status of Saudis and foreigners in the Kingdom, in relation to the issue of immigrant workers.

A further role exerted by the government in the rentier economies, is the one of the employer.[61] In oil economies, excessive percentage of the population has been employed in governmental and administrative positions. In the Kingdom in the number of administrative employers has exponentially increasing, and the particular reason for this circumstance lays in the fact that it offered greater benefits than the private sector, where were mainly occupied foreign workers.[62] This particular division of employment sectors is characteristic to the KSA, it will be further discussed in the fourth section of the chapter concerning the labour market and in a deeper analysis in the fourth chapter.

Lastly, the taxation system deserves a comment of its own as it is extremely indicative and characteristic to this economic model. In fact, in a rentier state, since the revenue for public expenditure is granted by external sources of income, the taxation is very low or virtually inexistent. In this section it will be briefly delineated as it will be analysed in depth in the third chapter. The case of Saudi Arabia, as well as other Gulf economies, is very interesting as the taxing of nationals it is an extremely recent action. Up until 2018, limited personal income taxes were imposed for nationals, and the Kingdom's only tax revenue resulted from *zakat*, the Islamic mandatory contribution collected at 2.5% of one's wealth, alongside from customs duties, foreign corporate

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[59] *Ibidem*
[60] *Ibidem*
[61] *Ivi.*, p.55
[62] Paciello, M.C. (2010) "Introduzione all'Economia del Mondo Arabo". Roma, La Sapienza Orientale, pp.86-88

profits tax and an assortment of fees and fines. Therefore we must bear in mind the influence exerted on the political system of this particular fiscal regime: since the government does not require to tax the population to cover public expenditure, the government is not accountable to the population for its actions and expenditures.[63] As a result in this economic model the political representation is extremely weakened since there is "no representation without taxation", indeed political rights are substituted by the economic wellness assured by the state from the oil wealth in a social contract based on loyalty and favours.[64] Only recently the government has introduced a series of fiscal reforms.[65] Indeed, in 2018 it was first introduced the Value-Added Tax (VAT) at a rate of 5%, within a standard agreed by the Gulf Cooperation Council (GCC) .[66]

In May 2020, to respond to the adverse impact of the COVID-19 crisis on the country's economy, the Ministry of Finance announced a tripled VAT from July 2020.[67] This unexpected reform in the Kingdom, has been remarkable in the Saudi economic plans and posed fundamental socio-political consequences which will be discussed in the following chapters.

1.4 HOW THE NEW ECONOMIC MODEL SHAPED SAUDI ARABIA

This rentier state economic model restructured the Kingdom transforming its economy in one of the leading powers in the international scenario. As a result from the first economic boom, the government was flooded with an unseen capital, which developed some of the fundamental, both positive and negative, characteristics of the economy and government of the Kingdom of Saudi Arabia. In this section the characteristic peculiarities of the Kingdom's economic development, labour market and

[63] Beblawi, H., & Luciani, G., op.cit., p. 73-75
[64] Ivi., p. 59
[65] International Monetary Fund. Middle East and Central Asia Dept. "Saudi Arabia : Selected Issues." *IMF*, Sept. 2019, www.imf.org/en/Publications/CR/Issues/2019/09/09/Saudi-Arabia-Selected-Issues-48660.
[66] Clarke, J. (2020, May 14). Tripling of the Saudi Arabia VAT rate from 1 July 2020. Retrieved from Pinsent Masons website: https://www.pinsentmasons.com/out-law/analysis/tripling-saudi-arabia-vat-rate-july-2020
[67] General authority of Zakat &Tax, (June 2020) Change of VAT Rate to 15%, Retrieved from gazt.gov.sa website: https://gazt.gov.sa/ar/HelpCenter/guidelines/Documents/Change%20of%20VAT%20Rate%20to%2015%20GL.pdf

political regime will be discussed, which will undoubtedly help us in comprehending the present situation and how the COVID-19 crisis unfolded in the last months in the Saudi economy and society.

1.4.1 The rapid economic and social development

The first and most evident consequence of the large oil revenues in the Kingdom have been the rapid economic and social development. For instance, between 1973 and 1978, the annual oil revenues of the KSA rose enormously, from a $4.35 to remarkable $36 billion. This unprecedented unseen flow of capital, has indeed contributed to the investment and realization of great infrastructural plans and construction projects, along with the expansion of the educational and transportation system.[68] In 1965 Saudi Arabia founded the Central Planning Organization (CPO), with the purpose of setting five years plans of development, in order to transform the fundamental sectors for the progress of the country with the increasing oil derived revenues. It's fundamental to note here, that the budget for the economic development was based on the oil revenues, namely from an initial budget of $9.2 billion it rose to $21 billion following the 1973 boom,[69] allowing the Kingdom an overwhelmingly rapid development of infrastructures and reforms.

Saudi Arabia's first development plan was committed: "to raise living standards and welfare of its people, while providing for national security and maintaining economic and social stability."[70] With a total financial allocation of SAR 41.3 thousand million the main plans were emphasising the importance of the education, the welfare and the transportation system, for a fast and effective development of the nation.[71]

In particular there are three key elements that we must bear in mind. Firstly, the development of the educational system was fundamental for the Kingdom as it needed to develop the human resources to reach an effectively contribution in the workforce of the nation, therefore, in the plan an emphasis was put on strengthening the institutions as well as diversifying the educational offer.[72] As it will be analysed in the following section dedicated to the labour market, the Kingdom has suffered from manpower issues, as the

[68] Wynbrandt, J., Fawaz A. Gerges, op. cit., pp.233-235
[69] *Ibidem*.
[70] Ministry of Economy & Planning, (2019). First development Plan, p.23
[71] *Ivi*., p.30
[72] *Ivi*., p.24

population was scarcely educated. Therefore, the main focus was to prioritise the higher education of the population, to reach higher productivity levels. Indeed the government's expenditure rose from 3.6% to 6.7% of the GDP, in the period from 1965-74 to 1975-84.[73] Within the plans, there was also a strong focus on the expansion of the output of teachers, increasing state employees in education.[74] I would like to drive the attention also to another theme related to the education. From the development and investment in the educational sector, it has resulted, albeit to a minimal extent, in gender equality. In fact, as we will mention in the following section dedicated to the labour market, female participation in the workforce has always been particularly low in the Gulf, barely reaching 10% in some cases.[75] In fact, if the scarce diversification of productive sectors, which characterises Saudi Arabia, has led to further reduction in female employment. However on the other hand, policies for increasing female education have improved the recruitment of women in the public sector.[76]

Secondly, thanks to the oil revenues the Kingdom has been able to develop a welfare system. As aforementioned, indeed, one of the main purposes of the development plan was to rise the standards of living aiming to provide economic and social stability to the population. Hence, public subsidies have been dominant in the political strategy of Saudi Arabia, and in general of rentier states, as governmental expenditure were totally based on the oil revenues there was not the need of a taxation system, therefore the political consensus and loyalty to the government were largely based on the subsidies that the government lavished to the local population. As a result, the Kingdom's expenditure, has become concentrated in wages as well as in education.[77] I would like to mention, and I will focus on the subject in the last section of the chapter, how fundamental the welfare state has been for the political consensus of Saudi Arabia, so much so that it never came to impose curbs in public spending, a reduction of hiring in the public sector, or to turn to a system of taxation, even during times of crisis during the 1980s and during the Gulf War. Therefore, as we will discuss in the third chapter, the austerity plan announced to

[73] Paciello, M.C., op.cit., pp. 82-82
[74] Ministry of Economy & Planning, op. cit., p.24
[75] Richards, A., & Waterbury, J. (1998) third edition. A Political Economy of the Middle East, Boulder, Colo. p.331
[76] *Ibidem*.
[77] *Ibidem*.

respond to the COVID-19 and oil prices collapse in 2020 has been extremely unexpected and new for the Saudi population.

Lastly, the Kingdom emphasised greatly the need for the development and investments in physical infrastructure and transportation, with the aim of supporting the producing and consuming sectors and especially to link them throughout the construction of a new network of roads and railway, starting from Jiddah and Dammam.[78] Following the first three plans (1970-84), in fact, the Kingdom had undergone a structural transformation resulting in 100,000 new miles of roads, 25 airports, of which three were international, and 21 seaports,[79] which were a key element for the rapidly growing economic activity and the global competitiveness of Saudi Arabia.

1.4.2 The dependence on the foreign manpower

In the 1970s, Arab oil producing countries, and in particular Saudi Arabia, began to determine one of the salient aspects of their economy: the dependence on foreign labour. The overwhelmingly fast economic development, resulted in the need of a greater amount of manpower than the country could not provide, therefore the Kingdom was forced to resort to foreign labour to cover the gaps represented by the national population, which at the time was below 9 million,[80] and to reach their ambitious development goals.[81] Saudi Arabia, likewise other Gulf economies, would not have been in the power to undertake their ambitious projects without the immigrant workforce, indeed, their reliance on foreigners for labour has no parallel in modern economic history:[82] in 1980, namely, 53% of the workforce in Saudi Arabia was foreign.[83]

The reasons behind the large import of foreign labour must be sought in the fact that, in the 1970s,Saudi Arabia counted on a small and poorly educated population, with about 46% below the age of 15 years.[84] It should be furthermore added, the fact that in

[78] Ministry of Economy & Planning, (2019). First development Plan, pp. 26-28
[79] Wynbrandt, J., Fawaz A. Gerges, op. cit., p.235
[80] Wilson, R. (2003). Good international governance: Implications for Saudi Arabia's political economy. In *Good Governance in the Middle East Oil Monarchies*, Routledge, p. 87
[81] Ministry of Economy & Planning (2019), op cit.21-22
[82] Richards, A; Waterbury, J, op. cit., p.506
[83] *Ivi*.
[84] *Ivi*.

the country the participation of women in the labour market was extremely low,[85] and the educated local population opted only for public employment, where wages and benefits were higher than those offered by the private sector.[86] As mentioned, the country following the 1973 boom, invested largely in higher education to increase the Saudi trained manpower to reduce its dependence on external workers and cover the vacant positions with local manpower. However in the immediate period after the boom, the demography and socio-political factors have constrained the national work supply creating an imbalance of 4600 qualified workers,[87] hence the need of external fluxes of employees persisted nevertheless the plans put in action.

The Kingdom's immigration history has not been always the seem, for instance it can be divided in different waves, however, here we will focus on two major differentiations: the skilled/semiskilled immigration, made up mainly by Arab speaking workers concentrated in the wake of the economic growth, and the unskilled immigration composed largely by Asians, which rose in the early 1990s.[88]

The skilled immigration, has been as fundamental as the unskilled immigration has been for the infrastructure development. Indeed as Saudi Arabia, was still investing in its educational system, in the wake of the economical boom was in lacking of professors, doctors and engineers, which arrived especially from Egypt, Syria, Yemen, and Palestine.[89] A further pull factor for the other Arab immigrants, were the higher wages of Saudi Arabia. Indeed a large pay gap divided the rest of the Arab world and oil producing countries, specifically, in 1979, the average weekly wage of a professional in Jordan was only 37% of the weekly salary of a professional in Kingdom.[90]

On the other hand, we have a latter unskilled immigration composed largely by Asians.[91] In the aftermath of the economic crisis of 1991, when the skilled Arab work force was expelled from the Kingdom, the trends known as the *Saudization* and *Asiatization* began increasing the reliance on Saudi workers in positions previously

[85] Paciello, M.C., *op.cit.*, p. 74
[86] Ministry of Economy & Planning(2019). *op. cit*., p.65
[87]*Ivi*., p.86, 89
[88] Richards And Waterbury 1998, *op. cit.*
[89] Paciello, M.C. (2010), op.cit., pp. 72-74
[90] Richards and Waterbury, 1998, *op. cit.*
[91] *Ivi*.

covered by Arab immigrants, parallelly relying on South Asian work force (mainly from India, Pakistan and Bangladesh) for unskilled labour. [92] This new expatriate groups were not seen as a threat for the employment of Saudis, which in the meantime reached a higher education and training levels, but indeed was essential in construction and in domestic services,[93] both fields of labour not covered by the locals. From this separation of work fields derived also a clear class division between the local population and immigrant workers.[94] The citizenship, in fact, in Saudi Arabia and other Gulf countries is a key element in society and politics. The citizenship, and the benefits that come with it, are denied to expats, who are mainly assumed throughout the *Kafala* sponsorship system, in which a local employer, *Kafeel*, has the full control over the worker, who needs a Saudi employer to enter the country and work. For many local entrepreneurs, the availability of cheap labour is the main source of their success and competitiveness in global markets, at the expenses of the immigrants who are at total dependence and mercy of sponsors (who even sequestrate their passports and control their movements within the Kingdom)[95] and strict citizenships rules. Therefore the immigrant workers are left with no political power or social status, and have restricted access to the welfare state and living a totally different lifestyle compared to the locals,[96] in precarious housing compounds grouped generally by nationality in the outskirts of the cities. In other words the immigrant work force in Saudi Arabia is "part of the labour market but not of the society."[97]

Recently small steps have been taken in the issue of immigration regulations, within a series of human rights reforms. In early November 2020, the Kingdom declared the ease the sponsorship system of the Kafala which will come into effect starting from 14th March 2021.[98] Within the Labour reforms Initiative (LRI) promoted by the Ministry of Human Resources and Social Development, it has been specified the improvement and

[92] *Ivi*.
[93] Ministry of Economy & Planning, *op. cit.*, p.91
[94] Okruhlik, G. (1999). Rentier wealth, unruly law, and the rise of opposition: the political economy of oil states. Comparative Politics, p. 295.
[95] Richards, A., & Waterbury, J. (1998) third edition, op. cit.
[96] For a visual representation of the inequality of lifestyle between local population and South Asian workers we suggest the photography galleries of Nick Hannes and Farhad Berahman retrievable at: https://www.theguardian.com/inequality/gallery/2017/aug/14/how-the-wealthy-live-dubai-rich-set-in-pictures-nick-hannes-bread-circuses and at: https://www.dailymail.co.uk/news/article-2859734/The-Dubai-DON-T-want-tourists-Photos-desperate-conditions-endured-migrant-labourers-forced-work-50C-heat-pittance.html
[97] Beblawi, H., & Luciani, G, op.cit., p. 59
[98] BBC News. (2020, November 4). Saudi Arabia eases "kafala" system restrictions on migrant workers. Retrieved from BBC News website: https://www.bbc.com/news/world-middle-east-54813515

increase of the efficiency of the work environment in Saudi Arabia to reach the goals of attractiveness and competitiveness in the global job markets likewise attracting highly skilled talent, and ultimately achieving the goals of Vision 2030. In particular, a great emphasize has been put on the freedom of movement of the foreign workers and the commitment to protect the workers' rights within the stipulated contracts as it follows:

> "LRI allows job mobility and regulates the Exit and Re-Entry Visa issuance. It applies to all expatriate workers in the private sector, and includes specific control measures put in place to take into account the rights of both parties of the contractual relationship."[99]

It is not a surprise that these reforms have been announced in November, just few weeks before the Saudi chaired G20. These reforms, in fact, result from an increasing pressure from international human rights activists and in the efforts of Prince MBS' rebranding agenda of the extremely criticised Kingdom for its human rights record, as it will be discussed in the last chapter.

1.4.3 The economic illness: Dutch disease

An additional characterising phenomenon derived from dependence on oil revenues, typical of the rentier state, is the deindustrialization process of the country, otherwise known as *Dutch disease***.**[100] The dependence on mineral resources has a perverse effect on the development process of a country and a discouraging element for diversification of the productive structure. The economic theory of the Dutch disease explains the relationship between an exponential increased revenue from natural resources, in Saudi Arabia's case oil, and the decline of the manufacturing sector,[101] namely slowing down the process of industrialization and development of agriculture, leaving the services sector leading the economy of the country. In general, a 10% increase in oil revenue is associated with a 3.4% fall in value added across manufacturing

[99] The official Saudi Press Agency (2020), Ministry of Human Resources and Social Development Launches Labor Reforms for Private Sector Workers, retrieved from Spa.gov.sa website: https://www.spa.gov.sa/viewfullstory.php?lang=en&newsid=2153476#2153476

[100] The name takes the reference from what happened in the Netherlands in the 1970s, when there was a relationship between the increase in North Sea gas revenues and the decline of the manufacturing sector.

[101] Cammett; Ishac; Richards; Waterbury (2015), *op.cit.*, p. 24.

sectors.[102] This phenomenon was first experienced in the Netherlands, hence the name Dutch disease coined in 1977 by The Economist,[103] and subsequently the trend has been observed in other oil producing countries, especially in the Gulf and in Saudi Arabia after the first oil boom in 1973.

This phenomenon has repercussions which define the economy of a rentier state: firstly, the economy is extremely volatile and vulnerable to external shocks, hampering the planning of precise long-term economic forecasts; secondly, it hinders the economic diversification of productive sectors, due to the deindustrialization, which, furthermore, leads also to a higher unemployment rate in the nation, since the oil industry creates fewer job opportunities than the manufacturing and agricultural sectors. For these reasons, the literature has often defined the oil based wealth as a curse,[104] due to the large negative economic and political consequences the oil wealth has generated in oil exporting countries, and especially in Saudi Arabia, which will be here analysed.

Saudi Arabia is one of the countries that suffered the most the effects of the Dutch disease in the aftermath of the first oil boom in 1973. The consequences of this economic illness differ from country to country and the mineral resources management policies implemented. Therefore, not all countries have suffered from it at the same extent, i.e., Norway and Saudi Arabia had two extremely different outcomes: the first was able to escape the "oil curse",[105] whereas in Saudi Arabia, as the largest oil producing nation and therefore a heavy dependence on the resource, the effects were amplified. And persist to this day. This economic model has generated in the Saudi government's hands a great wealth, as we have seen. However, this significant increase in oil export revenues has led to the appreciation of the real exchange rate in Saudi Arabia, which in other words is translated in a massive increase of foreign currency circulation in the local market. This mechanism strengthens the relative price of the local currency therefore, resulting in the decrease of the competitiveness of the national export sector, usually represented by the manufacturing industry or agriculture, as it becomes more expensive for the country to

[102] Ismail, K. 2010. "The Structural Manifestation of the 'Dutch Disease': The Case of Oil Exporting Countries." Working Paper 10/103. International Monetary Fund, Washington, DC
[103] Cammett, Melani; Ishac,Diwan; Richards, Alan; Waterbury, John, op.cit., p.332.
[104] Stevensen, p., (June 2003), Resource Impact: curse or blessing? A literature survey. Journal of Energy Literature Vol IX No 1, pp. 3-42
[105] Cammett, Melani; Ishac,Diwan; Richards, Alan; Waterbury, John (2015),op. cit., p. 24.

export its own manufactured goods rather than importing from abroad.[106] As the manufacturing sector loses competitiveness and investments are directed mainly in the services sector, it results in decreased exports and an exponential increase in imports. The effects of this process subsequently discouraged Saudi Arabia's industrialization process leading to a less diversified economy, centred almost completely in the oil sector and its components, which represents one of the characterising element of a rentier state. Furthermore, differently from the other economic sectors, the oil industry is not able to create numerous employment opportunities**,** as Luciani states, "only a small percentage of the population is involved in the production since the production is almost totally automated, whereas the majority of the population is involved only in the consumption."[107] In other words, the resulting weak development of the manufacturing sector in the rentier state model is a significant issue since it causes a loss of linkages with the rest of the economy, it does not create job opportunities for skilled workers and it does not offer greater potential to adopt more efficient technologies.[108]

This lack of productive and economic diversification of the KSA, is central for this study. As a matter of fact, when the economy is extremely reliant on only one sector, namely oil, a sector extremely vulnerable to external factors the outcome of the collapse of said industry, as it has happened in March 2020 could only lead to unprecedented consequences in the Kingdom, as discussed in the central section of this thesis.

1.4.4 The strengthening of the authoritarian regime

The rentier state does not simply affect the economic sphere of a nation but also leads to fundamental political consequences. The increasing role of the state and control over the resources, has led to a hinder in political transformation, since the political power and decision making are concentrated in fewer hands, therefore, strengthening the authoritarian rule.[109] The literature had indeed often times described the latter as one of the side effects of the rentier state model, or in other words the "oil curse",[110] since this

[106] *Ivi*., p. 335
[107] Beblawi, H., & Luciani, G., *op. cit*., p. 67
[108] Cammett, Melani; Ishac,Diwan; Richards, Alan; Waterbury, John, op. cit. 334-335
[109] Stevensen, p., (June 2003), Resource Impact: curse or blessing? A literature survey. Journal of Energy Literature Vol IX No 1, pp. 21-22.
[110] Jones, T. C., *op. cit.,* p. 7

productive model has partly led to weakening the democratic process in oil-producing countries.[111] As discussed earlier, the government possesses the natural resources and covers a fundamental role in the collection and distribution of the oil revenues, from the production to the export, and the population is simply the recipient of the benefits that result from the state operation, as just a small percentage of society is involved in the production. Secondly, oil itself is not relevant for the vast population survival until it has been traded abroad and it has created a revenue, as opposed to water or other natural resources.[112] Therefore, in these sequences of the process the state is essential, it becomes the mediator between the oil revenues and the needs of the nation.

Hence, as stated before, in Saudi Arabia, likewise other oil producing countries, the government ensures the wellbeing and development of its citizens throughout a social contract, based on a system of favours and rewards from which the inhabitants benefitted largely, albeit unequally.[113] This political structure was granted by oil windfalls, which freed the Kingdom from the need of raising the wealth domestically and to create a system of taxation,[114] characteristics with which Luciani describes the “exoteric state”, in opposition to “esoteric states”, which instead base their economy on domestic revenues and taxation.[115] In particular, as we already explained, in the Saudi Arabia, and the other GCC countries, the taxation system was virtually inexistent, only in 2018 the VAT was imposed to 5%, a rate significantly lower than many other countries. It derives, that the weight of the taxation system in the Kingdom economic revenues covers a very small percentage. Therefore, posing the basis for a particular political environment in the Kingdom, where the political representation is almost absent. Saudi Arabia is in fact, an absolute theocratic monarchy ruled by the al-Saʿūd family since 1932. The political authority of the House of al-Saʿūd has historically been tied to the ruling family’s control over the natural resources. In Jones’ words, “Oil has been the lifeblood of Saudi power since the 1930s, fuelling the consolidation of the modern Kingdom and providing the wealth that helped finance the political primacy of the Saudi royal family”.[116] As a matter of fact, the crown family managed to patronize the domestic economy derived from the

[111] Paciello, M.C., *op. cit*., p.27
[112] Beblawi, H., & Luciani, G., *op.cit.,* p. *67*
[113] Cammett, Melani; Ishac,Diwan; Richards, Alan; Waterbury, John, *op. cit*., p 25
[114] Beblawi, H., & Luciani, G., *op. cit.,* p. 69
[115] *Ibidem*.
116 Jones, T. C., *op. cit.,* p.236

oil revenue managing to build a country according to their interest and goals, while distributing the wealth within the Kingdom creating a clientelist system which subjects a large part of the Saudi population, akin from an international perspective, especially after the 1973 embargo. Throughout these dynamics along with the weakened political representation of the population derived from the absence of taxation,[117] the ruling family assumed a wider control over the shaping of state-society relations, through the acquisition of political quiescence and repression in exchange of economic wellness.[118]

Moreover, the Saudi ruling power had established its authority as well, through a distinctive characteristic of the Kingdom, Islam in the Wahhabi interpretation.[119] The al-Saʿūd family, in fact, reached an alliance with Muhammad ibn Abd al-Wahhab, founder of the doctrine, promising the commitment of the al-Saʿūd to spread and establish the doctrine as the official religion in the nation, in return the Wahhabi clergy commits to spreading a religious and political doctrine that would support of the aspirations and interests of the royal family. In other words, the Wahhabi doctrine has been granting a religious legitimacy to the crown both within the nation and in the rest of Arab-Muslim region, while simultaneously a granting a political and religious authority.[120]

1.5. DEALING WITH CRISES IN THE RENTIER STATE

As discussed, since the discovery of oil in the Kingdom the economy has been greatly dependant on the fossil fuel production and its revenue. However, as mentioned before, the dynamics of oil markets are vulnerable to external political and economic factors, which can lead either to an economic boom or crisis in the Saudi Arabian economy. These factors and events however, are mostly outside of the control of the government, as we have described in the definition of rentier state theory, this represents the weakness of this economic model. Therefore, any kind of external disruption in the international markets could lead to serious consequences on the economic and political nature of the Kingdom. Since the beginning of the commercialization of oil, Saudi Arabia

117 Paciello, M.C. (2010) "Introduzione all'Economia del Mondo Arabo". Roma, La Sapienza Orientale, p.27
118 Cammett, Melani; Ishac,Diwan; Richards, Alan; Waterbury, *op. cit.* , pp. 24-25
119 Jones, T. C., op. cit., p.7-8
120 *Ibidem*.

has experienced, in fact, a series of periods of crisis followed by booms and vice versa. The causes, as we have mentioned, are spawned by different reasons, whether internal or external, as well as political or economic. In this last section of the chapter, I will present the significant crises that the Kingdom endured in the last decades, to concentrate then in the second chapter on the detailed analysis of the most current crisis, the crisis caused by the outbreak of the COVID-19 pandemic. The latter has had dramatic consequences in the international markets and which obliged Saudi Arabia to reinvent itself to bring to terms the objectives set for this year but above all in anticipation of the ambitious plans within Crown Prince Muhammad bin Salman's Vision 2030.

1.5.1 The 1980s crisis

The prosperous period after the first oil boom was not destined to last forever. The Kingdom experienced almost a decade of flourishing economy and fastly developing economic sectors, with ambitious infrastructural and socio-economic transformation plans. Nevertheless, the large wealth directed to the welfare system was to be unbearable for the government, alongside different events that caused changes in oil trends, which started to plummet during the 1980's and subsequently recovered by the end of the decade.[121] The only strategy implemented by the crown family in response to the fall of prices, and therefore, also in the essential governmental revenues, was in 1982 when Saudi Arabia urged OPEC to curb the national members' production in an attempt to limit output and consequently result in a raise of prices in the markets. As part of the proposed plan, KSA dropped drastically its production to less than 2.5 million barrels per day in 1985-86, from the previous 10 million barrels per day in 1980.[122] However, when the other OPEC members failed to follow the direction in 1985, and the Saudi reduction alone did not succeed in achieving the previous prices, the Kingdom was obliged to shift strategy.

In 1985, Saudi Arabia flooded the international market with cheaper oil, causing prices to plummet beneath $10 per barrel forcing the production for higher cost countries to become unprofitable and unbearable,[123] unlike its own, which has one of the lowest

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[121] Niblock, T., & Malik, M., *op. cit*., p.22

[122] Rania El Gamal. "Facing New Oil Glut, Saudis Avoid 1980s Mistakes to Halt Price Slide." *U.S.*, 14 Oct. 2014, *www.reuters.com/article/us-saudi-oil-policy-analysis-idUSKCN0I229320141014*.

[123] Michaux, S. (2019). Oil from a critical raw material perspective. Geological Survey of Finland (GTK), 22, 2019, p. 210

prices of production globally.[124] Prices plunged into a years-long collapse, leading to 16 years of Saudi budget deficits that left the country deeply in debt. The Saudi strategy has actively demonstrated the rentier state theory, and the crucial role of state provider lacking of a taxation system. In fact, despite the fall of oil prices, the Saudi government was determined not to impose cuts on public spending, to maintain the political balance, confident that prices would soon return to rise.[125] Similarly, the hiring policies in the public sector continued to remain active, inflicting further pressure on public spending.[126]

As I will discus in the following sections, the 1980s crisis is comparable to the early phases of the oil crisis caused by the outbreak of COVID-19 in March 2020, which will be analysed in depth in the following chapter. When the members of OPEC+ would not reach an agreement on the cut in the markets, in particular Russia, Saudi Arabia decided to flood the markets with cheap oil causing the price of American producers to fall negative, which represents a historical moment in the oil prices history. On the other hand, however, the strategy resulted in a negative output for the Kingdom which is extremely dependent on its oil revenues, far more than its counterparts in the oil war, Threatening the recovery of its own economy and the implementation of the ambitious plans of Vision 2030.

1.5.2 The 1997 crisis and King’s Abdallah economic liberalization policy

In 1997, a new collapse in oil prices undermined the economical stability of the Kingdom. The crisis of the so called Asian tigers, in particular Japan and Indonesia, curbed the demand for oil in the international markets, with again repercussion on the Saudi economic sector. At the end of the 1990s, Asia was indeed one of the main targets of the oil exports of Saudi Arabia, importing every year 42% of the crude produced by the Kingdom.[127] Once again, as the oil represented the fundamental source of income of the country, the new fall in revenues caused a decrease of the growth performance and a decline of the economic wellness of the population.[128] Namely, by the end of the 1990s,

[124] Jawadi, F., & Ftiti, Z. (2019). Oil price collapse and challenges to economic transformation of Saudi Arabia: A time-series analysis. *Energy Economics, 80,* p. 12
[125] *Ivi*.. p. 94
[126] Cammett, Melani; Ishac,Diwan; Richards, Alan; Waterbury, John (2015),*op.cit. p.*328
[127] Emiliani, M., *op. cit*., p. 84.
[128] Wilson, R. (2003). Good international governance: Implications for Saudi Arabia’s political economy. In *Good Governance in the Middle East Oil Monarchies*. Routledge, pp. 86-87

the average annual per capita income of Saudis had considerably fallen to $7,800 compared to the previous average of $24,000 at end of the 1980s.[129]

It is important to note however, how with this time the Kingdom had a more decisive response in handling the period following the crisis, implementing a series of reforms slowly aiming to diversify the governmental economic income. Probably the reason lies in the fact that with the decline in the quality of life of citizens, and the necessary cut of public funds, the monarchy feared a political instability of citizens, now accustomed to the generous government welfare policy.

King Abdallah therefore, concentrated its policy on controlling and containing the internal political pressures, throughout economic liberalization. Hence, since 1999, Saudi Arabia started opening gradually to international investments, through international partnerships, from foreign industrialized countries with the aim to diversify and develop the Kingdom's extremely oil-dependent economy. Within King's Abdallah plan to open to investments and economic liberalization, Saudi Arabia founded a Supreme Economic Council in August 1999, with the purpose of elaborating a new national economic policy and a new code for foreign investment.

Furthermore, the Kingdom founded the first national organisation for tourism, which was unusual in the country as before the only foreigners allowed access were for religious tourism, within the Mecca and Medina pilgrimages and business reasons.[130]

On the other hand, the Kingdom had also another goal in its economical agenda: the improvement of the status of the highly educated Saudi youths. The Kingdom had indeed high levels of unemployment, of a newly highly educated generation of Saudis. Therefore, one of the goals of the king was to create a lively job market which would absorb the increasingly high percentages of the unemployed Saudis in the country.[131]

Once again this scenario, is akin to the 2020 crisis when China, one of the main importers of crude oil from Saudi Arabia, had to undertake measures of lockdown and restriction of international transportation to block the spread of the virus, which started in the Hubei province. This caused an initial shock in the markets which then, as we will see

[129] *Ibidem.*
[130] Emiliani, M. (2010), *op. cit.*, 84-85
[131] *Ivi.*, p. 84

in the next chapter, worsened due to the successive lockdowns undertaken one after the other by all the countries of the world. Similarly, the efforts in the economic diversification of the Kingdom in recent years have been focused in the investment sector and the tourism industry. Nevertheless, the 2020 economic downturn hampered also these sectors in addition to the oil industry unprecedented effects.

1.5.3 The volatility of the market in the 2000s

In the early 2000s, oil markets experienced over again oil volatility, as the decade has witnessed a continuous tide in oil prices and its consequences on the vulnerable national economies, as we can see in figure 1.1 In the first decade, from 2000 to 2008 the prices increased significantly reaching an astonishing $150 per barrel from the previous $25 per barrel. The reason behind this growth must be sought in two factors, firstly the surge of crude demand from emerging economies and secondly, the cuts in production demanded by OPEC which boosted the prices.[132] This period was pivotal for the Saudi government, which had finally witnessed a period of recovery from the series of crises that have hit its economy in recent decades. However, it did not last long, since in 2008 with the global financial crisis, oil prices started to sink precipitously again, reaching $40 a barrel.[133]

After this period of crisis in 2014 the market revised its pre-crisis results reaching $125 a barrel again, which however dropped sharply as early as the year was ending, reaching $59 a barrel in December. This plunge was once again influenced by the combination of several factors. That is to say, the slow economic growth of China, one of the largest importers of crude oil on the world alongside the reduced demand for oil by the emerging economies, namely India and Brazil. Additionally, another element was hindering the OPEC basket producers and especially Saudi Arabia, de facto leader of the group. New players entered the international oil market, i.e. the United States and Canada. The North American producers revolutionized the international oil market by introducing a new type of crude to the market, shale oil. This new crude, far more expensive to produce than Saudi oil, nevertheless managed to gain an important role in international markets, making the United States the first oil producers in the world in 2018. The high

[132] Jawadi, F., & Ftiti, Z., op. cit., p.13.
[133] *Ibidem*.

levels of American production greatly reduced the dependence on Saudi oil which led to the plunge of prices.[134]

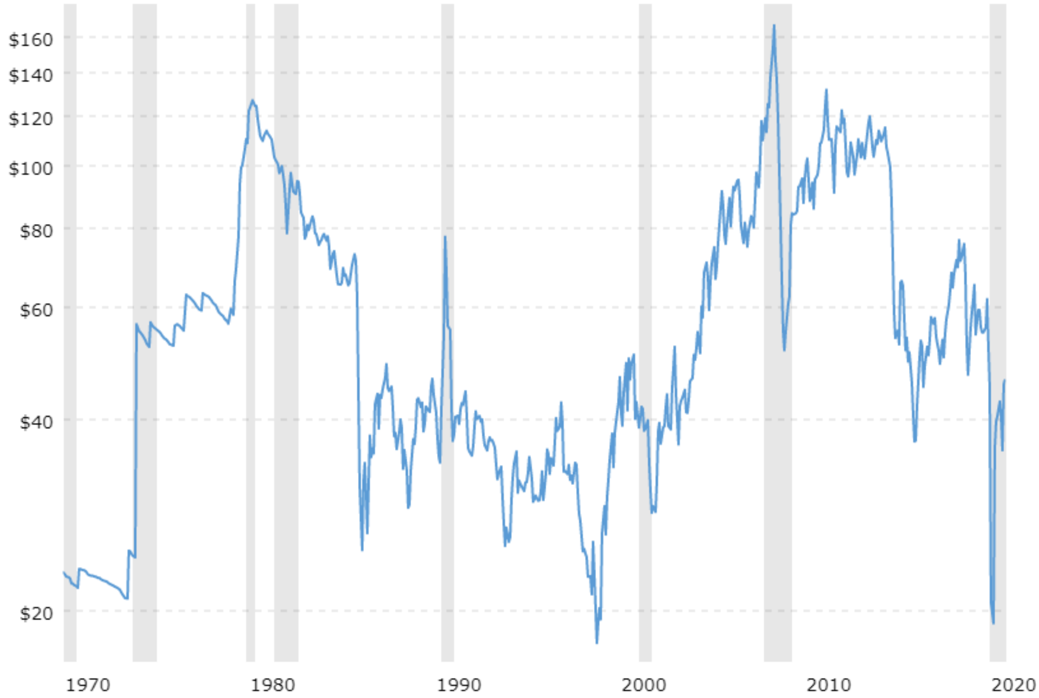

Figure 1.1: Crude oil prices (US$), 1970-2020. Source: Macrotrends.

The continuous crude prices fluctuation with the subsequent drop in 2014 impacted the Saudi Arabian economy considerably. For instance, the latter has lowered the GDP by about 13% in 2014, and reached 16% by 2015, alongside the loss in the Kingdom's stock market of 10.7%.[135] To rebalance this deficit the Kingdom's fossil fuels prices needed to reach $80 per barrel in the international markets, however, the new American shale oil had lowered the price to $50 per barrel. Therefore to respond to the dramatic economic situation the Kingdom reduced oil production from 7.2 million barrels per day in 2016 to 6.6 million barrels daily in 2017 in an attempt to raise the prices.[136] Nonetheless, this was not enough and the signs of the strong dependence and the consequent risks on the economy almost completely based on the oil industry were surging in the Kingdom.

It was clear to the government that the dependence on oil was becoming counter

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[134] *Ibidem*
[135] *Ibidem*
[136] *Ibidem*

producing and might have led to greater damages on the long term. A transformation of the economic system was therefore essential to allow the growth of the Kingdom. Therefore on 25 April 2016, the crown family presented a 15 years long term programme of reforms called Vision 2030. This socio-economic development plan approved by the Council of Ministers of the Kingdom, aimed to reduce the oil dependence of the Kingdom and to transform the productive system through structural reforms, with the aim of diversifying the economy, creating new job opportunities and raising the quality of life in the nation.[137] It is clear how this economic recession, translated in a turning point for the Saudi economy which came to the realisation of the severe threat oil volatility could exert on its economic development.

1.5.4 The novel Coronavirus outbreak and the oil market

The novel virus Covid-19 which broke out in December 2019 in the Chinese city of Wuhan, has changed the course of 2020, both from a social and an economic perspective. I will largely discuss the development of the virus and its influence on the international oil markets in the second chapter, however I will briefly delineate here some of the similarities the most recent oil crisis has with the previous ones that the Kingdom of Saudi Arabia endured in the last decades.

First and foremost, once again the oil sector has again proved extremely fragile and susceptible to factors external to the nation, which have disrupted again the economic balance of the nation, proving how dangerous and unbearable in the long term it is to base the national industry on only one sector. Secondly, Saudi Arabia de facto leader of the organization of the OPEC, has had disputes within the members states of the group, which have led to further unsettle the already critical situation of the markets, as will be analysed in the section dedicated to the oil war with Russia, similarly as it happened during the 1980s crisis when OPEC couldn’t reach an agreement on the production cuts. Lastly, China’s role in the international markets has been and still today is extremely crucial for

[137] National Transformation Program, Saudi Vision 2030. (2020). Retrieved from Vision2030.gov.sa website: https://vision2030.gov.sa/en/programs/NTP

the Saudi oil trade. As its biggest importer, any disruption in the Chinese economic growth translates in a counter effect on the Saudi production levels.

1.6. Conclusions

To sum up everything that has been stated so far, I would like to comment on the most salient events that emerged from this introductory chapter, which will come to be fundamental in fully understanding the most recent economic endured by the Kingdom. The windfall of revenues represented both a blessing and a curse for Saudi Arabia. The great wealth derived from the oil production and the subsequent oil boom in 1973, transformed in few decades, the objectively new-born state in one of the leading economies and international political powers. However, the rentier state model, materialized in a series of characterising features in the Kingdom. First, the fundamental role of the state in the economic sector, playing the role of provider, wealth distributor and employer. These characteristic translated in an highly divided job market, with a clear distinction of public employees, mainly national Saudis, and the private sectors in which foreigners are employed. This clear distinction between foreigner and Saudis, unfolds also in the benefits that the citizenship offers in opposition to the lack of right of expatriates in the Kingdom. The social bargain with the government and the welfare system created a socio-economic gap in the population, in particular in reference with the clear division between national citizens and the foreign manpower, which live at the opposite extremes.

Secondly, the complete focus on the oil sector translated in a lack of industrialization and economic and productive diversification, leaving the country almost completely reliant on the oil revenues, as it emerges in the Dutch disease theory. Additionally, the lack of diversification in the productive sector led to one of the major issues of the country, the high unemployment rate, in particular within the younger generations.

Furthermore, the taxation system, has been virtually inexistent in the country until very recently resulting in a very specific political system in the country. In fact, the power laid, and still to this day, in the hands of the al-Saʿūd family, the crown family which founded the Kingdom. This family was able to take advantage of the power resulted from the control of the crude revenues, both in the local and the international scenario, paternalizing the power in a weakened political national scene.

The Kingdom is now experiencing a critical period, where structural transformation are necessary both in the economy and the socio-political sectors. Following the several crisis and booms experienced by the country, due to the high volatility and external influences on the oil markets, it is clear that the dependence on oil can no longer be the major rent income of the state. Vision 2030 by Crown Prince Muhammad Bin Salman, wants to tackle these issues, undergoing a 15 years transformation process, with the aim of diversifying the economy and overcome its heavy reliance on the oil sector. However, the break of the novel COVID-19 pandemic is a threat to the government’s plans. As it will be discussed in the following section, the unprecedented decline of the oil prices in conjunction with the coronavirus will likely delay several of the plan's.

CHAPTER II

THE SPREAD OF COVID-19 AND THE ABRUPT FALL OF OIL PRICES

2.1. INTRODUCTION

The outbreak of the novel Severe Acute Respiratory Syndrome (SARS) virus, COVID-19 in the Chinese region of Hubei, was as unexpected as challenging for the international population and subsequently the international markets. In particular for the oil sector, which plummeted to prices never seen before and even registered for the first time in history a negative oil price. The current impact of the Coronavirus pandemic on international markets is not a new phenomenon. In recent years many studies have been conducted on the close relationship between infectious diseases and the global economy, as well as the threatening effects on the latter, especially in the globalised and interconnected world in which we live today. Such as the study conducted by Smith, "Infectious Disease and Economics: The Case for Considering Multi-Sectoral Impacts"[138] as well as, the World Bank's study "People, pathogens and our planet: the economics of one health."[139] the taken into consideration for this research.

An economy such the Saudi, as we analysed earlier, extremely reliant on its oil revenues, which have a significant political and social power both within and outside the Kingdom, aside from the merely economic one. Therefore, the study will discuss the Saudi government's response to the pandemic and the reforms adopted. Before analysing the particular case of Saudi Arabia, it is necessary to outline the excursus of the virus spread, with the effects on the global markets and the action undergone by the main actors in the oil sector, with an emphasis on the role of OPEC, Saudi Arabia and Russia, intending to examine subsequently the Saudi response to the dual crisis experienced in 2020, the pandemic and the oil crash. In the following sections, therefore, an in-depth analysis will be traced of the fundamental events that have marked the oil markets within the spread of the novel SARS virus throughout 2020. The research has taken into account

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[138] Smith, Kristine M., et al. "Infectious Disease and Economics: The Case for Considering Multi-Sectoral Impacts." *One Health*, vol. 7, June 2019, www.ncbi.nlm.nih.gov/pmc/articles/PMC6330263/

[139] World Bank. "People, pathogens and our planet: the economics of one health.", *World Bank*, 2012.

the period starting from January to December 2020, with the integration of some updates of the first weeks of 2021, considered relevant for the study. Covering this extended period allowed presenting a complete picture of the events, both economic, socio-political and the pivotal events of 2020, namely the G20 meeting in Riyadh, the US elections and the development of Covid-19 vaccines, which influenced and challenged the global markets and in particular the rentier economy of the Saudi Kingdom.

2.2 THE COVID-19 OUTBREAK AND THE IMPACT ON OIL MARKETS

The novel SARS virus, which broke out in China in late 2019 and in a few months reached the entire globe, with thousands of new confirmed cases every day, has put on a halt the world with disastrous consequences in many sectors. The International Monetary Fund (IMF) has described the 2020 COVID-19 emergency as "a crisis like no other",[140] for the economic and deadly impact which has no comparison in the modern history of viruses and economic crashes. What has been underestimated in the first weeks of 2020, as a simple seasonal flu originated in China, come to be one of the most disruptive events in global health and the international markets. Indeed in recent years, following the infectious diseases which have spread around the globe, and the catastrophic effects on markets, economists and researchers attempted to investigate the relation between viruses and the economy and the threats which they pose on the latter. According to an analysis by the World Bank in 2012, covering the period from 1997 to 2009, the global economy accounted for a staggering $80 billion in losses caused by the outbreak of six zoonoses, of which none developed to be a pandemic. The prevention of these outbreaks could have amounted to $6.7 billion per year of avoided losses.[141] For instance, the Ebola epidemic in 2013 and MERS infection in 2015 are just the latest examples of the threatening impact viruses can have on national and international economies. The countries affected by these diseases have endured decreases on the national GDP, a decline of foreign investments and long-term socio-economic issues.[142] The reasons behind these disastrous

[140] IMF, "World Economic Outlook Update, June 2020: A Crisis like No Other, an Uncertain Recovery." *IMF*, June 2020, www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020.
[141] World Bank, 2012, *op. cit.*
[142] Smith, Kristine M., et al. June 2019, *op. cit.*

consequences, must be sought in the unreadiness of the governments combined with a poor national health system, not able to fight and control the outbreaks.

Similarly, the Global Risk Report 2020, by the World Economic Forum (WEF), has warned about how the "collective vulnerability of the world to the social and economic impacts of infectious disease crises appears to be on the rise" as "no country is fully prepared to handle an epidemic or pandemic".[143] Undeniably, governments' unpreparedness to deal with such a health crisis and the unpredictability of the COVID-19 spread has been the strongest drawbacks for governments, along with markets, which could not have expected the outcome that lasted in 2020. Realistically, the countries which had been interested by infectious disease of this magnitude in the past, have been able to respond effectively during the latest coronavirus or at least did not present the same drastic consequences of countries with similar characteristic, which have never experienced these viruses. During the COVID-19 outbreak, countries like South Korea and West African countries were praised for the efficiency with which they affronted the virus. Similarly, Saudi Arabia has been taking effective and rapid decisions in the matter of restriction measures and social distancing, with the experience of the MERS on their shoulders. Nevertheless, as mentioned earlier, this health crisis, and the subsequent economic one, have indeed been no other before, as Dr Tedros Adhanom Ghebreyesus, WHO Director General expressed in the first weeks of January after the outbreak in China, "It is not just a public health crisis, it is a crisis that will touch every sector."[144] And as forecast, it did affect every sector and country.

2.3 THE FIRST ALARMING MONTHS IN THE INTERNATIONAL MARKETS AND THE FALL IN OIL DEMAND

The concerns about the Covid-19 started in late December 2019 when the Wuhan Municipal Health Commission, reported a cluster of pneumonia cases in the Chinese Province of Hubei, identifying eventually a novel coronavirus, the seventh coronavirus

[143] World Economic Forum. "The Global Risks Report 2020." *World Economic Forum*, 15 Jan. 2020, p.76 www.weforum.org/reports/the-global-risks-report-2020.

[144] OPEC, *"OPEC Bulletin February-March 2020." Opec.org*, 2020, p. 3 www.opec.org/opec_web/en/publications/5824.htm.

recognized capable of infecting humans.[145] The initial alarm was focused mainly on the health sector and prevalently within China, as the government was putting in action containment measures. Nevertheless, markets were still keeping an eye on the major importer of oil and its development of the outbreak, while focusing on other more pressuring events such as Brexit in Europe, the geopolitical tensions between Iran and the U.S, the environmental concerns with the ongoing wildfires in Australia and other weather related issues around the world.[146] For instance, Saudi Arabia, and in particular crown prince Muhammad bin Salman (MBS), was focusing on the fundamental projects planned for the year in the Kingdom, first and foremost the G20 summit scheduled in Riyadh in November. This opportunity was paramount for the Kingdom to showcase its newly inaugurated openness, underway since the end of 2019 with the visa facilitations to increase the volume of tourism in the country within the Vision 2030 plans, and "to entrench Saudi Arabia as one of the world's influential and forward-looking powers", as stated by Hope and Scheck.[147] However, the forecasts of the Kingdom for 2020 have taken a different path as initially planned, due to the pandemic. But hereby I will firstly focus on the general global economic trends.

Albeit, the economic forecasts for 2020 in the first quarter of the year, had a positive outlook for the upcoming months, they have been harshly proved wrong and modified by the developments of the virus global spread trends, which made forecasting with certainty the market trends extremely difficult throughout the year. In the oil industry in fact, the initial estimates indicated a positive insight for the upcoming year, as reported by OPEC's in the January bulletin: "For 2020, oil demand growth is revised up by 140,000 barrel per day (b/d) from the previous month's assessment and is forecast at 1.22million b/d, mainly reflecting an improved economic outlook for 2020."[148] However, the following weeks and months proved the opposite scenario. Despite the positive forecasts for the industry the reality was diverting as the Chinese oil demand decreased

[145] World Health Organization: WHO. "Archived: WHO Timeline - COVID-19." *Who.int*, World Health Organization: WHO, 27 Apr. 2020, www.who.int/news/item/27-04-2020-who-timeline---covid-19.
[146] IMF, "World Economic Outlook Update, January 2020: Tentative Stabilization, Sluggish Recovery?" *IMF*, Jan. 2020, www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020.
[147] Hope, Bradley and Scheck, Justin, "BLOOD AND OIL Mohammed bin Salman's Ruthless Quest for Global Power." (2020), p. 328
[148] OPEC, MOMR Oil market highlights *in "OPEC Bulletin January 2020.", Opec.org*, 2020, p. 84 www.opec.org/opec_web/en/publications/5824.htm

exponentially when the government put in action lockdowns and containment measures to curb infections. The oil producing countries led by Saudi Arabia, during the 177th meeting of the OPEC Conference, on December 5 2019, began taking precautions and showing steadiness and flexibility to adjust the supply according to the decreasing demand and developments of the virus outbreak in China, as HRH Prince Abdul Aziz Bin Salman al-Saʿūd, Saudi Arabia's Minister of Energy, affirmed: "We are collectively showing readiness to take whatever necessary measures we may face by that time."[149] Indeed, by the of end of January 2020, coronavirus was already spreading at an extremely rapid rate, with confirmed COVID-19 related cases in 18 countries outside China, for a total of 7818 confirmed cases worldwide.[150] Eventually, on January 30, the World Health Organization (WHO) declared the novel coronavirus outbreak a Public Health Emergency of International Concern (PHEIC).[151] The concerns, subsequently, rose high also in the international markets as the health and economic situation had been intensively worsening in China, one of the leading economies in the international markets and first affected country, as the government decides to put in plan severe lockdown measures and travel restrictions on the population, in an attempt to curb the rapidly increasing contagion. The fast and large spread of the virus, was no longer merely an issue for national and international health systems but was exponentially beginning to affect the global economy. Undeniably, the fast and ever reaching international mobility has played an extremely crucial role in the diffusion of the novel virus, with cases being registered in almost every country in a matter of few weeks.

In early February, when China imposed strict containment measures, putting on a halt travelling and economic activities, a decline in total oil demand was estimated to over 2.5 million barrels per day (b/d), as the International Energy Agency (IEA) reports from China's National Bureau of Statistics and Chinese Customs data.[152] The Chinese fuel demand plunged at the end of January, reaching subsequently the lowest point at the end of February, soon to be followed by the rest of the world in the following weeks, as

[149] OPEC, *"OPEC Bulletin January 2020." Opec.org*, 2020, p. 1 www.opec.org/opec_web/en/publications/5824.htm.
[150] World Health Organization: WHO. "Archived: WHO Timeline - COVID-19." Who.Int, World Health Organization: WHO, 27 Apr. 2020, www.who.int/news/item/27-04-2020-who-timeline---covid-19.
[151] *Ibidem*.
[152] IEA, Global Energy Review 2020, IEA, Apr. 2020 https://www.iea.org/reports/global-energy-review-2020

lockdown and containment measures were implemented globally, as shown in figure 2.1.[153]

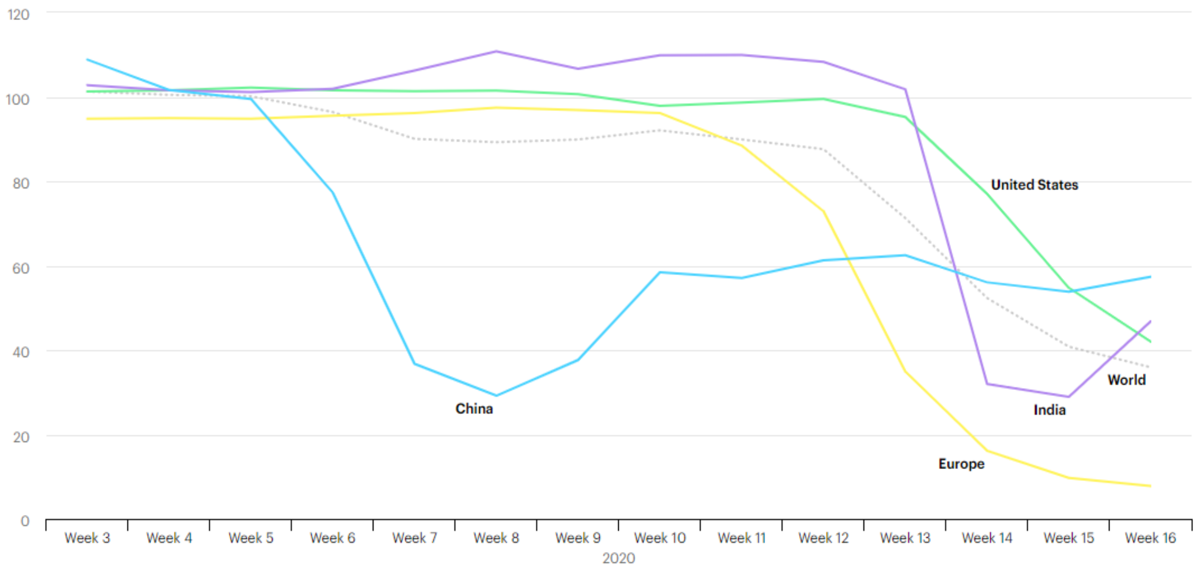

Figure 2.1: Evolution of aviation activity in selected countries in early 2020 (y/y % change) Source: IEA

The unprecedented crash in oil demand, logically, caused a crude oversupply in the international markets, which subsequently unfolded in a sharp drop in prices. Following the abrupt fall in demand and the price of crude dropping to $58 a barrel from above $65 a barrel on 20 January, oil exporters started taking actions.

Saudi Arabia, de facto leader of OPEC, promptly proposed to anticipate the planned March meeting of the OPEC+ members, to beginnings of February, after the first alarming consequences affected the oil markets.[154] As mentioned before, OPEC had previously started undertaking precautious measures in December 2019, as the first clusters of pneumonia cases were registered in the Hubei region, when the organization's members agreed on a production reduction of 1.7 million b/d, adjustment that would be effective as of January 1, 2020, until the end of March, to rebalance oil prices.[155] On the extraordinary meeting of the Joint Technical Committee (JTC) held in Vienna, from 4 to 6 February, therefore, the organization in response to the drastic fall in Chinese demand,

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153 IEA, Evolution of aviation activity in selected countries in early 2020, IEA, Paris https://www.iea.org/data-and-statistics/charts/evolution-of-aviation-activity-in-selected-countries-in-early-2020

154 Lawler, Alex. "Saudi Arabia Opens Talks on Possible February OPEC+ Meeting after Oil Price Slide." *U.S.*, 30 Jan. 2020, www.reuters.com/article/us-oil-opec-idUSKBN1ZT241.

155 *Ibidem.*

and gradually global, decided for a supplementary reduction, until the end of 2020 and to proceed with an additional adjustment, until the end of the second quarter (Q2).[156]

Nevertheless, between the end of Q1 and the beginning of Q2, the real damage caused by the virus became clearer, when in March the outbreak caused thousands of deaths in Europe and the United States, forcing an increasing number of countries to impose national lockdowns and strict restrictions. Within the confinement measures put in action by the governments, the air traffic halt had the major consequences on international oil demand,[157] as along with China, the U.S and Europe banned non-essential and commercial flights with air traffic trends never seen before, as shown in figure 2.1,causing an unprecedented drop in jet-fuel.

2.3.1 The Saudi-Russia "oil war"

The already critical situation of oil markets in the first months of 2020, with the continuous alarming spread of the virus, has been furtherer deteriorated by Saudi Arabia. On March 9th**,** the Kingdom embarked an oil price war against Russia, flooding the market with oil. Predictably, the decision lead to a catastrophic outcome in oil markets. Indeed, on that Monday, 49 days after the first coronavirus report by the World Health Organization the market opened with a plunge in prices of about 27%, the hardest one-day fall recorded since 1991, during the Gulf War.[158] Nevertheless, I believe that such approach fails to address the actual causes behind Saudi Arabia's decision. I would like to shed light on the multifaceted and controversial decision of the Kingdom, to allow us to fully comprehend the reasons behind this debated action in such a critical economic situation. There are, indeed, two key elements that we must bear in mind in discussing the strategy embarked by Saudi Arabia.

First, it is essential to begin from the events of March 5 and 6. The countries' delegates gathered for the 8th OPEC and non-OPEC Ministerial Meeting in Vienna, to

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[156] "OPEC : Coronavirus: JTC Recommends Extending Production Adjustments to End 2020." Opec.org, 8 Feb. 2020, www.opec.org/opec_web/en/press_room/5838.htm.
[157] Oil – Global Energy Review 2020 – Analysis - IEA. "Oil – Global Energy Review 2020 – Analysis - IEA." IEA, 2020, www.iea.org/reports/global-energy-review-2020/oil#abstract
[158] Kelly, Stephanie, "Oil Falls for Fourth Week; U.S. Crude Posts Steepest Weekly Loss since 1991." *Reuters*, 20 Mar. 2020, www.reuters.com/article/us-global-oil/oil-gains-as-governments-pile-on-the-economic-stimulus-idUSKBN21709H.

discuss further production cuts in response to the COVID-19 spread and the fall in global demand, in particular from China the biggest crude importer. The meeting was chaired by Mohamed Arkab, the newly appointed President of the OPEC Conference and Algeria's Minister of Energy together with Alexander Novak, Minister of Energy of the Russian Federation.[159] Hereby, it's fundamental to mention the newly founded cooperation of the OPEC members, which have been largely discussed in the previous chapter, with a group of eleven non OPEC countries, often referred to altogether as OPEC+. The latter group, led by Russia, the second global oil producer after the United States, has been collaborating with the Vienna based Organisation since December 2016, when the Declaration of Collaboration (DoC) was signed between the members, with the aim of contributing to a sustainable oil market stability after the 2014 oil crash crisis, when prices plummeted following the entrance of a novel crude exporter, the United States.[160]

During these early March meetings, Saudi Arabia, in an attempt to rebalance the oil offer and demand, pushed for a production cut of 1 million barrels per day within the OPEC members, in order to meet the declining demand. In particular from China, the main importer of Saudi and Russian crude, which was at the time under national lockdown as it was experiencing the worst of its COVID-19 outbreak, putting the population and companies on a total standstill along with the crude demand.[161] In other words, the Kingdom was attempting simply to boost the tumbling international prices by reducing the amount of oil on the market, as its essential national revenues were decreasing. Undeniably, the cautious and long termed Saudi proposal was suitable to the unprecedented market conditions and would have benefitted the entire OPEC+ members. Nevertheless, disagreements rose within the organization, as Russia rejected Saudi Arabia's Minister of Energy, proposal.

The particular reason behind the Russian federation's refusal, must be sought in a series of factors: firstly, the proposed contraction was harming, in particular, its

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[159] OPEC, "OPEC Bulletin February-March 2020." Opec.org, 2020, p. 3 www.opec.org/opec_web/en/publications/5824.htm.

[160] "OPEC : Declaration of Cooperation." Opec.org, 2017, www.opec.org/opec_web/en/publications/4580.htm.

[161] Englund, Will. "OPEC Will Slash Oil Production — If Russia Does, Too." Washington Post, The Washington Post, 5 Mar. 2020, www.washingtonpost.com/business/2020/03/05/opec-would-cut-oil-production-if-russia-will-too/.

production within the group, since Russia was the one who had to face the largest cut, appointed to 500.000 barrels,[162] whereas the other members had to share the residual half of the reduction. In the second place, Moscow believed that this curb in production from OPEC+ would benefit the U.S shale producers, the greatest competitors of the federation, who have previously sanctioned the Russian oil production to prevent the completion of the Siberian pipeline, known as Nord Stream 2, and the state-oil producer Rosneft.[163]

On the other hand, it is crucial to understand as well the economic differences in oil production of the two countries, in light as well of the comparison with the U.S. production. In particular, the United States' crude production has a remarkable characteristic within the international oil markets. In fact, the American oil differs from the OPEC members crude, as they export on the market a particular variety of oil known as *shale* or tight oil. The particular nature of this crude varies from the Saudi, the Russian, as well as the other OPEC+ producers for its extraction method. In fact, it is not found in the liquid state, as the majority of oil types, instead, it is trapped in non porous rocks. Therefore, it cannot be extracted by drilling, the traditional method adopted by the majority of producers, but through hydraulic fracturing or fracking.[164] This particular extraction method is the most expensive. Indeed, the shale industry started flourishing in a specific period in the oil markets, i.e. the 2010s, when the oil price touched around $100 per barrel when it was convenient for the American oil companies to extract crude to profit from it as the market condition would cover the high costs of production. As a result, the prices of production are very different for the three major oil exporters of crude. Namely, the American shale oil costs around 23$ per barrel to produce daily, in comparison to Russian oil which costs around 19$ per barrel whereas, the Saudi oil is the cheapest to extract, according to Aramco's 2019 IPO, the price for the extraction of a barrel cost $8.98,[165] accounting for less than the half of both the American and Russian costs. Therefore, the economic profit for the Kingdom covers the productions costs even if the oil price in the market is lower than 40$ per barrel. Nevertheless, as it will be

162 *Ibidem.*
163 Ilya Arkhipov, et al. "Putin Dumps MBS to Start a War on America's Shale Oil Industry." Bloomberg.com, Bloomberg, 7 Mar. 2020, www.bloomberg.com/news/articles/2020-03-07/putin-dumps-mbs-to-start-a-war-on-america-s-shale-oil-industry.
164 Luciani, Giacomo "Politics and Economics of International Energy ." *Coursera*, 2019, www.coursera.org/learn/global-energy/lecture/WhUhP/how-fossil-fuels-were-formed-optional.
165 Obaid, Nawaf. "Can the US, Russia and Saudi Arabia Find a Compromise on Oil?" *CNN Business Perspectives*, 20 Mar. 2020, edition.cnn.com/2020/03/20/perspectives/saudi-arabia-oil-market/index.html

examined in the following chapter, it does not cover the development plans and grandiose projects of Vision 2030. This condition translates in an economic issue for the Kingdom, which poses the urgency to find alternative sources of revenue to be able to carry out all the planned projects.

Moreover, I would like to emphasize the fact, that despite collaborating within OPEC, Russia and Saudi Arabia are still great competitors in the international markets. The countries are respectively the second and third largest exporters of crude and as highlighted by Herman Wang, managing editor at S&P Global Platts for the OPEC and Middle East news, during the American University of Beirut webinar,[166] they have overlapping export interests in Asia, in particular in the Chinese market which has been the competitive market for the two countries. In fact, in the last years, the countries have fought for the monopoly on the Chinese market, as Saudi Arabia surpassed Russia as China's biggest oil exporter in 2019 with 83.32 million metric tons (MT) against the 77.66 million MT of Russian crude. Nevertheless, in 2018 China had imported largely from Russia with a total of 71.59 million MT in comparison with the 56.73 million MT imported from Saudi Arabia.[167] Therefore, the Chinese market plays a fundamental role in the exports of both the OPEC+ members and the cuts in production have triggered the worries of the Russian counterpart.

Therefore, the Russian Minister Novak, backed up by President Vladimir Putin, remained firm in his decision despite the pressures from the group and external observers. Consequently, following the failure to set up an agreement, the Kingdom took action against Russia, resorting to a strategy used in the past, by exporting on the market a record level of oil, increasing their daily production by 2 million barrels per day reaching 12 million barrels. As mentioned above, this decision lead to the market opening with the deepest plunge in prices of the last 30 years. Despite, its economic loss Saudi Arabia's strategy had similarly political purposes. On one side, the aim was to obstruct the American shale oil companies, responsible for the oil crisis in 2014, which caused great revenues losses from which the Kingdom was still recovering. On the other side, it posed

[166] Ayoub, Marc. "WEBINAR: Oil Market Outlook and OPEC+ Dynamics amid COVID-19." *American University of Beirut*, 3 Dec. 2020, www.aub.edu.lb/Events/Pages/Details.aspx?ItemId=3200.
[167] Vahn Gawoon, Philip, et al. "Analysis: Asia Finds Saudi Crude Much Cheaper than Russian ESPO as Aramco Launches Price War." *S&P Global Platts*, 9 Mar. 2020, www.spglobal.com/platts/en/market-insights/latest-news/oil/030920-analysis-asia-finds-saudi-crude-much-cheaper-than-russian-espo-as-aramco-launches-price-war.

the opportunity for a "strength showcase" by Muhammad Bin Salman, who wanted to put financial pressure over Russia and to demonstrate to other leaders that Saudi Arabia held a monopoly on oil prices dynamics.[168]

Nevertheless, this strategy was not the most suitable, seen the market conditions and had a great chance to backfire on the Kingdom, as it had already happened in 2014 when Saudi boosted the production but did not achieve the awaited results. Similarly, in the light of the fact that the largest revenues for the state derive from the oil industry, one might wonder how long could Saudi Arabia bear such high production, with such a low price. In fact, according to the International Monetary Fund estimations, KSA requires oil to be sold at around $80 a barrel to balance its governmental financial plans.[169] Whereas on the other side, Russia manages to cover its government's expenses with prices around $55, as shown by the comparison in figure 2.2. Therefore, the consequent lower returns, caused by the flooding of the market would not be sufficient to cover the Kingdom's governmental expenses for its national plans, first and foremost the G20 planned in November 2020, and in general the ambitious plans within MBS's Vision 2030.

Furthermore, in this "oil war", Russia had bigger chances to undergo longer periods with lower oil prices, as its economy is not as dependent on crude production as the Saudi, and could rely on other sectors during the crisis, as the Russian Energy Minister Novak declared, "the Russian oil industry has a quality resource base and enough financial resilience to remain competitive at any forecast price level, and to keep its market share".[170] Saudis, on the other hand, are extremely dependent on their oil revenue, which accounts for 80% of the government's revenues.[171] Nevertheless, the prices throughout the year did not reach either of the both desired targets, with instead an average of $40/b, and a maximum $50/b, for both the exporters, as shown in figure 2.2.

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[168] Hope, Bradley and Scheck, Justin, op. cit., p. 327-328
[169] *Ibidem*.
[170] Farchy, Jack, and Javier Blas. "Saudi Arabia and Russia Dig In for a Long, Bitter Oil-Price War." *Bloomberg.com*, Bloomberg, 9 Mar. 2020, www.bloomberg.com/news/articles/2020-03-09/saudi-arabia-and-russia-dig-in-for-a-long-bitter-oil-price-war.
[171] Radmilla Suleymanova. "Can Saudi Arabia Really Afford to Wage an Oil price war?" *Aljazeera.com*, Al Jazeera, 15 Mar. 2020, https://www.aljazeera.com/economy/2020/3/15/can-saudi-arabia-really-afford-to-wage-an-oil-price-war

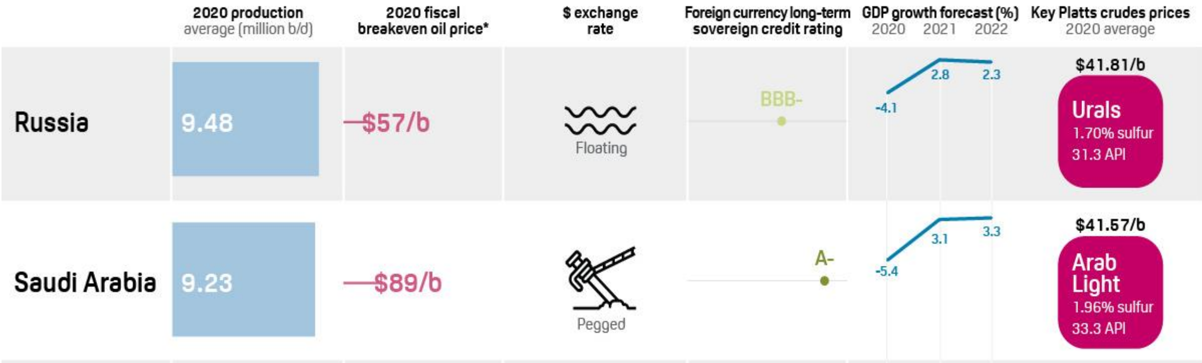

Figure 2.2: Saudi Arabia and Russia's economic indicators comparison (2020). Source: S&P Global Platts, S&P Global Platts Analytics, S&P Global Ratings. IMF

This particular hazarded strategy of the Kingdom has eventually resulted in a sharp austerity plan in Q3. The government, in fact, turned to budget cuts and fiscals reforms, intending to recover the extremely damaged oil industry revenues from the first half of the year. This first outlook on the fundamental events of Q1 will be helpful to fully comprehend the analysis in the following chapter of the economic consequences and reforms put in actions by the Saudi Kingdom in the midst of two-front crisis.

2.3.2 The "Black Monday" of oil prices

The oil price trends did not witness an improvement at the beginning of the second quarter of 2020. In April, prices plunged reaching $20 per barrel, but surprisingly the worst had yet to come later in the month, as the confirmed cases worldwide were unceasingly increasing and the meetings within the OPEC were still experiencing a lack of agreement. Following weeks of dispute, eventually, Saudi Arabia and Russia reached an agreement whilst the Covid-19 pandemic was developing worse everywhere leading to an almost complete fall in demand as the vast majority of the global population was under the containment measures. Following the OPEC and OPEC+ disagreement in March, the price touched limits never seen in decades.

In this scenario, the U.S. attempted to mediate the establishment of a deal between Saudi Arabia and Russia, as the American oil industry was suffering great losses. On April 2, President Trump pressured both Crown prince Muhammad bin Salman and President Vladimir Putin to dialogue, and eventually, he reverted it to Twitter where he assured in a tweet that the countries were near to an agreement on the planned crude cut:

> "Just spoke to my friend MBS (Crown Prince) of Saudi Arabia, who spoke with President Putin of Russia, & I expect & hope that they will be cutting back approximately 10 Million Barrels, and maybe substantially more which, if it happens, will be GREAT for the oil & gas industry!".[172]

Shortly after the President's announcement, the oil prices witnessed a growth reaching $30 per barrel on 6 April. The agreement was going to be signed on April 06, however, they did not reach it, and the oil price once again started plummeting reaching 27 $ per barrel.[173]

As discussed earlier, the Kingdom could not bear the great deficit that would have derived from the prolongment of the "oil war", against the second global major oil producer. Oil, as analysed before, is essential for the Saudi economy as it's the largest part of the GDP. Furthermore, it stands as well as a fundamental geopolitical tool in the region and in the international political scene, therefore, an oil shock would have resulted in tragic consequences for the Saudi crown. Hence, following both the economic reasons and external pressures from one side, and the worsening developments of COVID-19, it was predictable for the two counterparts to go back to the table of the negotiations and reach an agreement. The 9th and 10th extraordinary OPEC and non-OPEC Ministerial Meetings held on April 9, 10 and 12, 2020, for the first time via video conference due to the international travelling restrictions, finally ended with the awaited agreement for the downwards overall crude oil production by 9.7 million barrels per day, which represents 10% of the global crude supply, as shown in figure 2.3.[174] Eventually, on April 12, Prince Abdulaziz bin Salman al-Saʿūd, and his Russian counterpart, Minister Alexander Novak reached an agreement, which lead to the curb of production within OPEC, releasing the following joint statement:

> "Our two countries have worked diligently with the other OPEC+ countries and other producers to achieve a historic agreement to stabilize the oil market. Both our nations are strongly committed to implement the agreed target cuts over the next two years and will continue to closely monitor the oil market and are prepared to take further measures jointly with OPEC+ and other producers if these are deemed necessary.

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172 President Donald Trump (@realDonaldTrump) via Twitter, 2 Apr. 2020, 4:32 p.m., https://mobile.twitter.com/realDonaldTrump/status/1245720677660925952

173 Eberhart, Dan. "Trump Takes to Twitter to Press OPEC, Russia for Cuts." *Forbes*, 2 Apr. 2020, www.forbes.com/sites/daneberhart/2020/04/02/trump-takes-to-twitter-to-press-opec-russia-for-cuts/?sh=6b1103ba6ec2.

174 Nagle, Peter. "The Oil Market Outlook: Lasting Scars from the Pandemic." *World Bank*, 27 Oct. 2020, blogs.worldbank.org/opendata/oil-market-outlook-lasting-scars-pandemic

We are also confident that our partners in OPEC+ and other producers will live up to their commitments."[175]

The appointed curb represented the largest coordinated production cut in oil history which covered also the longest ever period agreed by the organization. As a matter of fact, it had been implemented as of May 1st until the end of June 2020, and for the subsequent six months from July 1st 2020, to December 31st 2020. The total adjustment agreed would be of 7.7m b/d, eventually followed by a 5.8m b/d correction for a period of 16 months, from January 1, 2021, to April 30, 2022.[176]

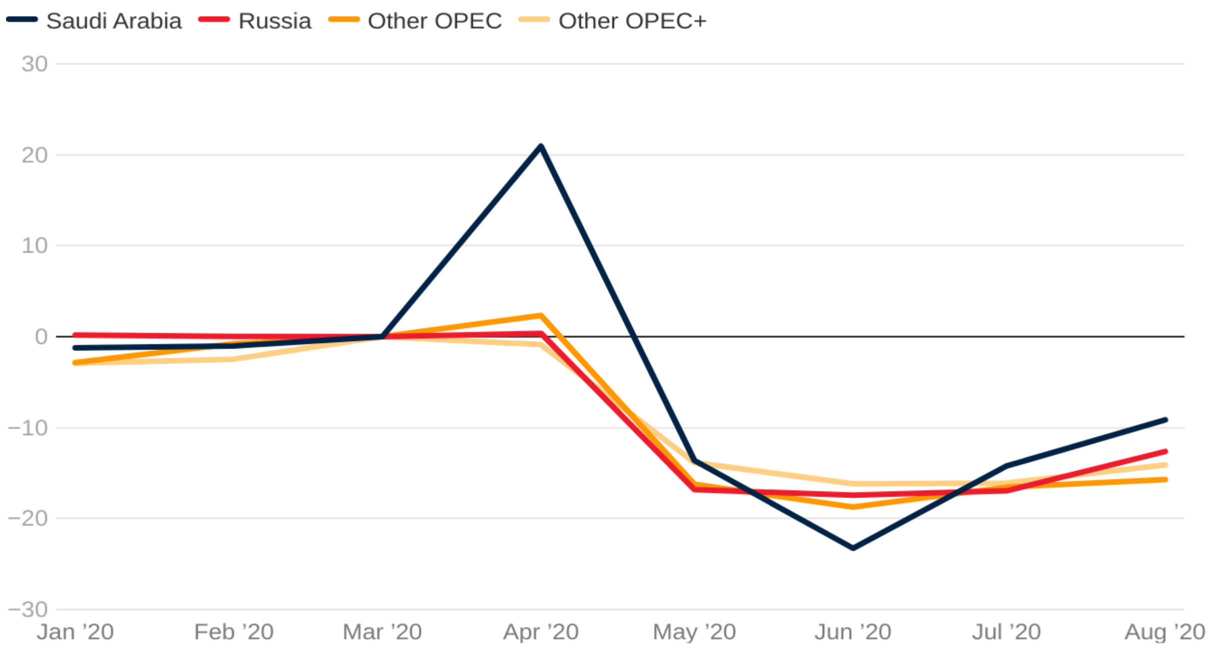

Figure 2.3: Oil production in OPEC+ members (%, Jan-Aug. 2020) *Source: IEA, World Bank*

However, simultaneously, the spread of coronavirus had been recording unprecedented cases of newly infected every day all over the world, reaching over 1 million confirmed cases, increasing at a rate of tenfold in only one month.[177] In this scenario, the OPEC and OPEC+ downwards adjustment was extremely needed,

[175] The Official Saudi Press Agency, "Minister of Energy Discusses Oil Market Situation with His Russian Counterpart", Spa.Gov.Sa, Apr 16 2020, www.spa.gov.sa/viewfullstory.php?lang=en&newsid=2075601#2075601.
[176] OPEC, Historic two-year adjustments for OPEC+, "OPEC Bulletin April 2020." Opec.org, 2020, pp. 13-14 www.opec.org/opec_web/en/publications/5824.htm
[177] World Health Organization: WHO. "Listings of WHO's Response to COVID-19." *Who.Int*, World Health Organization: WHO, 29 June 2020, www.who.int/news/item/29-06-2020-covidtimeline.

nevertheless, not sufficient for the sinking demand. Markets were experiencing an excessive oil glut leading to another issue, the lack of oil storage facilities. Producers had reached full storage capacity in almost all regions, as the fuel and air traffic was completely blocked by governmental containment measures and travel bans, in the vast majority of countries, almost all social and productive activities have been restricted, through the imposition of curfews, lockdowns and social distancing measures. Indeed during these weeks, about 4.2 billion people or 54% of the global population, representing almost 60% of the global GDP, were subject to complete or partial lockdowns as of the 28th of April and nearly all the global population was affected by some form of containment measures, as shown in the following IEA figure 2.4. [178]

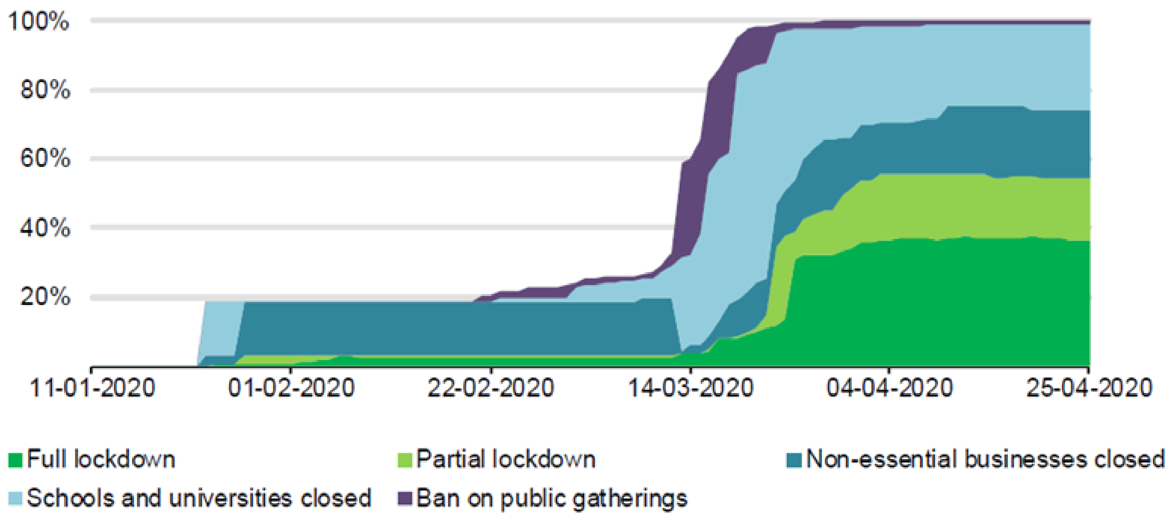

Figure 2.4 : Share of global population under containment measures (Jan- Apr 2020) Sources: IEA 2020.

These critical events, eventually culminated on April 20, afterwards renamed “the Black Monday”. On this historical day for the oil industry, US oil benchmark West Texas Intermediate (WTI) prices sank in the negative region, reaching a dramatic -37,63$ per barrel.[179] Representing the first time in history in which crude oil registered a price below zero, as producers were physically unable to stock anymore crude in their facilities. The repercussion on oil prices within the OPEC members has been dramatic. As shown in

[178] Oil – Global Energy Review 2020 – Analysis - IEA. IEA, 2020,p. 5
[179] *OPEC*, Commentary*, “OPEC April Bulletin 2020.”* Opec.org, 2020

table 2.1, the OPEC Reference Basket (ORB),[180] oil prices registered severe plunges throughout April, sinking by 48%, reaching $17.66 per barrel, the lowest monthly level since December 2001.[181] The consequences are extremely hard for economies dependent on oil revenues, as the case of Saudi Arabia, which will be investigated further in the next chapter, which registered a downward trend in the region below 20$ per barrel up until sinking to a stammering 14,48$ per barrel in the last week of the month. This represents a major blow to the crown's profits, as these prices could barely cover production costs, which we previously analysed to be around 10$ for the Kingdom.

	2019									2020				Weeks 13-17/2020 (week ending)				
Crude/Member Country	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	Mar 27	Apr 3	Apr 10	Apr 17	Apr 24
Arab Light – Saudi Arabia	71.88	70.78	63.45	65.61	60.84	62.74	60.99	64.01	67.45	66.56	56.84	35.58	18.27	27.73	21.97	22.71	19.54	14.48
Basrah Light – Iraq	70.45	69.77	62.74	64.39	59.20	61.85	59.52	62.54	65.83	64.06	54.75	33.25	16.82	25.16	19.68	20.99	17.96	13.35
Bonny Light – Nigeria	72.81	72.24	65.59	65.95	60.46	64.02	61.45	63.69	68.18	65.89	57.77	33.41	15.54	24.63	17.36	19.70	16.89	12.69
Djeno – Congo*	68.55	68.25	61.43	61.31	56.23	59.97	57.13	61.40	66.05	62.95	54.37	29.11	11.91	18.76	13.36	16.19	13.11	8.85
Es Sider – Libya	70.45	70.25	63.58	63.36	58.38	62.32	59.78	63.51	67.60	63.63	55.70	31.49	14.58	22.68	16.01	18.74	15.93	11.73
Girassol – Angola	72.88	72.95	65.69	65.98	61.64	65.36	61.34	65.65	69.69	65.41	57.25	32.45	14.70	22.55	15.86	19.39	16.58	11.26
Iran Heavy – IR Iran	68.52	67.86	60.88	62.65	57.77	60.32	57.94	60.73	63.80	62.61	52.87	32.79	17.16	25.15	20.54	21.89	18.36	13.77
Kuwait Export – Kuwait	71.20	70.07	62.58	64.90	60.35	62.16	60.52	63.72	66.26	65.37	55.90	34.85	17.22	27.07	21.24	21.48	18.22	13.81
Merey – Venezuela	58.95	59.15	53.98	61.84	49.17	61.79	45.69	43.44	49.94	56.20	35.99	18.39	7.04	11.51	9.01	10.77	7.78	4.47
Murban – UAE	71.51	69.70	62.75	64.86	60.19	62.39	60.88	63.48	66.66	66.09	57.06	35.60	23.94	26.28	26.34	31.09	25.24	19.22
Rabi Light – Gabon	70.40	70.10	63.28	63.16	58.08	61.82	58.98	61.24	64.08	60.80	53.27	30.16	13.30	20.88	14.71	17.73	15.06	10.06
Saharan Blend – Algeria	71.15	71.20	64.83	63.92	58.23	62.47	60.48	63.86	68.10	65.28	57.91	34.23	17.08	25.45	18.62	21.24	18.43	14.23
Zafiro – Equatorial Guinea	72.65	72.10	65.48	65.58	60.81	64.47	60.86	65.36	69.74	65.31	56.65	30.95	13.40	20.23	15.10	17.87	14.68	10.08
OPEC Reference Basket	70.78	69.97	62.92	64.71	59.62	62.36	59.91	62.94	66.48	65.10	55.53	33.92	17.66	25.70	20.61	22.28	18.86	14.12

Table 2.1: OPEC Reference Basket spot crude prices $/b   Source: OPEC April bulletin, 2020

To sum up, everything that has been stated so far, different factors contributed to the dramatic plunge in prices and their culmination in this remarkable day in 2020 and the oil markets' history. On one hand, the menacing and advancing novel coronavirus, which caught the international governments off guard and unaware of the terrible

180 OPEC, Market review, "OPEC April Bulletin 2020." Opec.org, 2020, pp. 109 www.opec.org/opec_web/en/publications/5824.htm.

181 OPEC, Market review, "OPEC April Bulletin 2020." Opec.org, 2020, pp. 108-112 www.opec.org/opec_web/en/publications/5824.htm.

repercussions it would have had on the economies, and in particular the oil industry, with one of the biggest oil gluts derived from the plummeted demand. On the other hand, the uncertainty caused by the disagreement between OPEC and OPEC+ members, especially between the two major producers, Saudi Arabia and Russia and their oil war, in the response to the plummeting demand.

2.3.3 The faint economic recovery and second wave of Covid-19 in the second half of 2020

Despite the initial recovery, as productive and economic activities have slowly reopened over Q3 as containment measures were slowly lifted, markets faced once again the dramatic consequences of coronavirus as the second wave increased exponentially the curves of infections all over the world. Since May, oil prices embarked a gradual recovery recording three consecutive months of increased prices since the beginning of the year.[182] Nevertheless, the recovery has been very brief and faint, in comparison with the unparalleled collapse of prices in April. Two main reasons are behind the brief recovery recorded between Q2 and Q3, which made the oil producers hope for the end of the worst consequences linked to COVID-19.

Firstly, the unprecedented curbs in production agreed between OPEC members in cooperation with the OPEC+ group, in effect since May 1st were able to rebalance the production with the plummeted demand and boost prices in June and July. The commitment and efforts of the organization relieved the markets from the pressures from Q1. This relief translated into an exponential rising oil price oil, which reached back to the 30-40$ per barrel range, as shown in figure 2.5.[183] In the second place, in May and June, many countries started lifting the national lockdowns and containment measures, in particular in Europe, i.e. Italy, France, and Spain which have been most affected by the virus recording the highest rate of deaths and experiencing the strictest restrictions since March. The newfound openness allowed the resumption of mobility within Europe and the rest of the world, with the consequent increase in oil demand, in particular jet fuel, which has been the most affected commodity in the first quarter of the year during the total lockdowns and mobility bans put in action globally.

[182] OPEC, Crude and product price movements, "OPEC September Bulletin 2020." Opec.org, 2020, p. 123 www.opec.org/opec_web/en/publications/5824.htm.
[183] *Ibidem*.

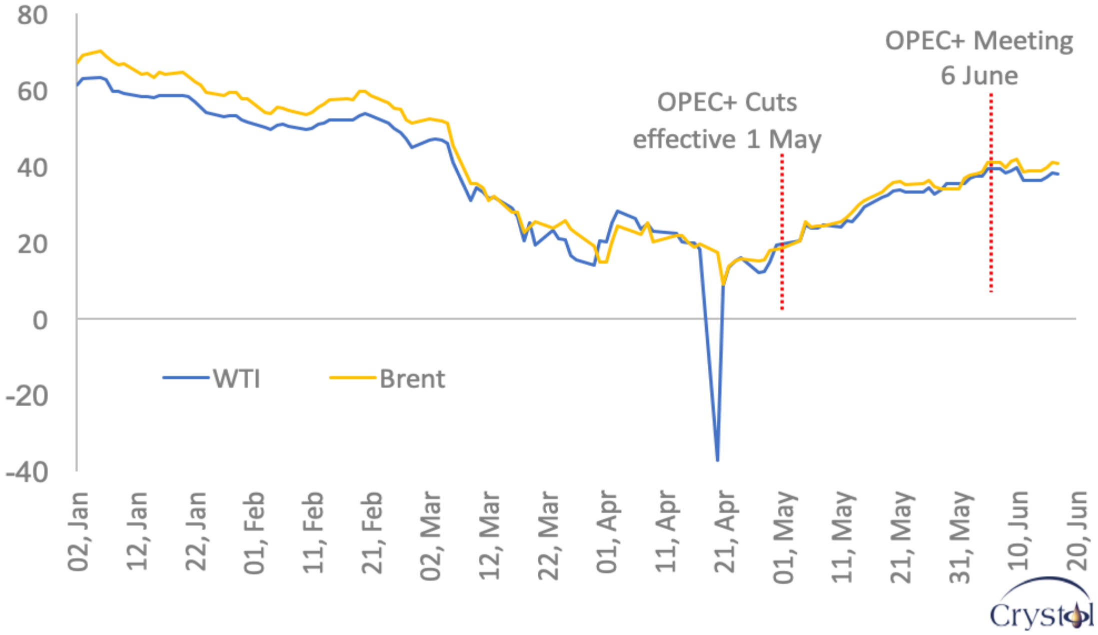

Figure 2.5: Oil price trends January-June 2020 $/b Source: Crystol energy

Predictably, following the combination of these two favourable conditions, OPEC's production cuts eased in August as the demand has been slowly increasing by 760,000 b/d,[184] as the global economy was recovering and the coronavirus spread was decreasing. Simultaneously, the OPEC Reference Basket (ORB) was registering the highest increase in prices during the year, of about 4% reaching $45.19 per barrel,[185] which represented a relief for oil-producing countries after the extremely low profits of Q1 and Q2 of 2020, which have been as low as about $20 per barrel.

Nevertheless, these recovery results have been extremely brief and insufficient, and the worst case scenario forecast in the markets came to be a reality. Coronavirus cases recorded a resurgence in the last quarter of 2020, with an even stronger second wave of infections. Indeed, in the last months of 2020, the keyword in oil markets has been uncertainty. As COVID-19 cases started rising once again, oil markets feared the consequences of new containment measures by governments which would affect the faintly recovered demand.

[184] OPEC, Monthly Oil Market Report (MOMR) *"OPEC October Bulletin 2020"*. Opec.org, 2020, p. 86 www.opec.org/opec_web/en/publications/5824.htm.
[185] *Ibidem*.

On November 27th, the 8th Technical Meeting of the OPEC and non-OPEC countries was held via videoconference to discuss the danger of the second wave of infections from Covid-19 all over the world and the consequences on the oil prices. The organization focused on the continuous cooperation and the dialogue between the OPEC members and non members in the curb of the damage in the oil market as investments in the oil industry have been declining. As Secretary General, Barkindo highlighted: "Investment dropped up to 30 per cent for this year, even more than in the 2014-2016 downturn, from which the oil industry was still recovering when COVID-19 struck."[186]

Nevertheless, hope for the markets was posed by the vaccines developments as different pharmaceutical companies were developing and passing the last trial phases, suggesting a soon release for the population. The Secretary General commented how the latest updates on the COVID-19 vaccine developments have had a positive influence on the oil markets and prices, nevertheless the organization, "Must continue to hold our ground until these are able to knock down infection rates. We are still in the thick of this disaster", as the second wave has been forcing more countries to implement once again the containment measures.[187]

On December 3rd, was held the 12th OPEC and non-OPEC Ministerial Meeting (ONOMM), the last meeting of the organization of 2020 in order to discuss the development of the Coronavirus pandemic and the next phases of the oil production for 2021.[188] The members emphasised their continuous commitment to balance and stabilize the market throughout their joint efforts. In particular by highlighting the needed actions to undertake in a critical time when countries are enduring renewed lockdowns and stricter containment measures, which have been again impacting the global economy and oil demand recovery, with prevailing uncertainties on the developments of the following months.[189] Therefore, the meeting concorded to adjust production by 0.5 mb/d, resulting in 7.2 mb/d from the previous 7.7 mb/d, as in January 2021.[190] Alongside the member countries, arranged monthly OPEC and non-OPEC ministerial meetings starting January

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[186] OPEC, "OPEC, Non-OPEC Participants Hold 8th Technical Meeting." *Opec.org*, 27 Nov. 2020, www.opec.org/opec_web/en/press_room/6247.htm.
[187] *Ibidem*.
[188] OPEC. "Press Releases 2020: The 12th OPEC and Non-OPEC Ministerial Meeting Concludes." *Opec.org*, No 28/2020, 3 Dec. 2020, www.opec.org/opec_web/en/press_room/6257.htm.
[189] *Ibidem*
[190] *Ibidem*

2021 in order to monitor the development of the markets and decide on further production adjustments non superior to the agreed 0.5 mb/d.[191]

Saudi Arabia once again surprised the markets with another drastic action. On January 5th 2021, the Kingdom announced a further production cut of 1 million b/d starting from February until March. Saudi's decision was aiming to "support both its own economy and the oil market" as stated by the Saudi Energy Minister.[192] Indeed, the international markets benefited from the sudden Saudi action proved in the market by an increase in prices by about 5%, as both Brent and West Texas Intermediate exceeded $50, levels not seen in the markets since February 2020.[193] In fact, together with the Saudi voluntary cuts, the overall curb in production accounted to 8.125 million b/d for the month of February as it will subsequently decrease to 8.05 million b/d in March, while the April levels would be agreed in the March OPEC's meetings. [194] Nevertheless, I would like to dwell on the motives of the Kingdom's action. The Saudi action is once again linked to a disagreement with Russia within the OPEC+ meetings, which was demanding an increase of output, together with Kazakhstan.[195] The Kingdom was opting for cautious actions instead, as the global markets were still living in the uncertainty caused by the surge of new virus variations and decreases in demand, as the Energy Minister, Prince Abdulaziz commenced his OPEC+ meeting: "Do not put all that we have achieved at risk for the sake of an instant but illusory benefit." [196] This actively demonstrates, that within the group there are still some disagreements between the major producers of the Organization of the Petroleum Exporting Countries, which could cause further damage in the following months in the markets, as it has happened during the spring "oil war" if the counterparts will not be able to find a common ground in the upcoming organization's Ministerial Meetings.

In conclusion, the most concerning issue with this crisis has been the uncertainty and the delay in recovery experienced in the oil industry. The forecast recovery has been

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[191] *Ibidem*

[192] Lawler, Alex. "Saudi Vows Extra Cuts as OPEC+ Agrees Small Rise in Oil Output." *Reuters,* 5 Jan. 2021, www.reuters.com/article/us-oil-opec-idUSKBN29A0UQ.

[193] *Ibidem.*

[194] *Ibidem.*

[195] Reed, Stanley. "Saudi Arabia Will Cut Its Oil Production, Allowing Russia's to Grow." *The New York Times*, 5 Jan. 2021, www.nytimes.com/2021/01/05/business/energy-environment/opec-plus-oil-prices.html.

[196] *Ibidem*.

estimated by the end of the summer, however, the second wave of the virus in the Q3 has instead worsened the economic situation, making the recovery and oil revenues levels pre-pandemic still far in the future. The particular reasons for this circumstance must be sought in the combination of various factors. Firstly, the second wave of Covid-19 cases surging right after the slight recovery in the summer months following the lift of the containment measures has discouraged and hindered a higher outcome in the markets. Following the summer period many countries reinforced the containment measured applied during the initial outbreak. Additionally, the diffusion of new and more dangerous and infectious strains of the virus, starting from the British mutation, have further increased the uncertainty in the markets. The fear of the new strains led many countries reintroduced travel bans, in particular to and from the U.K, and containment measures. These necessary measures, however, impacted once again the commercial flights' sector and subsequently the fuel demand. In consequence, the oil price recorded a decline of about 4%, slipping under $50 per barrel in mid December,[197] attacking the price hardly achieved for the first time since March in response to the optimism brought to the market at the beginning of December when the UK inaugurated the first mass vaccination program.[198] Lastly, the vaccines trials and development needed long periods to be considered safe and commence the vaccinations campaigns. A further issue concerning the vaccines will be the availability, not all countries will be able to receive them and consequently assure the vaccination of the population. Therefore, despite the development of new vaccines, the recovery both in the health and economic sector will not be as fast as estimated and could even take years.

2.4 THE FUNDAMENTAL ROLE OF OPEC

Lastly in this chapter, I would like to dedicate a section to the role the Organization of petroleum exporter countries has had in the events hereby described. In recent years, many commentators have perceived OPEC as a dying organization close to its end, due to many reasons, such as the many disputes and disagreements within the members, the

[197] Tsvetana Paraskova. "Oil Plunges as New Coronavirus Strain Spooks Markets." OilPrice.com, 21 Dec. 2020, oilprice.com/Energy/Energy-General/Oil-Plunges-As-New-Coronavirus-Strain-Spooks-Markets.html

[198] Ingram, Jamie. "Opec Aims for More Stable 2021." MEES, MEES Data Driven Middle East Oil & Gas Analysis, 24 Dec. 2020, www.mees.com/2020/12/24/opec/opec-aims-for-more-stable-2021/1f7db640-45e8-11eb-ac8c-6f889d3cf9ea.

surge of the shale oil in the 2010s, and most recently the climate change which has been pressuring countries to transition towards renewable sources of energy. However, in its 60th anniversary since the foundation in 1960 in Baghdad, OPEC has proved the fundamental role and relevance it has covered throughout the years in oil markets and its essential and necessary action in the Covid-19 pandemic response.

It is undeniable, that within the members there not always full understanding and dispute, as witnessed with the disagreement of the Saudi Kingdom and Russia, the biggest producers within the group and the international markets, which lead to the oil war that disrupted the already plummeting prices of crude in the first quarter of 2020. However, as some industry experts have argued, the role of OPEC in maintaining the prices under control was decisive, despite the initial disagreement within the group between Saudi Arabia and Russia. As Bassam Fattouh, Director of the Oxford Institute for Energy Studies, mentioned during the virtual panel discussion of the Arab Gulf Institute, "If it were not for the massive cut imposed by OPEC+, the stock would have kept growing causing an even greater drop in oil prices and the oil industry would have been overwhelmed."[199]

In other words, the organization has been concentrating all its efforts in maintaining the prices controlled under the new demand pressures, with historic cuts for the longest periods ever endured by the members. Likewise, OPEC Secretary General, Mohammad Sanusi Barkindo, highlighted, in response to experts' critics to the late and insufficient curbs in production of the Organization, the fundamental efforts endured by the members in maintaining the production set on lower percentages in response to the unparalleled plummeted demand OPEC experienced in decades: "If OPEC+ had not acted in a decisive manner, the oversupply would have added a further 1.3 billion barrels to global crude oil stocks, and hence exhausted the available global crude oil storage capacity within the month of May".[200] Stressing the resilience and cooperation of the member countries during the trying times for the oil sector in the first half of 2020, he applauded the efforts demonstrated by the organization: "The successes to date have

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[199] "The Geopolitics of Oil and Gas and U.S.-Gulf Arab Relations." Arab Gulf States Institute in Washington, 8 Oct. 2020, , https://agsiw.org/programs/the-geopolitics-of-oil-u-s-gulf-arab-relations-under-trump/

[200] OPEC, Commentary: Uncharted Territory, "OPEC April Bulletin 2020." Opec.org, 2020, p.3 www.opec.org/opec_web/en/publications/5824.htm.

called for great patience, endurance and unwillingness to give up, values strongly displayed by our DoC Countries over these past months. I congratulate you for the fruits of your labour so far."[201]

Equally, it is essential to shed light on the nature of this crisis, an economic crisis which has been first and foremost unprecedented in all productive and economic sectors and for the entire international population, and in particular for OPEC producers, as aforementioned the IMF described it as "a crisis like no other",[202] which witnessed demand drop rapidly in a matter of few weeks, since the outbreak of the pandemic in China in the last weeks of 2019. The Vienna based organization had to reinvent itself and find pragmatic solutions in order to face a situation that caught everyone by surprise and has proved wrong all forecasts for 2020. Similarly to IMF, Barkindo described the unprecedented nature of the novel pandemic on the economy, as not even the previous SARS infections had caused such a disruption in the global oil markets: "So we turned to the history books; we dusted off the ancient OPEC texts; we sought examples from the past. And the stunning conclusion was: there has simply not been anything like COVID-19 in modern history."[203]

As Fattouh continued in the discussion, another fundamental point in favour for OPEC's role during the crisis, has been the speed through which the Organization reached agreements within the 24 countries, both members and non-OPEC members. In the past, OPEC required months and even years in some case, before reaching an agreement within the members, as in the 1997-98 crisis or the 2014-16 crisis,[204] in which it almost took two years before the members agreed on adjustments that culminated in December 2016 with the aforementioned DoC. Therefore, the historic April adjustments may have initially been perceived as long and unsuccessful by outside observers, who saw the disagreement between Russia and Saudi Arabia as a great source of uncertainty for the markets. However, in reality, the disagreement was resolved within a month, and the two

[201] OPEC, "OPEC, Non-OPEC Participants Hold 8th Technical Meeting." *Opec.org*, 27 Nov. 2020, www.opec.org/opec_web/en/press_room/6247.htm.
[202] IMF, June 2020, *op. cit.*
[203] OPEC, Commentary: Uncharted Territory, "OPEC April Bulletin 2020." Opec.org, 2020, p.3 www.opec.org/opec_web/en/publications/5824.htm.
[204] "The Geopolitics of Oil and Gas and U.S.-Gulf Arab Relations." Arab Gulf States Institute in Washington, 8 Oct. 2020, , https://agsiw.org/programs/the-geopolitics-of-oil-u-s-gulf-arab-relations-under-trump/

counterparts reached a compromise that would not further damage their economies, in particular the Saudi, which as we have repeated numerous times, is heavily dependent on its oil revenues, and international markets where the price of crude oil was sinking to levels never seen in decades.

Nevertheless, the year ahead is still challenging for the organization, as the virus has been surging with a second and even third wave of contagions around the world, with even new strains of the virus in the early weeks of 2021, and the consequent uncertainty in the global markets. Moreover, another element will further complicate the situation, namely the output of Iran, which is in dialogue with the new U.S. elected President Joe Biden, on the uplifting of the sanction, and OPEC members are yet to find a new agreement for the resume of cuts.[205] Certainly, the Vienna based group will play a key role also in finding solutions in the oil market in 2021,by keeping the production in balance with the uncertain demand, despite having been perceived as a dying and no longer necessary institution in recent years.

2.5 CONCLUSIONS

The keyword in the oil industry throughout 2020 has been uncertainty. Uncertainty in the COVID-19 infections trends, in the global demand, in the vaccine development, as well as in the economic recovery. Forecasting and planning for the following months have been nearly impossible, as the markets endured unexpected and disruptive developments, with international players who had a fundamental role in the progress of the global events, sometimes improving the markets conditions, others worsening the already tragic situation.

The impact which the Covid-19 pandemic had across the world has been unprecedented. No country has been exempted from the dramatic consequences in the health and economy sectors. The disruptive risk posed by infectious disease on the global economy has become clearer with the COVID-19 pandemic. No other virus in recent

[205] Smith, Grant. "OPEC+ Oil Strategy Success Buys Time before Tough Choices." *Bloomberg.com*, Bloomberg, 2 Feb. 2021, www.bloomberg.com/news/articles/2021-02-02/opec-success-with-oil-strategy-buys-time-before-tough-choices?utm_source=twitter&utm_campaign=socialflow-organic&utm_medium=social&utm_content=middleeast.

history has challenged the markets and in particular the oil industry as the current pandemic. Indeed, 2020 will go down in the history of the oil industry. For the first time in the history of the industry, the price recorded a negative price caused by an international demand which reached drastic levels. A crisis that has spared no one and has indeed attacked the giants of the world economy such as China. This disruptive year, also recalled the importance and need for an organization like OPEC, which, sixty years after its establishment in Baghdad, continues to play a necessary role in controlling the development of markets, despite many criticisms.

After presenting the general picture of the global trends resulting from the adverse impact of COVID-19 on the oil markets, in the following chapter the specific case of Saudi Arabia will be discussed. In fact, the elements that emerged in this introductory chapter of the 2020 global crisis, will be helpful to fully comprehend the economic consequences and reforms put in actions by the Saudi Kingdom in the midst of the double crisis experienced.

KSA, one of the G20 biggest global economies, has in fact endured a double crisis throughout 2020. The prestigious and ambitious projects and events planned by the crown for the year have been hindered by the pandemic and the oil industry crash. In the following chapter, I will address the challenge of the Kingdom of Saudi Arabia in such a critical economic scenario for the oil industry and analyse the fundamental fiscal and economic developments to respond to the double crisis experienced, with an emphasis on the effects on the economy, politics and the citizens.

III. CHAPTER

THE CONSEQUENCES ON THE ECONOMY OF SAUDI ARABIA

3.1 INTRODUCTION

As we have extensively described, the virus outbreak last December in China had an unprecedented impact around the world. What began as a cluster of unusual cases of pneumonia, has disrupted the order of international societies and markets within a few months, changing the normality to which we had been used. As discussed in the previous chapter, undoubtedly, the oil industry has been one of the sectors most affected by the aftermath of the virus. As the economic, productive, and social activities of most countries were restricted, in order to contain the infection and the air traffic was almost completely halted, the fuel demand had plunged to record levels with prices even exceeding in the negative region for the first time in the history of oil markets. Predictably, the so-called rentier states were most impacted by the damage of the plummeting prices. The heavily oil-based economies have suffered deeply from the sudden drop in prices, as their revenues have recorded extremely low levels, insufficient to cover the large social and governmental expenditures and the major development plans that characterize these economies.

As in many other regions, the coronavirus pandemic harshly impacted also the Middle East, in many sectors, from the socio-economic to fragile health systems, undermining the already precarious balances reached in some nations. In this final chapter of my thesis, I analyse how the pandemic outbreak has altered the economic plans of the Saudi Kingdom, the leading economy of the region, both from an economic and socio-political point of view, which has been forced to reinvent itself over the course of the months to be able to carry out its plans and respect the objectives set and the events planned for 2020, for instance, the G20 meeting in Riyadh. In the first section, I will briefly delineate the general situation in the Kingdom, starting from the COVID-19 spread in the Saudi Kingdom, and the economic trend. Subsequently, I will dwell on the economic austerity plan embarked in the aftermath of the acute decrease of oil revenues in the second quarter, examining the reforms and cuts introduced by the Kingdom. Following, I will dedicate a section to the tourism and events agenda of KSA, focusing on the cancellation of the *Hajj* pilgrimage and the virtual edition of the Saudi hosted G20 summit. Lastly, I will examine the socio-political issues of the country and how the economic downturn and the outbreak of the virus have severely destabilized the already fragile social scenario. In particular, concerning the rising unemployment rate between the younger population, the growing inequality between Saudi nationals and expatriates and the increasing authoritarian rule in the Kingdom. To conclude, I will juxtapose the current economic and health crisis to the similar scenario endured by the Kingdom in the 2014 economic recession and the 2015 MERS outbreak.

3.2 THE COVID-19 OUTBREAK IN THE KINGDOM

The novel Coronavirus spread rapidly also in the Kingdom, making it second for number of infected cases in the Middle Eastern region, after the Islamic Republic of Iran.[206] The first registered case in the Saudi Kingdom dates back to March 2nd, when a citizen returning from Iran tested positive to the virus.[207] The following cases were mainly concentrated within the urban centres of the country and the government's response was rapid and effective in implementing containment measures in order to curb the spread. KSA, indeed, issued a royal decree with the stipulation of "a specialized committee to follow up on the developments pertaining to the new Coronavirus, consisting of 24 government agencies and headed by His Excellency the Minister of Health".[208] On February 26th , before recording any case, the government suspended entry into the country for Umrah pilgrimage, as I will examine later in the chapter, followed by the suspension of entry for "GCC citizens using national identity and cards to travel instead

[206] World Health Organization Coronavirus disease (COVID-2019) situation reports. 2020.https://www.who.int/emergencies/diseases/novel-coronavirus-2019/situation-reports

[207] Ali, Mohamed Abdelghafour, Abdullah Murhaf Al-Khani, and Laila Awad Sidahmed. "Migrant health in Saudi Arabia during the COVID-19 pandemic." *Eastern Mediterranean Health Journal* 26.8 (2020): 879-880.

[208] United Nations Development Programme. "Saudi Arabia's Ruthless Fight against Coronavirus." *UNDP in Saudi Arabia*, 25 May 2020, www.sa.undp.org/content/saudi_arabia/en/home/library/saudi-arabia-s-ruthless-fight-against-coronavirus.html.

of their passport."[209] By March 7th, only five days after the first case, the Kingdom implemented the first containment measures. Firstly, suspending e-Visa entries, and cancelling all public gatherings. Shortly after, on March 12th , the Kingdom suspended all arriving and departing international flights, and the daily congregational and Friday prayers.[210] To hamper the spread of the virus, in particular in the major urban centres, the Kingdom enforced a "curfew for 21 days between 7 p.m. and 6 a.m."[211] As the international situation was exponentially deteriorating, King Salman, the 2020 G20 leader, called for an emergency G20 virtual summit, to coordinate international efforts against Coronavirus.[212]

As we can see, the actions enforced by the Kingdom have been extremely decisive and tempestive, which permitted to avoid the disastrous consequences, in means of deaths and infections, recorded in other regions. Within this framework of measures, it is fundamental to consider the fact that the Saudi Kingdom is not new to infectious diseases, as the H1N1 pandemic, the Ebola and Zika viruses alongside with cases of SARS virus family outbreaks have spread in the Kingdom in the past. For instance, the most recent case has been the Middle East Respiratory Syndrome Coronavirus (MERS-CoV) in 2015.[213] Surely, the experience of dealing with this family of viruses in the past, has advantaged the Kingdom in effectively responding to the novel coronavirus and avoiding the collapse of the national health system as it has happened in other Arab countries and the rest of the world. Indeed, the Kingdom's response to the virus has been largely praised, both nationally and internationally, for its effective and rapid measures taken by the government in protecting the citizens from the contagion. Namely, the Minister of Foreign affairs, Prince Faisal Bin Farhan al Saud, stressed the early investments of the Kingdom in the healthcare system, which allowed the nation to avoid the overstimulation of hospitals and healthcare facilities, as it instead happened in other countries, which resulted in lower rates of infection in Saudi Arabia.[214] Among the international

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[209] *Ivi*, p.8.
[210] *Ibidem.*
[211] *Ibidem..*
[212] *Ibidem.*
[213] Al-Dorzi, Hasan M., et al. "The Critical Care Response to a Hospital Outbreak of Middle East Respiratory Syndrome Coronavirus (MERS-CoV) Infection: An Observational Study." *Annals of Intensive Care*, vol. 6, no. 1, Oct. 2016, www.ncbi.nlm.nih.gov/pmc/articles/PMC5078123/
[214] ISPI, "Dialogue with Prince Faisal Bin Farhan al Saud", *Rome Med 2020*, 4 Dec. 2020, med.ispionline.it/agenda/dialogue-with-prince-faisal-bin-farhan-al-saud

representatives, Jeffrey Schlagenhauf, OECD Deputy Secretary General, praised the Saudi government's early actions which permitted the Kingdom to successfully respond to the impact of Covid-19, and their leading action in the international cooperation against the virus in the G20 summit: "Saudi Arabia successfully steered the G20 response to the COVID-19 pandemic and the corollary economic crisis. The G20 action plan developed with the support of the OECD provides clear avenues to make our economies more sustainable inclusive and resilient." [215] Similarly WHO Director General Tedros Adhanom, lauded the strategy enacted by Saudi Arabia, [216] multiple times, as I will describe in the next sections.

In figure 3.1, we can, in fact, observe the infection trend in KSA throughout the year. As we can see in the initial stages of the global spread, during Q1, the Kingdom registered a very low rate compared for example with the European countries and other regions. The curve raised exponentially at the end of Q2, in concomitance with the ease of the containment measures, and then decreased as curfews and strict measures war reenabled, according to the Minister of Health data.[217]

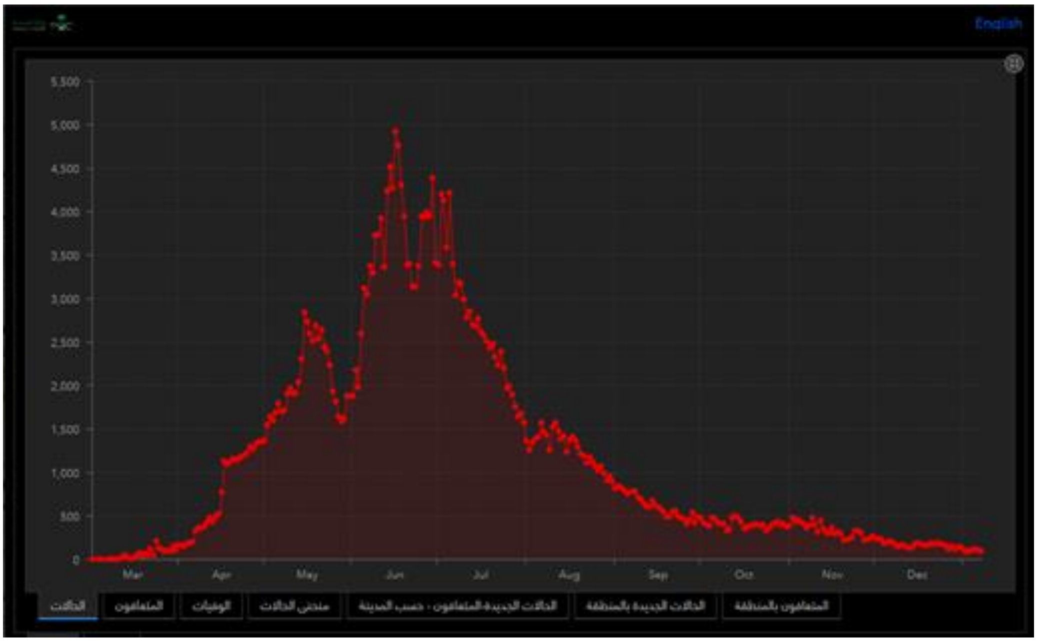

Figure 3.1: COVID-19 infections trend in Saudi Arabia (Jan-Dec 2020) Source: Ministry of Health

[215] ISPI, Kellogg and El Aynaoui. "Turning Crisis into Opportunity: Fostering a Sustainable Recovery for the Future." *ISPI Rome Med 2020*, 27 Nov. 2020, med.ispionline.it/agenda/turning-crisis-into-opportunity%E2%80%AFfostering-a-sustainable-recovery%E2%80%AFfor-the-future/

[216] World Health Organization, "WHO Director-General's Opening Remarks at the Media Briefing on COVID-19 - 30 July 2020." *Who.Int*, 2020, www.who.int/director-general/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---30-july-2020.

[217] Ministry of Health, 2020, COVID 19 dashboard: Saudi Arabia. https://covid19.moh.gov.sa/

3.3 THE KINGDOM'S ECONOMIC REFORMS

After briefly delineating the Covid-19 spread in the Kingdom I would like to focus on the other side of the pandemic consequences in Saudi Arabia. It is crucial, to note in fact, that KSA has faced a double crisis, or in Hausmann's words a "war being fought on at least two fronts. (..) Each shock in itself is huge, both at the same time makes things much more complex."[218] The concomitance of the global pandemic and the subsequent collapse of oil, in fact, have highly affected all the major sectors on which the Kingdom has been investing with the goal of diversifying the economy from oil, and oil itself, the pillar of the Saudi GDP. The major effects of the pandemic and concerns of the government have been, indeed, focused on the economy of the rentier state. Throughout 2020 the Kingdom endured a dire economic growth, with clearly the first half of 2020 suffering the harshest economic outcomes, due to the disruptive concomitance of the pandemic outbreak with the collapse of oil prices in response to low demand and the turbulences in the oil industry, alongside the Saudi-Russian oil war and OPEC+'s production cuts.

The Kingdom, still recovering from the 2014 crisis, experienced its deepest contractions since 1999 in the first half of 2020.[219] In Q2, (figure 3.2, 3.3), in fact, in connection with the highest rates of infection from the virus in the world, which subsequently led to the drastic fall of oil demand and the collapse of prices, as analysed in the previous chapter. In relation to last year's data, the economic contraction is extremely clear and evident, with a staggering -7% in the GDP growth, figure 3.2.[220] Subsequently, the economy of the Kingdom recovered in the second half of the year, with a growth of respectively 1.8% and a remarkable 2.8% (figure 3.3),[221] thanks to the easing of the COVID-19 containment measures and the economic stimulus reforms undertaken by the government. Nevertheless, to fully comprehend the steep economic downturn of the second quarter of 2020, one clear example that highlights the government's unprecedented drop in revenues is the comparison with last years' Q2 oil revenues. In

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[218] Nereim, Vivian, and Verity Ratcliffe. "'This Has Changed Everything': Saudi Economy Shaken by Oil Crash." *Bloomberg.com*, Bloomberg, 21 Apr. 2020, www.bloomberg.com/news/articles/2020-04-21/-this-has-changed-everything-saudi-economy-shaken-by-oil-crash.

[219] *Ibidem*.

[220] GASTAT. "Flash Estimates of the Real GDP Growth Rate for the Fourth Quarter of 2020." *General Authority for Statistics*, 10 Feb. 2021, www.stats.gov.sa/en/recent-releases..

[221] Ibidem.

fact, they registered a drop by 45% in relation to the same period in 2019, accounting to about SAR 133,44 million.[222] The unprecedented fall in international oil markets caused an unparalleled $27 billion monthly decline in foreign assets net of the Saudi central bank.[223] Furthermore, the extremely low price of oil, influenced by both the decline in global demand and the Russian-Saudi oil war, has been a further obstacle to the Kingdom's recovery and success of the development plans. In fact, the recovery strategy was based on a profit resulting from a rate of $50- $60 per barrel of oil.[224] This resulted in a reconsideration of the strategy for the Kingdom, as the forecast revenues for 2020 cannot be met, thus threatening the economic and development plans.

As a result, as stated by the initial estimates published by GASTAT in February 2021,[225] the Saudi economy has experienced a 4,1% contraction of GDP in 2020, the deepest in the last 30 years,[226] similarly projected by the IMF in April, with a -2.3% growth and -4% in non-oil GDP.[227]

[222] Ministry of Finance. "Quarterly Budget Performance Report Q2 of FY 2020 (1441/1442 H)." *Mof.gov.sa*, 2020, available at: www.mof.gov.sa/en/financialreport/budget2020/Pages/2020.aspx.
[223] Nereim, Vivian, and Verity Ratcliffe, 21 Apr. 2020, op.cit.
[224] *Ibidem*.
[225] The General Authority for Statistics announced that the detailed 2020 economic growth analysis, with a breakdown of oil and non-oil GDP, would be published in late March 2021. Therefore, it will not be taken into account in this research, as the data is updated to ends of February.
[226] GASTAT. "Flash Estimates of the Real GDP Growth Rate for the Fourth Quarter of 2020." *General Authority for Statistics*, 10 Feb. 2021, www.stats.gov.sa/en/recent-releases.
[227] IMF. "World Economic Outlook, April 2020 : The Great Lockdown." *The International Monetary Fund*, 14 Apr. 2020, p. 6 www.imf.org/en/Publications/WEO/Issues/2020/04/14/World-Economic-Outlook-April-2020-The-Great-Lockdown-49306.

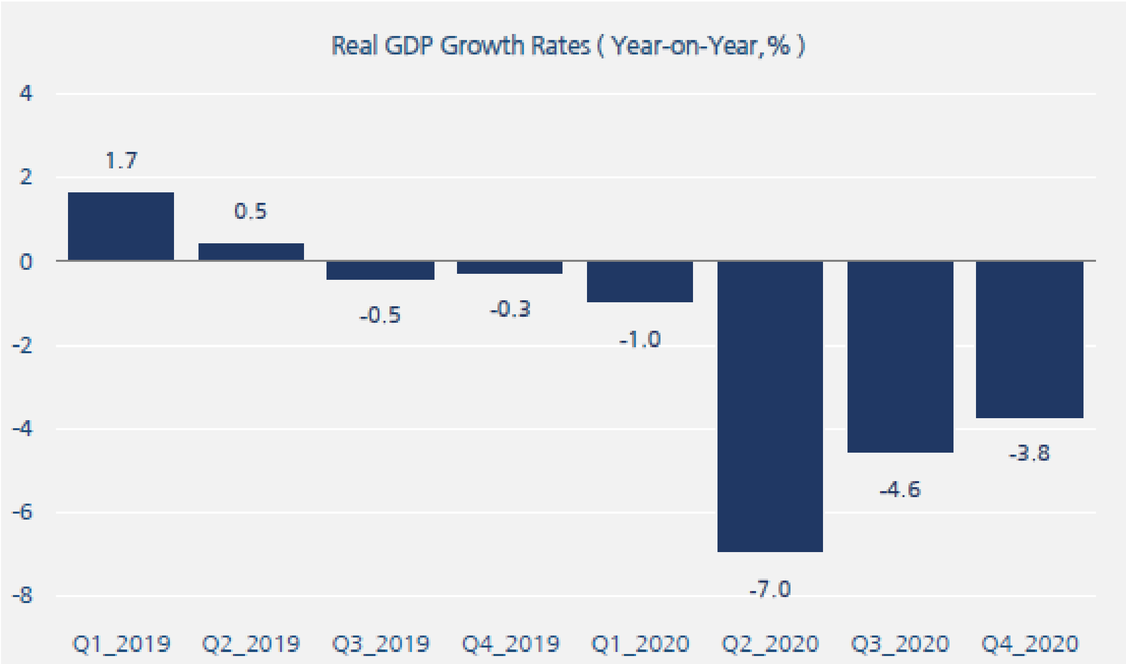

Figure 3.2: Real GDP Growth Rates (Year on Year, %) *Source: GASTAT*

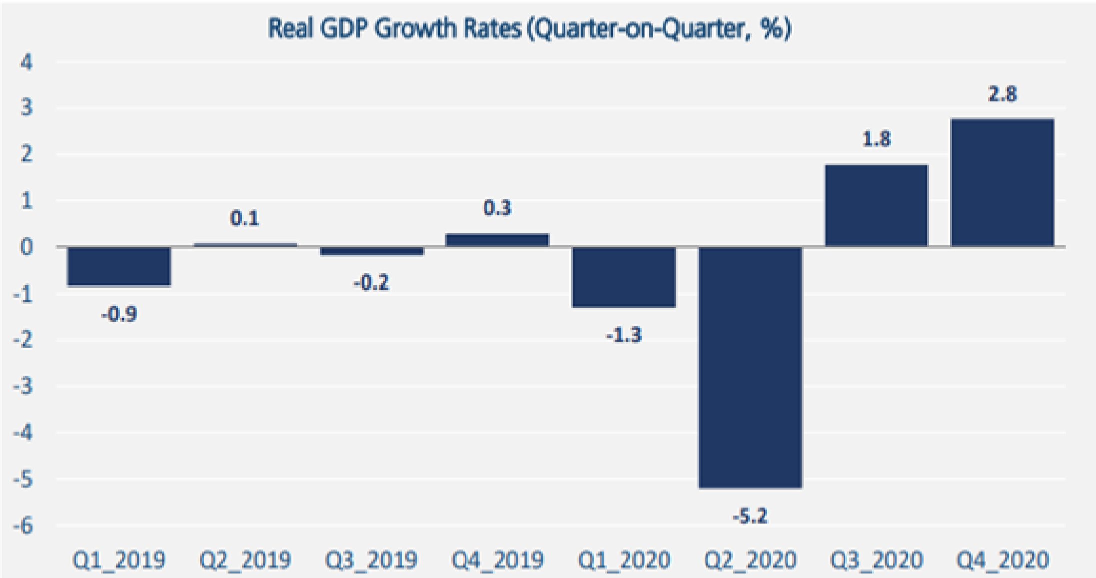

Figure 3.3: Real GDP Growth Rates (Quarter on Quarter, %) *Source: GASTAT*

Therefore, a strong and steady reaction from the government was necessary to recover the suffering economy. The Kingdom opted for an austerity plan to recover the oil industry damage, the total closure of pilgrimage, the losses from tourism and hospitality sectors, as proclaimed by Mohammed bin Abdullah Al-Jadaan, the Saudi Minister of Finance, Acting Minister of Economy and Planning, , in an interview to Al-Arabiya in

May 2020, to introduce the new measures that would have been implemented in the Kingdom in the following weeks and months, due to the alarming gravity posed by COVID.19 on the Saudi economy.:

> "The Kingdom hasn't witnessed a crisis of this severity over the past decades, (...) It's very important that we take very tough and strong measures, and they might be painful, but they're necessary. We have to plan for the worst case scenario and take matters seriously, I do not think the world or the Kingdom will go back to the way things were before coronavirus." [228]

The register used by the Minister in this fundamental speech to the Saudis deserves a particular comment. The Saudi populace, in fact, has not been used to this kind of discourse. The Kingdom has always avoided taxation, austerity plans and budget cuts, to preserve the social bargain between the government and the Saudis, based on the reward in exchange of loyalty to the crown. Nonetheless, the harsh multifaceted economic downturn endured by the Kingdom and the world, called for unprecedented measures to protect and recover the economy.

Therefore, the economic strategy to aim to the recovery needed the implementation of strict and unprecedented reforms. The plan presented by the Finance Minister al-Jadaan materializes in a package based on austerity reforms and budget cuts, similarly, in an expanded taxation system in order to respond to the unparalleled fall of revenues. The implementation of these austerity reforms has been valued at about SAR100 billion, ($26.6 billion), which would be reallocated to the healthcare system and aid for businesses, with the aim of safeguarding the national health system and ensuring a prompt recovery in the aftermath of the crisis.[229] On the other hand, the Kingdom invested in the recovery through stimulus packages as well as subsides and enhancing liquidity, assuring to cover 60% of private sector salaries to avoid the increase in the unemployment rates. The Minister, in fact, ensured the population affirming that: "These are the priorities: the health care of people and the livelihood of people, and we want to make sure that we maintain our fiscal strength so that as the economy gets out of the

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[228] Al Arabiya English. "Coronavirus: Painful Steps Ahead to Fight Economic Downturn - Saudi Finance Minister." *Al Arabiya English*, Al Arabiya English, 2 May 2020, english.alarabiya.net/coronavirus/2020/05/02/Coronavirus-Painful-steps-ahead-to-fight-economic-downturn-Saudi-finance-minister

[229] Riad Hamade, et al. "Saudi Arabia Triples VAT, Cuts State Allowances amid Crisis." *BloombergQuint*, Bloomberg Quint, 11 May 2020, www.bloombergquint.com/markets/saudi-arabia-plans-26-6-billion-austerity-cuts-triples-vat-ka1uss4c.

lockdown, we are able to support the economy."[230] As we will see in the next pages, experts have praised some of the reforms while others have been considered wrongly timed, with the possibility of further hindering the economic recovery. In the following sections, I will examine the main reforms undertaken by KSA.

On a positive note, the economy of the Kingdom, despite suffering largely the loss of oil and tourism revenues, has been one of the least impacted within the G20 group, as highlighted by H.R.H Prince MBS:

> "Yet, despite the COVID-19 pandemic, we, relative to our counterparts in the G20, are considered one of the 10 best countries in dealing with the economic repercussions of the Coronavirus pandemic in the G20. We are more optimistic that the pace of growth will accelerate with the ending of the coronavirus pandemic and the return to full normalcy, to become one of the fastest G20 nations to witness growth in non-oil GDP in the upcoming years."[231]

However, the optimistic recovery forecasts, the rebound of the Saudi GDP, and the objectively positive results compared to the rest of the world and the G20 counterparts, the economic impact on the Kingdom has been destabilizing and brought non indifferent changes to the economy alongside to the politics of the country as well as threatening the success of a series of reforms and plans within Prince MBS' Vision 2030.

3.3.1 The cuts on the budget

As mentioned earlier, the fall in oil revenues impacted the government budget for 2020. In 2019. The projected oil revenues for 2020 amounted to about SAR513 billion of the total SAR 833 billion state revenues, as announced by Prince MBS.[232] Nevertheless, after the collapse of oil prices the effective oil revenues in the Kingdom fell to approximately SAR410 billion.[233] This comes as a result of the plummeting worldwide oil demand alongside the oil war between Russia and Saudi Arabia. As oil was being sold at about 20$ in Q2, it was predictable that the consequences for the Kingdom's revenues would have been extremely adverse. Therefore, the profits registered in the first half of 2020, as

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[230] Hamade, Riad, and Vivian Nereim. "Saudi Finance Minister's $26.6 Billion Economic Plan: Transcript." *Bloomberg.com*, Bloomberg, 11 May 2020, www.bloomberg.com/news/articles/2020-05-11/jadaan-says-measures-to-boost-saudi-public-finances-transcript.
[231] The official Saudi Press Agency. "HRH Crown Prince Thanks Custodian of the Two Holy Mosques for His Speech before Shura Council." *Spa.gov.sa*, Saudi Press Agency, 13 Nov. 2020, www.spa.gov.sa/viewfullstory.php?lang=en&newsid=2157536.
[232] *Ibidem*.
[233] *Ibidem*.

highlighted by the Crown Prince in a speech before the Shura council, were not sufficient to cover the state expenses:

> “These revenues alone are insufficient to cover even the salaries bill estimated at 504 billion riyals in this year's budget, not to mention the difficulty of financing other items which include capital spending by 173 billion riyals and social security benefits by 69 billion riyals as well as operation and maintenance bill estimated at 140 billion riyals and others, which means an economic recession and millions of jobs lost."[234]

Moreover, as will be analysed in the next sections, the tourism and transportation sectors were hit particularly hard by the pandemic consequences. As a result, this sector’s revenues, on which the Kingdom has been highly relying and investing in recent years with the intention of diversifying its economy, have come to record acute deficits on the budget estimated for 2020.

In the light of these critical economic results, the Minister of Finance al Jadaan has been obliged to put in action a highly austere economic plan, in which he emphasized how the government expenditure needed a deep reduction, affirming that the list of affected budget reduction is “extremely long”: “The government must take different measures than it previously has. There must be a limit to spending, redirecting parts of it to providing health services for the nationals and residents, and facing the results of the major shock in returns.”[235]

The first actions implemented, has been the cut on the SAR 1000 monthly allowances program. The allowances have been introduced in 2018 following the general discontent of the population with the newly introduced VAT at a 5% rate. The recent cut has been justified resorting to the temporary nature of the program, as the Minister affirmed in an interview with Bloomberg: “As to the cost of a living allowance, we had announced before that that is temporary, so we thought that we can actually stop. Its impact is very limited.”[236] Similarly, the Crown Prince affirmed how despite it has been “painful” to cut the program, it has been necessary to maintain the Saudi’s salaries and other allowances, which account to SAR 137 billion, as well as, “bearing the high costs

[234] *Ibidem*.
[235] Al Arabiya English, 2 May 2020, *op. cit.*
[236] Hamade, Riad, and Vivian Nereim, 11 May 2020, *op. cit.*

of healthcare due to the COVID-19 pandemic and increased spending on operation and maintenance, and, which amounted to 188 billion riyals."[237]

Nevertheless, the focus of the economists and investors has been on the cuts on the Vision 2030 plans. The economic crisis and the fall of oil revenues has been hindering the realization of the Vison's development plans. Predictably, with the oil revenues plummeting, and the tourism sector on a halt, the government has been obliged to review the spending on the mega projects within Vision 2030, which has been funded largely by the two sectors. In particular, the budget has been shrunk by SAR 30 billion (8$ billion), which have been reallocated to other sectors in order to respond to the pandemic and the economic recovery,[238] as the Finance Minister announced*:*

> "Of course, we are considering delaying some projects. Naturally, as a result of the precautionary measures, we will reduce spending on them. Projects, whether major ones or some [of the] programs [aimed at] achieving [Vision 2030], that are, in their nature, as a result of the precautionary measures, now delayed in implementation, and therefore [resulting in] a reduction in spending."[239]

The firstly announced in 2016, economic transformation plan by Prince MBS, structured on three fundamental goals of a "vibrant society, a thriving economy and an ambitious nation",[240] has been pursuing highly ambitious development plans in the last few years with the ultimate goal of reducing the Saudi reliance on the oil industry. However, the $2 trillion dollars Vision has been criticized by many, for the far from reachable goals, for its complex and ambitious plans and the structural transformation which the country needs to undergo in order to reach the planned goals, planned in a short period. Indeed, over the last few years many experts have examined the actual feasibility and implementation of the programs and giga plans within the Vision. In particular, in relation to the NEOM project, the construction plan of the $500 billion mega project of a smart city in the north western province,[241] which has been hampered by the outbreak of the pandemic and the collapse of oil prices. The minister of Finance, has assured that the project will be carried out however with some delays as the initial estimates: "It may not

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[237] The official Saudi Press Agency, 13 Nov. 2020, *op. cit.*
[238] Al Arabiya English, 2 May 2020, *op. cit*
[239] *Ibidem*.
[240] Kingdom of Saudi Arabia. "National Transformation Program | Saudi Vision 2030." *Vision2030.Gov.sa*, 2016, www.vision2030.gov.sa/en/programs/NTP.
[241] The Kingdom of Saudi Arabia. "DISCOVER NEOM." *Neom.com*, www.neom.com/index.html.

be as fast as it used to be, but they are continuing."[242]

In fact, the "overblown mega-project scheme" like the NEOM smart city, according to Khashan, is one of the reasons why the vision is "destined to fail."[243] Especially, because for the realisation of such projects the Kingdom needs important foreign investment, and cannot rely simply on the oil industry. Nevertheless, the Kingdom's Foreign Direct Investment (FDI) has been decreasing in the last decade in the Kingdom, reaching an estimated $4.6 billion in 2019 compared to $39.5 billion in 2008, as shown in figure 3.4 below.[244] Nevertheless, the Minister of Investment Khalid al-Falih has affirmed during the November G20 meeting, how the first half 2020 saw an increased FDI by 12% compared to 2019.[245] The trust of foreign investors in the Saudi economic resilience therefore, might reverse the trend of investment in positive for the country, as the Kingdom has been as well planning special economic zones aimed to attract investors from different sectors.[246]

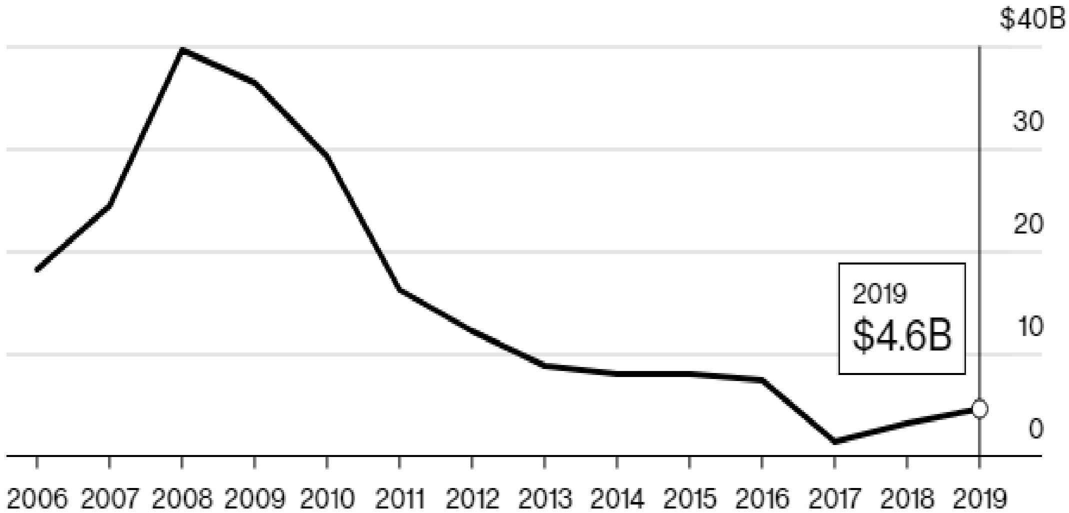

Figure 3.4: Saudi Arabia's FDI (2006-2009) ($B) Source: United Nations Conference on Trade and Development via Bloomberg

In the past, the Kingdom had already pursued megaproject similar to NEOM, nevertheless with poor results. Indeed, in 2005 late King Abdullah had planned the

[242] Al Arabiya English, 2 May 2020, *op. cit.*
[243] Khashan, Hilal. "Saudi Arabia's Flawed "Vision 2030"." *Middle East Quarterly* (2017), p. 2.
[244] Nereim, Vivian, and Matthew Martin. "Saudi Arabia's Post-Oil Plan Faces Cuts as Crude Plummets." *Bloomberg.com*, Bloomberg, Apr. 2020, www.bloomberg.com/news/articles/2020-04-01/saudi-arabia-s-post-oil-plan-faces-cuts-as-crude-plummets.
[245] Reuters Staff. "Saudi FDI up in First Half of 2020 as Economy Shows Resilience - Minister." *U.S.*, 21 Nov. 2020, www.reuters.com/article/g20-saudi-investment-int-idUSKBN2810GC.
[246] *Ibidem*.

creation of six "economic cities", however, only one has been finalized, King Abdullah Economic City (KAEC), with scarce results as planned.[247] As a matter of fact, Vision 2030 aims also the revitalise these economic cities.

Khashan is not the only expressing doubts on the final result of MBS' ambitious Vision 2030, and criticizing the mega project within the vision framework. In the Atlantic council review of Vision 2030, the authors stress how the government needs to prioritise the improvement of "business conditions for entrepreneurs, private companies, and foreign investors" as they will be "the real engines of growth and employment over the long term" over the expensive megaprojects.[248] Similarly, Dr. Carole Nakhle, CEO of Crystol Oil, stated how the Saudi diversification should focus on a more "carefully targeted diversification", taking some serious steps in prioritizing the spending, moving away from non-priority sectors and invest in some fundamental sectors, such as education, healthcare and social programs. Stating that these reforms will result in a lower costs of maintenance rather than attempting to build a big economy based on giga plans, as new futuristic city plans, which she describes as "vanity programmes", which would rather pose higher maintenance costs, resulting to be extremely difficult to maintain in the long term.[249] Likewise, a Gulf-based economist at The New Arab, referred how "there's a high likelihood it fades into nothingness, I don't see the powers that be prioritizing [NEOM] now … It's a running cost with no value added."[250]

Some economist pushed as far as claiming that the vision is becoming a mirage,[251] nevertheless, it is still premature to give a projection and estimation of the overall success of the Saudi Vision 2030 as the plans started to take form only in 2019. Yet, it is clear

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[247] Grand, Stephen, and Katherine Wolff. "ASSESSING SAUDI VISION 2030: A 2020 REVIEW." *Atlantic Council, Rafik Hariri Center for the Middle East* , June 2020, www.atlanticcouncil.org/wp-content/uploads/2020/06/Assessing-Saudi-Vision-2030-A-2020-review.pdf.
[248] *Ibidem*.
[249] Webinar, "The Geopolitics of Oil and Gas and U.S.-Gulf Arab Relations." Arab Gulf States Institute in Washington, 8 Oct. 2020, https://agsiw.org/programs/the-geopolitics-of-oil-u-s-gulf-arab-relations-under-trump/
[250] The New Arab. "Coronavirus Pandemic Halts Work on $500 Billion Saudi Futuristic City NEOM." *Alaraby*, 8 Apr. 2020, https://english.alaraby.co.uk/english/news/2020/4/8/coronavirus-pandemic-halts-work-on-saudi-futuristic-city-neom.
[251] Fenton-Harvey, Jonathan. "Coronavirus Could Make a Mirage of Saudi Arabia's Vision 2030." *Alaraby*, 16 Apr. 2020, english.alaraby.co.uk/english/comment/2020/4/16/coronavirus-could-make-a-mirage-of-saudis-vision-2030

that the adverse impact of COVID-19 has exacerbated Saudi Arabia's fiscal deficit and will likely represent a significant slowdown and delay many of the plans.

Predictably, within the "extremely long" list of cuts mentioned by the Finance Minister, there are also cuts on the 2021 government's budget. Prince MBS has, in fact, advised significant cuts on the 2021 budget due the deficits of 2020, which amounted to SAR186,935 million. In 2021 the Kingdom announced that the government budget would endure a 7.3% cut, resulting in a forecasted SAR 990 billion ($264 billion).[252] Indeed, Minister al- Jadaan affirmed: "We still believe we are not out of the woods yet and we wanted to make sure we had enough financing for the health service and make sure we are prepared for a wave two, God forbid, to hit Saudi Arabia."[253] Within the austerity and recovery framework, the Finance Minister announced that the spending reductions would interest a period starting from 2021 through 2023, with a projected SAR941 billion.[254] The measures are intended to be in place until the budget deficit reaches an estimated 0.4% in 2023, therefore balancing the Kingdom's budget from the alarming -12% registered in 2020, the highest since 2016 in the aftermath of the 2014 crisis (figure 3.5).[255]

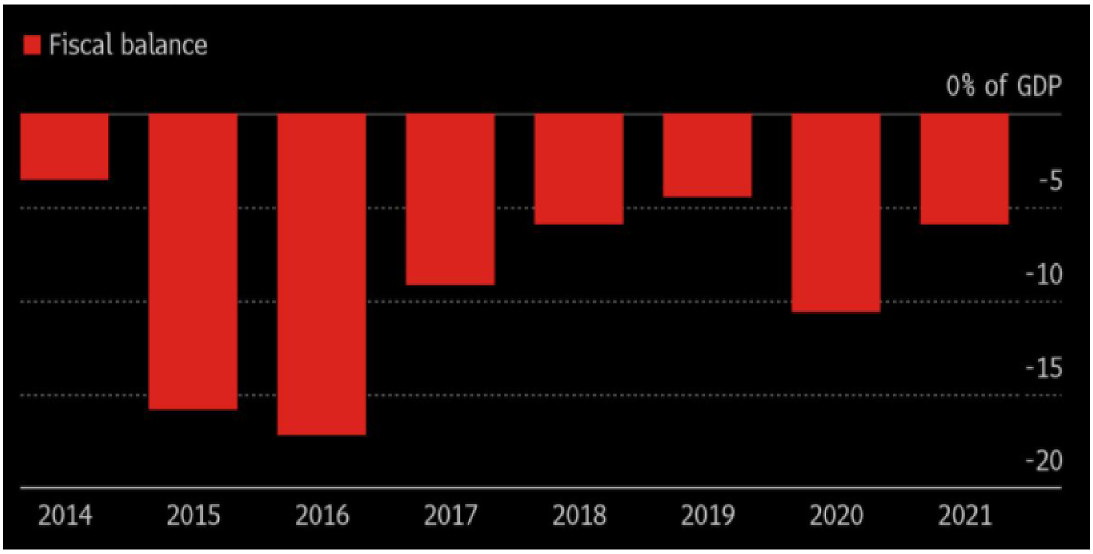

Figure 3.5: Saudi budget deficit (2014-2021) *Source IMF via Bloomberg*

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[252] Nereim, Vivian, et al. "Saudi Arabia Plans Spending Cuts in 2021 as Economy Recovers." *BloombergQuint*, Bloomberg Quint, 15 Dec. 2020, www.bloombergquint.com/markets/saudi-arabia-sticks-to-spending-cuts-as-2021-budget-announced.
[253] *Ivi.*
[254] *Ivi.*
[255] *Ivi.*

3.3.2 The VAT triples reaching 15% rate

As briefly mentioned in the first chapter, in the fiscal policies the government embarked an unanticipated decision, following the twin blow for the Saudi economy caused by the adverse impact of COVID-19 together with the staggering drop in oil prices and the economic downturn. The critical situation led the Minister Al-Jadaan, to announce on May 11 2020, the unexpected implementation of a triplicated VAT rate of 15% starting from July 1.[256] Therefore, the Kingdom came to be the first in the region to implement an increase in the original 5% rate agreed within the GCC. Although, this was a crucial move for tax reforms in the region and specifically for Saudi Arabia, the reform has been in the midst of discussions in the economic scenarios, in fact the rate is still below the global average, and the government timing in the implementation has been largely criticised by some economist and experts.

Nevertheless, it is crucial to juxtapose, that the reform has been a pivotal move in the Kingdom's fiscal policy, which only recently first introduced the Value Added Tax (VAT), in 2018. As discussed earlier, a country's taxation system poses as well an impactful influence on the national political dynamics. In Saudi Arabia, similarly to the Gulf oil producing countries, the citizens have benefited of a virtually non-existent taxation system up until 2018, at the expenses however, of the political representation, as summarised in "no taxation without representation".[257] In fact, due to the important statal income derived from the oil revenues, the Saudi Crown has never been required to tax the populace, therefore, preserving its political power in a silent social bargain. Nevertheless, throughout the years and subsequent to the several oil crisis that the nation endured, for the Kingdom the substantial public expenditure often came to be unbearable. Consequently, several times in the past, efforts for the introduction of taxes and cuts in the public expenses have been attempted, i.e. during the 1990s' crisis, when former King Abdullah proposed an economic austerity plan. However, reforms like this have always been met with a strong disagreement by the Saudi populace and abandoned by the

[256] General authority of Zakat &Tax, (June 2020) Change of VAT Rate to 15%, Retrieved from gazt.gov.sa website: https://gazt.gov.sa/ar/HelpCenter/guidelines/Documents/Change%20of%20VAT%20Rate%20to%2015%20GL.pdf

[257] Beblawi, Hazem, and Giacomo Luciani, op. cit., p. 74-75

government “fearing popular opposition.”[258] Indeed, economists have been describing this behaviour of the rentier state’s population as the rentier mentality.[259] The populace living under this particular economic model, develops a mentality centred around the social bargain held with the government. The citizens are not used to the work-reward model but instead the citizenship-reward model promoted by the Kingdom. Therefore, Saudis expect from the state a job and subsides, since this is the reality they have always known, and rather taxes. In exchange, the population offers loyalty to the system. Fundamentally, the Saudi government’s legitimacy has never been determined through elections but been intrinsically linked to the public expenditure generously distributed to the populace. As a result, the Saudi Kingdom only introduced in 2018 first, the VAT at a rate of 5%, a standard agreed within the Gulf Cooperation Council (GCC) in 2016, within a package of fiscal reforms accorded by the six council members.[260] The Saudi fiscal reform has been welcomed by the International Monetary Fund (IMF) as a “landmark achievement”,[261] indeed in an economy which has been extremely dependant on oil revenues since its discovery in the Kingdom this translated in a pivotal effort in “reducing the fiscal deficit and diversify the revenue source away from oil.”[262] The Gulf economies’ decision to finally introduce a taxation system, came as a response to the exponentially increasing volatility of oil markets, especially following the 2014 oil crash and the menacing competitiveness of the American shale industry. As mentioned in the previous chapter, in 2014 oil prices experienced a sharp drop following the initial boom at the beginning of 2010s, when on the other hand, the Gulf countries experienced a prosperous economic period in which oil prices increased until reaching around 130$ per barrel. Predictably, the 2014 economic downturn translated in a sharp fall of oil revenues for the GCC’s economies, a dire scenario as these rentier states accounted between 50% and 90% of their government revenues on the oil industry,[263] with an emphasis on the

[258] Wynbrandt, J. (2010), op. cit., p.252
[259] Beblawi, Hazem, and Giacomo Luciani, op. cit., p. 52-53
[260] Clarke, J. (2020, May 14). Tripling of the Saudi Arabia VAT rate from 1 July 2020. Retrieved from Pinsent Masons website: https://www.pinsentmasons.com/out-law/analysis/tripling-saudi-arabia-vat-rate-july-2020
[261] International Monetary Fund, Middle East and Central Asia Dept., “Saudi Arabia : Selected Issues.” *IMF*, Sept. 2019, p. 21 available at: www.imf.org/en/Publications/CR/Issues/2019/09/09/Saudi-Arabia-Selected-Issues-48660.
[262] *Ibidem*.
[263] Al-Kibsi, Gassan, et al. "Saudi Arabia beyond oil: The investment and productivity transformation." *McKinsey Global Institute*, December 2015.

Saudi Kingdom where it accounted for 86% during the 2012–15 period.[264]

Therefore, the fiscal reforms aimed as well to progressively reduce the reliance of these economies on fossil fuel, as its uncertainty and the transformations of the markets dynamics made it precarious to rely entirely on it for the state expenditures and development plans funds. Following the adoption of the GCC VAT Framework in 2016, three of the six members, namely Saudi Arabia alongside UAE and Bahrain, implemented the 5% rate, which came into rule in the Kingdom in January 2018. Hereby, I would like to highlight that the agreed rate of taxation at 5% was still extremely low compared with the international taxation systems. In fact, as shown in figure 3.6, the average VAT rate in international tax systems scores around 20%, i.e. the minimum standard VAT allowed under European law is 15%.[265] Indeed, the IMF has praised the initial reforms embarked by the Kingdom in the fiscal matters, although, simultaneously it has been pressuring the government for an increase of the VAT rate, suggesting a doubled rate, alongside recommending the expansion of the taxation system to further companies.[266]

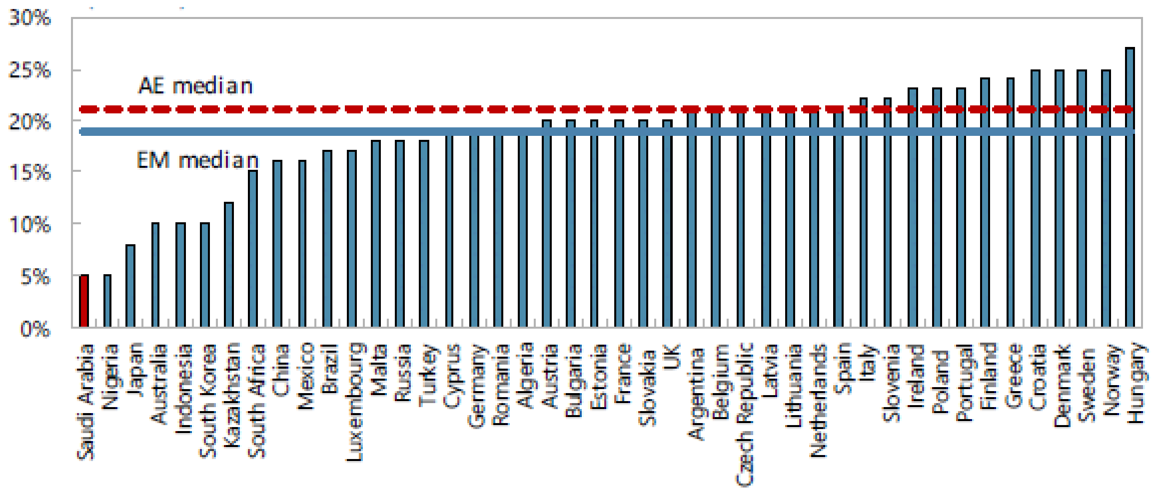

Figure 3. 6: VAT Standard Rate (%) Source: IMF

Fundamentally, prior to the 2018 VAT implementation, as we mentioned, the taxes were virtually inexistent, the only levy applied to the Saudi population derived from the Islamic collection of the *Zakat*, which accounts for 2.5% of one's net worth.[267] Indeed, the *zakat*

[264] International Monetary Fund, Middle East and Central Asia Dept., Sept. 2019, *op. cit.*
[265] Clarke, Joanne, 14 May 2020, *op. cit.*
[266] International Monetary Fund, Sept. 2019, *op. cit.*, p. 21
[267] *Ibidem*.

taxation system and fiscal matters are still managed jointly by the same institution, the General Authority of Zakat & Tax (GAZT).

On the other hand, it is central to mention that the taxes applied predominantly on non nationals. Indeed, a series of taxes have been introduced in the country, which however, applied mainly to non-Saudis, who were excluded from the social bargain with the government and its citizenship based benefits. Firstly, foreign companies were the only ones being taxed on income, whereas national companies were excluded. Secondly, in 2011 the Kingdom introduced a fee on expatriate workers, with specific regulations aimed to support the employment of nationals. The levy amounted to a monthly SAR 200 and it was applied on every expatriate employee in companies where foreigners outnumbered Saudi workers.[268] The latter tax has been exponentially increasing ever since, reaching SAR800 in January 2020, with the aim of utilizing these revenues for covering the costs of training programs implemented by the Human Resources Development Fund. Indeed, in 2018 the expatriates fees amounted to 1% of the GDP, which translates to 29 billion SAR, given the important percentage of expatriates in KSA.[269] Nevertheless this exponential increased harmed the expatriates workers, obliging many to leave the country alongside increasing the inequality with national workers, as I will analyse in the following pages.

Furthermore, in 2017, following the 2016 GCC VAT Framework agreement, the council countries agreed similarly on the introduction of excise taxes within the Agreement for Excise Taxes implemented in May. The council taxed goods which ranged from tobacco products, to energy drinks and carbonated drinks, accounting to a total of 0.4% of the Saudi GDP, or SAR 12.4 billion in 2018.[270] Alongside, the KSA introduced a series of smaller fees which accounted to a further SAR 15 billion in revenues in 2018.[271] These fees ranged from visa levies, as the Kingdom was opening for tourism projects, which have been increased reaching up to SAR 500 for some nationality passport holders. Secondly, still in the tourism and entertainment sectors, KSA implemented a 25% sales tax on cinema tickets and a tax raging from 2.5% to 5% on hotel rooms and

[268] International Monetary Fund, Middle East and Central Asia Dept., "Saudi Arabia : Selected Issues." IMF, Sept. 2019, p. 26
[269] *Ibidem*.
[270] *Ibidem*
[271] *Ivi., p.* 27.

serviced apartments. Lastly, an incentive fee was implemented on vacant lands in urban areas, as a plan of the Kingdom to boost housing facilities in the cities.[272]

Clearly, the Kingdom benefitted largely from these reforms, coming to be the GCC member with the highest non-oil revenues derived from taxes and fees in 2018. It is a significant achievement as, hitherto, the Saudi Kingdom has largely relied on its massive oil revenues to finance its expenses and development plans. For instance, over the 2012–15 period 86% of government revenues were made up by the oil industry, on the other side the non-oil proceeds accounted for about 5% of the national GDP.[273] Following the implementation of the 5% GCC VAT rate in the 2018 the revenues from taxations accounted to 2.4 % of non-oil GDP, which translates to a remarkable total of SAR60 billion for the government funds, as illustrated in table 3.1.[274] All these reforms have been welcomed by the IMF, which has been encouraging Gulf economies to diversify their sources of revenues throughout varied sectors and the incorporation of a taxation system.

Table 2. VAT Collections in 2018
(SAR million; before refunds)

Month	Import	Domestic	Total
January	1,537	0	1,537
February	1,644	4,395	6,039
March	1,857	3,153	5,010
April	1,981	4,746	6,727
May	2,114	2,925	5,039
June	1,571	2,764	4,335
July	2,066	4,740	6,806
August	1,199	2,674	3,873
September	1,620	3,564	5,184
October	1,360	4,348	5,708
November	1,917	2,924	4,841
December	2,350	2,025	4,375
TOTAL	**21,852**	**38,311**	**60,163**

Source: General Authority of Zakat and Tax

Table 3.1: VAT Collection in 2018 (SAR million; before refunds) *Source: General authority of Zakat and Taxes in IMF*

Therefore, in the light of the profits acquired by the Kingdom with the newely implemented 5% VAT, the government reverted to fiscal reforms within the austerity plan framework, once again after the Saudi economy had been hit by the twin blow caused by

[272] *Ivi.*, *p.* 27.
[273] International Monetary Fund, Sept. 2019, *op. cit.*, p. 21
[274] *Ivi*. p. 26

the adverse impact of COVID-19 on the emerging economic sectors and the sharp decline of international oil prices. The announcement of Minister Al-Jadaan, on May 11 2020, of the triplicated VAT rate starting from July 1, [275] came unexpected, as we mentioned the reform has not been discussed before not nationally nor within the GCC. Therefore, KSA come to be the first in the region to implement an increase in the original rate agreed within the council. Although, this has been an significant move for tax reforms in the region and specifically for Saudi Arabia, the rate is still slightly below the global average, nevertheless it shrank rate gap with the rest of the global fiscal systems, namely with the Middle Eastern region which averages a 15.6% rate and the other regions with 17.2%.[276] However, the Saudi fiscal policy may unfold economic conflicts within the GCC members and destabilise the balance in the region, if the other Gulf countries would not follow the Saudi decision, posing a potential disparity spawned by the substantial VAT rate differences, especially for its citizens, as other members are still fixed on the 5% rate, while other still have to implement it, i.e. Qatar, Kuwait and Oman which will implement the taxation system by 2022.[277] For now no other Council member showed interest in incrementing its rate, and it is not yet clear if it would affect the Saudi strategy.

This bold fiscal strategy enacted within the recovery plans of KSA, has been largely commented nationally as well internationally by the sector's experts. Despite having been praised by some national experts, businessmen and the parts of the population, who perceived the government plan as reliable and safeguarding their interests the response from international fiscal policy experts and economist have been more critical of the Saudi policy.[278] Bloomberg reports how some Saudi businessmen have been praising the government stimulus and reform package in saving their companies from collapse. Other Saudi experts affirm that the Kingdom's economy is in a greater position to overcome the crisis as it has already undergone oil crises in the past and it has "significant reserves and a low debt-to-GDP ratio compared to other big

[275] General authority of Zakat &Tax, (June 2020) Change of VAT Rate to 15%, GAZT https://gazt.gov.sa/ar/HelpCenter/guidelines/Documents/Change%20of%20VAT%20Rate%20to%2015%20GL.pdf

[276] International Monetary Fund. Middle East and Central Asia Dept. "Economic Prospects and Policy Challenges for the GCC Countries." *IMF*, 10 Dec. 2020, p. 22. www.imf.org/en/Publications/Policy-Papers/Issues/2020/12/08/Economic-Prospects-and-Policy-Challenges-for-the-GCC-Countries-49942.

[277] Clarke, Joanne. "GCC VAT: Which State Will Come Next?" *Pinsent Masons*, Pinsent Masons, 12 Nov. 2020, www.pinsentmasons.com/out-law/analysis/gcc-vat-which-state-will-come-next.

[278] Nereim, Vivian, and Verity Ratcliffe, 21 Apr. 2020 *op. cit*.

economies."[279]

On the other hand, a dominant argument contends that the austerity strategy has been poorly timed with the current economic and health crisis. In fact, although, the fiscal reforms have always been the recommended pathway for the Saudi economy from experts, in an effort to diversify the economy and detach from the excessive oil dependence, the rate hike has been met with a strong disapproval from tax policy experts, who criticised the Saudi timing in the implementation. In the midst of an all-sectors economic crisis conjugated with a global pandemic, is not the most advisable time to weigh more pressure on the population and businesses by increasing taxes. Ziad Daoud, Bloomberg economist, harshly criticised the fiscal strategy of the Kingdom stating:

> "Saudi Arabia's economic model is broken. The government has failed to create fiscal space in recent years to counter the virus shock. Instead, it is sharply cutting spending and raising taxes at a time when the economy is experiencing unprecedented contraction. Its policy toolkit is dated, contributing to swings in growth instead of stability."[280]

Furthermore, the current twin crisis experienced by the Kingdom adds to an already extremely fragile economy still recovering from the 2014 crisis, as Bassam Fattouh recounted during the Washington Arab Gulf States Institute's webinar by highlighting how "all of these things are happening at a time in which the Gulf Arab states are in the context of recent history probably at their weakest fiscal position, they've had the collapse in 2015 on the oil sector". [281]

"Saudis did the right thing but at the wrong time",[282] continues Nakhle during the above-mentioned virtual panel discussion at the Arab Gulf Institute. The CEO of Crystol Oil referring to the VAT triplication in the Kingdom, stated that the Saudi strategy comes to be extremely risky in such a critical time for the national and international economy, highlighting how this fiscal strategy has been common in the GCC region. In fact, the

[279] *Ibidem*
[280] Riad Hamade, et al. "Saudi Arabia Triples VAT, Cuts State Allowances Amid Crisis." *Bloomberg.com*, Bloomberg, 11 May 2020, www.bloomberg.com/news/articles/2020-05-11/saudi-arabia-plans-26-6-billion-austerity-cuts-triples-vat-ka1uss4c#:~:text=on%20the%20region.-,Saudi%20Arabia%20announced%20a%20slew%20of%20austerity%20measures%20to%20cope,living%20allowance%20for%20government%20workers.
[281] "The Geopolitics of Oil and Gas and U.S.-Gulf Arab Relations." Arab Gulf States Institute in Washington, 8 Oct. 2020, , https://agsiw.org/programs/the-geopolitics-of-oil-u-s-gulf-arab-relations-under-trump/--
[282] *Ibidem*.

expert highlighted how in the oil dependent economies, the fiscal reforms have been implemented following the behaviour of oil prices, unlike what it usually advised, which is an anti-cyclical fiscal policy.[283] In fact the strategy of increasing, or introducing, a fiscal policy, in the Kingdom has been embarked in concomitance with the steep oil prices decline in 2014, as mentioned earlier. Therefore, she stresses how implementing economic reforms during a challenging time could risk to further hamper the Saudi Kingdom's recovery.[284] Similarly, Wilson, criticised the steadiness of the Kingdom on the fiscal matters, stating how the "Finance Minister in Saudi Arabia tends to be reactive rather than proactive, cutting current and capital spending after oil prices falls and increasing it in better times."[285] Indeed, the Saudi government had announced in November the possibility of a review of the decision of the 15% VAT implementation once the economic crisis would be over,[286] but there haven't been any recent updates on the matter.

Lastly, the most representative response comes from the International Monetary Fund, which has always pushed the Kingdom and the other Gulf economies to a fiscal reform to reach the goal of diversification of state revenues, which also criticised the decision announced in May. In 2019 the Fund after praising the 5% VAT implementation and other fiscal reforms, had insistently advised Saudi Arabia to double its tax rate, however the Kingdom did not and implemented the increased rate only after the plummeted state's revenues, during a global recession.[287] The director of the IMF's Middle East and Central Asia Department, Jihad Azour, affirmed

> "It's not wise at this stage to increase tax on consumption, especially in countries where the level of income is low, because this will create additional regression and additional pressure. (…) We did not recommend in the case of Saudi for example to

[283] *Ibidem*.
[284] *Ibidem*.
[285] Wilson, Rodney. "Good International Governance: Implications for Saudi Arabia's Political Economy." *Najeim, T."Good Governance in the Middle East Oil Monarchies". London: Routledge Curzon* (2003), p. 91
[286] Nereim, Vivian. "Saudi Arabia to Review VAT Hike Once Economic Crisis Ends." *Bloomberg Quint*, 19 Nov. 2020, www.bloombergquint.com/markets/saudi-minister-says-vat-hike-will-be-reviewed-after-crisis-ends.
[287] Reuters Staff. "IMF Did Not Recommend Saudi Arabia VAT Tripling, Official Says." *Reuters*, 16 July 2020, www.reuters.com/article/us-saudi-economy-imf-taxation/imf-did-not-recommend-saudi-arabia-vat-tripling-official-says-idUSKCN24H28M.

triple the VAT at this stage, but I think broadly speaking achieving this objective is an important one."[288]

In conclusion we can see how the fiscal reform has rose several critics in the economic environment between tax experts. However, until now, it is not yet clear to which extent the government has benefitted from the VAT increase. Although, the reform materialized in a further destabilising factor for the Kingdom. Following the July VAT triplication, in August GASTAT released data on the shocking inflation rate in the country. The data reports a staggering increase by 6.1% in the Consumer Price Index (CPI)[289] on an annual basis, and 5.9% compared to last year's June 0.5%, as shown by the annual trend in the figure 3.7.[290] The increase has then stabilised throughout the year, slightly decreasing to 5.2% in February 2021, latest data available (figure 3.8). The major influence on the CPI increase, must be sought in the increased prices for food and beverages, which registered a growth of 14.3% alongside the transport sector with an increase by 7.3% on the index.[291] As a result, the Saudi annual CPI stood at 3.4% in 2020, driven especially by the rise in prices of the food and transport sectors, respectively by 9.0% and 3.8%.[292]

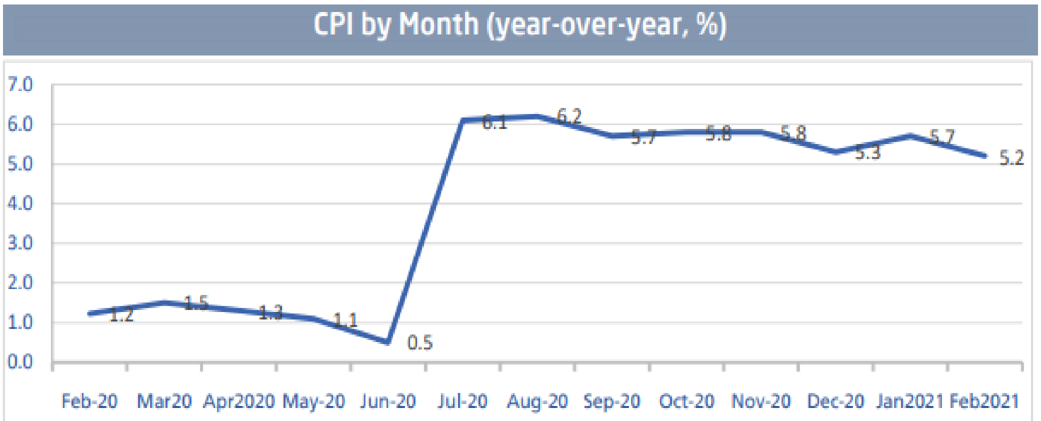

Figure 3.7 : CPI by Month Jul 2019-Jul 2020 (year-over-year,%) Source: GASTAT

[288] *Ibidem* .
[289] The Consumer Price Index (CPI) reflects the changes in the prices paid by consumers for a fixed basket of goods and services consisting of 490 items. This basket resulted from the Expenditure and Income Survey conducted in 2018, providing the individual items and their weights in the consumer basket. The respective prices are collected through field visits to points of sale. (GASTAT 2020)
[290] GASTAT, "Consumer Price Index July 2020." *General Authority for Statistics*, Aug. 2020, www.stats.gov.sa/en/394.
[291] *Ibidem*.
[292] GASTAT, "Annual Average Consumer Price Index 2020." *General Authority for Statistics*, Aug. 2020, www.stats.gov.sa/en/394

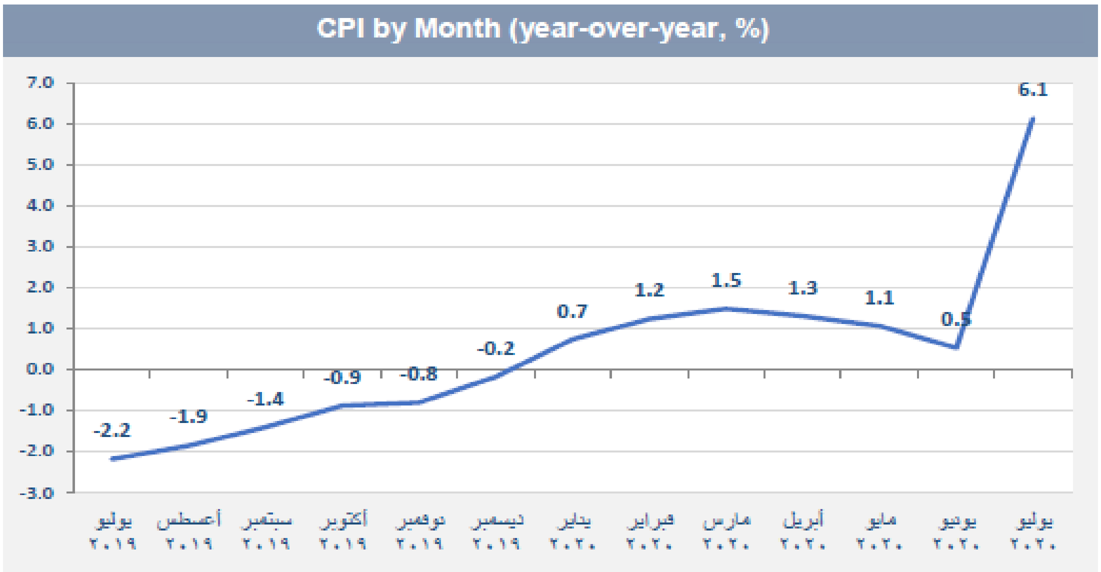

Figure 3.8 : CPI by Month Feb 2020-Feb 2021 (year-over-year,%) Source: GASTAT

To conclude, I would like to stress how it is still premature to outline how much did the government benefit from the implementation of the new VAT rate. There is not yet clear data on the benefit and the amount of revenue accrued by the Kingdom since July 2020. Surprisingly, Crown Prince MBS did not mention the VAT hike in his speech before the Shura Council, just few days previous to the G20 meeting, in which he recapped the reforms introduced in the Kingdom praising the measures taken by the government and Ministry of Finance with the aim of recovering the hit economy. The Prince, in fact, refers just vaguely to the non-oil revenues increase of this year, which allowed the Kingdom to keep supporting the allowances system and avoid cutting salaries, without mentioning the percentage of the VAT on the total non-oil 2020 revenues:

> "If we didn't increase non-oil revenues to about 360 billion riyals this year, and if we remained at 2015 levels of revenues estimated at approximately 100 billion riyals, we would have had to reduce the salaries of employees in the public sector by more than 30%, cancel allowances and bonuses completely, fully stop capital spending, and we wouldn't have had the ability to properly operate and maintain state assets and we even would have stopped supporting expenditures' item."[293]

Similarly, the GASTAT did not publish any data on the period interested by the VAT hike or the tax income regarding 2020 yet. Therefore, to this date we cannot clearly state the result of the newly fiscal reform introduced in the Kingdom nor forecast following developments on the matter. Nevertheless, it is a first step in a more diversified

[293] The official Saudi Press Agency, 13 Nov. 2020, *op. cit.*

economic environment aimed by the Crown Prince's Vision 2030. Undoubtedly, it has been a crucial reform in the economic history of KSA, and it will play as well a key role in the socio-politics of the country and in the social contract, as I will discuss in the following section.

3.4.THE IMPACT OF COVID-19 ON THE SAUDI EVENTS AGENDA

3.4.1. The harsh impact on the tourism sector

"Saudi Arabia, the heart of the Arab and Islamic worlds, the investment powerhouse, and the hub connecting three continents."[294] With these powerful statement MBS opens his Vision 2030 plans. Undoubtedly, in the last few years we have heard of major entertainment and sport events held in the Kingdom, which has been planning an extremely ambitious goal for the tourism and transport sector aiming to attract 100 million visitors yearly.[295] Indeed, in the last years the GCC region, and in particular, KSA, have worked hardly aiming to become an international hub for grandiose cultural events and festivals, attracting every year hundreds of thousands of visitors, within the tourism initiatives of the monarchies. Nevertheless, in 2020 this sector experienced a major drawback, resulting in a prominent financial loss for the country and a potential setback of the 2030 goals.

Since the announcement of Vision 2030 in 2016, KSA has undergone significant development process within the tourism sector which has contributed to 3,6% of the national GDP, as well as the creation of employment for Saudis.[296] This represents a great accomplishment for the extremely new and rapidly evolving sectors of tourism and entertainment in the Kingdom which, up to a few years ago were prohibited.[297] Prince MBS focused a great part of his Vision 2030 plans particularly in these sectors which according to him, have the potential of impacting the creation of jobs, while advancing

[294] “رؤية المملكة العربية السعودية. المملكة العربية السعودية 2030.” *Vision2030.Gov.sa*, www.vision2030.gov.sa/.
[295] Baldelli, Claudia. "Saudi Vision 2030: The Impact of COVID-19." *The St Andrews Economist*, The St Andrews Economist, 2 Dec. 2020, thestandrewseconomist.com/2020/12/02/saudi-vision-2030-the-impact-of-covid-19/
[296] The official Saudi Press Agency, 13 Nov. 2020, *op. cit.*
[297] *Ibidem*.

the economy and improving the life quality and similarly, allowing the Kingdom to attract international visitors.[298] In fact, Prince MBS affirmed that:

> "Based on its cultural legacy and unique geographic and demographic diversification that qualify it to occupy a leading position in the sectors of tourism, culture, sports, entertainment etc, the Kingdom of Saudi Arabia has made great strides and witnessed qualitative leaps in new and promising areas. In this regard, we are working according to Vision 2030 to develop those sectors, which we see as having a very promising vision"[299]

Indeed, within Vision 2030, the entertainment sector came to be a fundamental part of the government's agenda. 2019 marked the opening to a "a new phase for the entertainment sector in Saudi Arabia" as the General Entertainment Authority (GEA) announced,[300] with a series of attractions and events which aimed to position KSA among the top 10 entertainment destinations in the world.[301] In fact, more than 3400 events took place in the Kingdom in 2019, which "contributed to rising domestic spending by citizens, residents, visitors and tourists inside the Kingdom of Saudi Arabia, resulting in the creation of tens of thousands of fixed jobs and hundreds of thousands of seasonal jobs." in MBS' words [302]

The new interest in the entertainment and tourism sectors deserve a comment on its own. In fact, the sector does not simply develop an economic gain for the Kingdom, which is crucial within the economic diversification strategy, but it represents as well a political strategy by MBS. In particular, it is crucial to juxtapose the duality in purpose of these grandiose events. On one hand, exhibitions and events result in a great contribution to the non-oil GDP, similarly translating in the development of satellite sectors, which have been undergoing great advancements and flourishing before the pandemic. On the other hand, they pose also an economic-political purpose of Nation branding. In fact. the concept of Nation branding is "designed to make a nation politically, economically and culturally more competitive in the world."[303] Undoubtedly, Saudi Arabia through the

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[298] *Ibidem*.
[299] *Ibidem*.
[300] CIC - Saudi Arabia. "Saudi Arabia's General Entertainment Authority Plans to Make the Kingdom a Global Entertainment Destination" *Center for International Communication Saudi Arabia*, 9 Feb. 2019, cic.org.sa/2019/02/saudi-arabias-general-entertainment-authority-plans-to-make-the-Kingdom-a-global-entertainment-destination/
[301] *Ibidem*.
[302] *Ibidem*.
[303] Donfried, Marc C. "How Saudi Arabia Is Building a New National Brand." *Arab News*, 13 Jan. 2018, www.arabnews.com/node/1224971.

organization of these festivals, exhibitions and events, is attempting to display the openness and modernization of the country to the world in order to "build, manage and improve the country's image."[304] This has been the pivotal political and economic strategy in MBS Vision 2030 plans. The crown prince has been significantly investing in the national rebranding to promote KSA as a modern and dynamic nation detaching from the oppressive and out fashioned Kingdom narrative which has been perceived by the world, throughout a series of newly introduced cultural events and human rights reforms. The strategy has been successful since the announcement of Vision 2030, with Saudi Arabia's national brand exponentially rising in the global brand rankings, holding the title of 21st most valuable globally in 2018 with $677 billion,[305] from the previous 22nd ranking at $575 billion in 2017 and the $482 billion value in 2016.[306]

In the pathway of the recent remarkable performance in the sector, for 2020 Saudi Arabia, aside from the annual pilgrimage to Mecca and Medina, pillar of the national economy and religious role in the region, had a rich agenda of events and attractions. First and foremost, the Kingdom was preparing to host the G20 summit in Riyadh, an epochal event for Saudi Arabia as the first Arab and Muslim country hosting the meeting. Furthermore, cultural events as the Riyadh Travel Fair and the Red Sea International Film Festival and many more were expected to take place throughout the year, with the aim of attracting tourist and investors. Nevertheless, all the events have been cancelled, postponed or have taken place digitally in conformity with the Covid-19 containment measures. This translated both into a great economic loss, but also in a failed opportunity for MBS to showcase the developments of the Kingdom and restore his damaged image. In the following section, I analyse the COVID-19 effect on the agenda of events of the Kingdom, with an emphasis on the cancellation of the annual pilgrimage to the holy cities of Mecca and Medina, the digitalization of the G20 Summit and the postponed events within the Vision 2030 calendar of events.

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[304] *Ivi*.

[305] Townsend, Sarah. "UAE and Saudi Arabia Raise Their Nation Brand Value." *The National*, The National, 7 Oct. 2018, www.thenationalnews.com/business/economy/uae-and-saudi-arabia-raise-their-nation-brand-value-1.778046.

[306] CIC - Saudi Arabia. "Vision 2030 Boosts Saudi Arabia's Nation Brand Valuation." *Center for International Communication Saudi Arabia*, 10 Oct. 2017, cic.org.sa/2017/10/vision-2030-boosts-saudi-arabias-nation-brand-valuation/.

3.4.2 A pilgrimage season like no other

As mentioned earlier, the Kingdom of Saudi Arabia is not only a reference point in the politics and economy of the Middle Eastern region, but equally covers a fundamental religious role as the birthplace of Islam. In fact, every year Saudi Arabia attracts millions of Muslims from around the world to perform the pilgrimage recommended by the pillars of Islam to the holy cities of Mecca and Medina. For the KSA, this fundamental role in religion has determined consequently a strong political impact, in making the state, and above all its heads of state, a model to follow for the Arab-Islamic countries. Indeed, the King Salman bin Abdulaziz Al-Saʿūd is also refereed as the Custodian of the Two Holy Mosques.

Similarly, this religious position poses a fundamental economic gain for the Kingdom. As mentioned in the first chapter, before the discovery of oil in 1933, the revenues from the pilgrimage of believers to the holy cities have been the main source of income for the government, and since the foundation of the Kingdom, the pilgrimage has never been cancelled. Nevertheless, the *Hajj* season of 2020, planned according to the Muslim lunar calendar to July 28 was quite different from the usual.

On February 27, in order to curb the outbreak from coronavirus, which was rapidly spreading outside China, the Saudi government decided to place a travel restriction on incoming visitors both for pilgrimages and tourism, within the recently introduced e-Visa program, from COVID-19 affected countries.[307] The Kingdom, at the time, still had not registered any confirmed cases of coronavirus on its territory. Nevertheless, it is necessary to consider the fact that the annual gatherings of millions of people in the holy cities, has represented in the past an easy hub for the spread of infectious diseases within the Kingdom. In fact, during past *Hajj* seasons, the H1N1 pandemic, multiple local Middle East respiratory syndromes (MERS-CoV) outbreaks, as well as Ebola and Zika viruses generally spread easily in the crowds of pilgrims in the sacred shrines of Mecca and Medina.[308] The experience of dealing with viruses in recent years, has therefore made the Kingdom's government predictably more cautious with the issue of movements of such

[307] Ebrahim, Shahul H., and Ziad A. Memish. "Saudi Arabia's Drastic Measures to Curb the COVID-19 Outbreak: Temporary Suspension of the Umrah Pilgrimage." *Journal of Travel Medicine*, vol. 27, no. 3, Feb. 2020, https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7107544/

[308] Al-Khani, Abdullah Murhaf, et al. Op. cit.

large scale of visitors within its territory. For instance, the pilgrimage in such conditions might have posed the risk of importation and transmission of the virus into the country, which still had not registered any case. On the other hand, also the exportation to the native countries of pilgrims and therefore increasing the spread internationally, posing a global threat.[309] Therefore the Kingdom decided to cancel the *Umrah*, the all year round pilgrimage, from February, and furtherly limited the *Hajj* visits, planned from July 28 until August 2 to only 1000 pilgrims already residing in the Kingdom, instead of the usual estimated 3.5 million,[310] as declared in statement by the Ministry of Hajj and Umrah:

> (…) In light of continuation of the pandemic and the risks of Coronavirus spreading in crowded spaces and large gatherings, and its transmission between countries, and the increase in average infections globally, it has been decided that Hajj for this year (1441 H/ 2020 AD) will be held whereby a very limited number of pilgrims from various nationalities who already reside in Saudi Arabia, would be able to perform it. This decision is taken to ensure Hajj is performed in a safe manner from a public health perspective while observing all preventative measures and the necessary social distancing protocols to protect human beings from the risks associated with this pandemic and in accordance with the teachings of Islam in preserving the lives of human beings. The government of the Custodian of the Two Holy Mosques is honoured to serve millions of Hajj and Umrah pilgrims annually and it confirms that this decision stems from the top priority it accords maintaining the safety of pilgrims on its land until they depart to their home countries. We ask Allah the Almighty to protect all countries from this pandemic and keep all humans protected and safe.[311]

As a result, the scenes to which the world was used of crowds of millions of believers reunited in prayer, this year have been replaced by the almost empty square surrounding Mecca's Ka'aba (figure 3.9), which became emblematic in the social distancing era. The Kingdom's decision has been praised by the World Health Organization which applauded the health efforts, and measures adopted with the aim to guarantee a safe pilgrimage.[312]

[309] Ebrahim, Shahul H., et al. "The Hajj Pilgrimage during the COVID-19 Pandemic in 2020: Event Hosting without the Mass Gathering." *Journal of Travel Medicine*, Nov. 2020, https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7717263/

[310] *Ibidem*.

[311] The official Saudi Press Agency. "Ministry of Hajj and Umrah: Hajj 1441H Is Decided to Take Place This Year with Limited Number of Pilgrims from All Nationalities Residing in Saudi Arabia." *Spa.Gov.Sa*, SaudiPressAgency, 22 June 2020, www.spa.gov.sa/viewfullstory.php?lang=en&newsid=2100951#2100951.

[312] World Health Organization, "WHO Director-General's Opening Remarks at the Media Briefing on COVID-19 - 30 July 2020." *Who.Int*, 2020, www.who.int/director-general/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---30-july-2020.

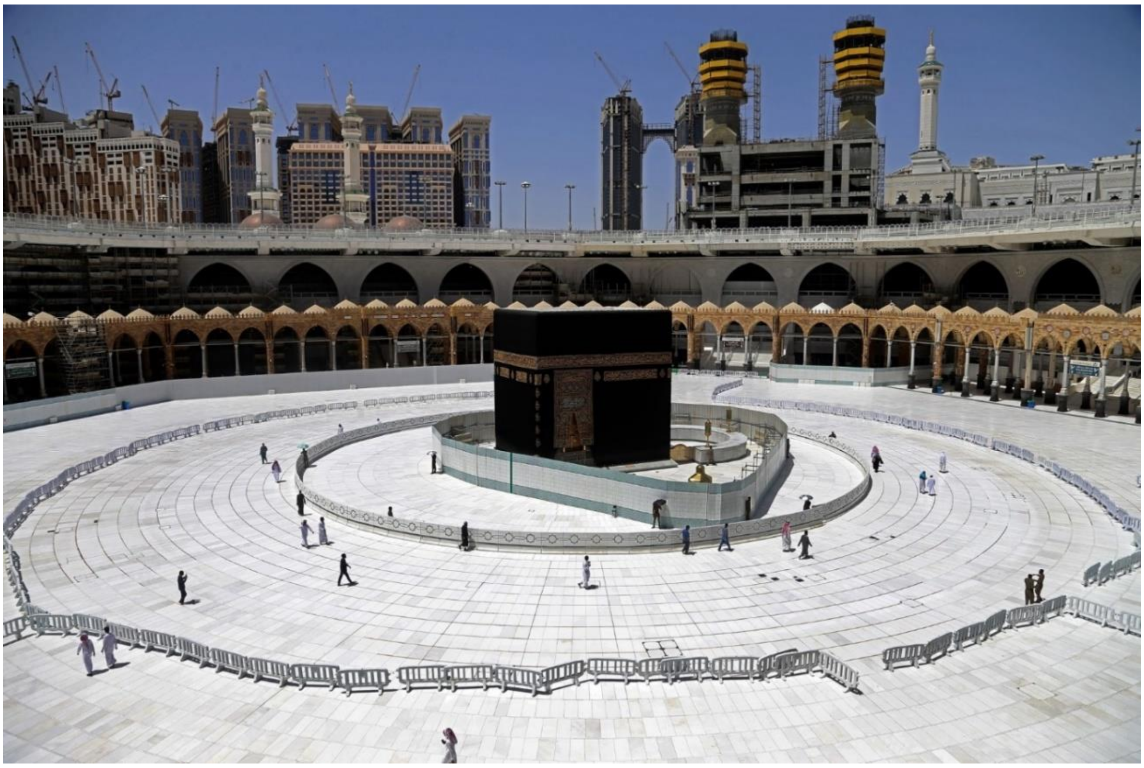

Figure 3.9: Worshippers visit the sacred Kaa'ba in the Grand Mosque of Mecca, on April 3rd. Source: AFP/Getty Images via Bloomberg.

Surely, the decision adopted by KSA was the safest strategy to hinder the contagion within its territory and protect its citizens. Nevertheless, on the other side, it has been a further economic aggravating factor, as it represented a significant loss in revenue for the Kingdom. As mentioned before, the biggest source of income for KSA is the oil industry, which amounts to 42% of the GDP. However, the pilgrimage revenues are the second largest source of income for the state, accounting to about $12 billion every year, which contribute together to 20% of non-oil GDP and 7% of the total GDP.[313] In 2017 experts had forecasted that the pilgrimage revenues would exceed $150 billion by 2022.[314] Nevertheless, following the loss 2020, and uncertainty of 2021 this prediction will be inevitably revised.

In April, in fact, the Minister of Tourism, Ahmed al-Khateeb affirmed how the

[313] Karam, Mark Anthony. "Religious Tourism a Major Economic Force: 1.8 Million Pilgrims Arrive in Saudi for Hajj." *Ameinfo.com*, 8 Aug. 2019, www.ameinfo.com/industry/tech-and-mobility/hajj-2019-pilgrimage-numbers-religious-tourism.

[314] Al-Thaqafi, Tariq. "Hajj Revenues Poised to Exceed $150bn by 2022: Experts." *Arab News*, Arabnews, 28 Aug. 2017, www.arabnews.com/node/1151751/saudi-arabia.

Kingdom's tourism industry could see a 35-45% decline in revenues in 2020.[315] A sector which is considered a crucial pillar in the diversification plans of MBS within Vision 2030, and the drawback experienced following the pandemic containment measures could lead to a revision of the sector agenda. The Kingdom has been investing largely in the tourism sector and in particular, in the religious tourism which has been forecast will bring to the state $150 billion by 2030. Within these plans, the Kingdom has initiated the third expansion of the two Holy Mosques, with the purpose of welcoming an increasing number of visitors from all over the world. Moreover, the plans include the modernization and increase of capacity of the cities' airports, along with the completion of the Makkah Metro project and railroad systems, to ease the movements of pilgrims at their arrival in the Kingdom.[316] The projects are largely being financed by the Public Investment Fund (PIF), a sovereign wealth fund also part of the Vision 2030 programs, with the goal of being "the engine behind economic diversity in the KSA."[317] The Fund, which aims to be one of the largest in the world, accounts for $230 billion of assets, and it is funding especially the real estate sector near the Grand Mosque of Mecca. [318]

It is fundamental to juxtapose a further crucial destabilizing aspect of the pilgrimage revenues loss. In fact, not only the religious tourism suffered the COVID-19 containment measures, but equally the satellite sectors which have arisen and collaborate in providing services to the pilgrims have been harshly impacted by the steep drop in profits in 2020. Indeed, a multifaceted conjunction of industries collaborates every year in offering services to Mecca visitors. First and foremost, the transport industry. In particular, air transportation experiences every year an astonishing increase in activity in the *Hajj* periods, in addition to the all year round activity related to the Umrah visits, with only pilgrims dedicated flights. Nevertheless, as mentioned earlier, the commercial flight sectors suffered the brunt of the economic crisis as almost all commercial flights were interrupted throughout the year due to travel bans and lockdown measures. Indeed, the

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[315] Rashad, Marwa. "Saudi Tourism Sector Could See 35%-45% Decline This Year on Coronavirus." *U.S.*, 24 Apr. 2020, www.reuters.com/article/health-coronavirus-saudi-tourism/saudi-tourism-sector-could-see-35-45-decline-this-year-on-coronavirus-idUSL5N2CC70A.
[316] Kingdom of Saudi Arabia, "Saudi Vision 2030." *Vision2030.Gov.Sa*, 2016, pp. 16-17, from www.vision2030.gov.sa/en.
[317] The Kingdom of Saudi Arabia. "PIF - Public Investment Fund." *Pif.Gov.Sa*, 2019, p.12 www.pif.gov.sa/en/Pages/default.aspx#1.
[318] Paul Cochrane, "The Economics of the Hajj", ACCA Global, 1 July 2018, www.accaglobal.com/an/en/member/member/accounting-business/2018/07/insights/economics-hajj.html.

International Air Transport Association (IATA), reported the dire effects of the pandemic on the Middle Eastern air traffic, showing a decreased air activity by 96.1% in June 2020, compared to June 2019.[319]

Similarly, the hospitality industry registered unprecedented profit losses. The real estate sector has flourished in the holy cities in recent years, with new hotels being built every year transforming the landscape of the city throughout the decades, and offering to the millions of visitors accommodations solutions. The Kingdom in fact through the PIF has been sponsoring the $3.5 billion Abraj Kudai hotel complex, which would add 10,000 accommodations in Mecca, as well as increasing by 80,000 hotel rooms around the Prophet's Mosque in Medina.[320] Nevertheless, the plans will surely be put on a halt until visitors traffic increases to its usual rate, as in the past months they received less than 0.002% of the usual amount of visitors.[321]

On the other hand, a further issue has been crucial in Mecca during the pandemic. The city has recorded the highest infection rate of the country with 1,050 cases in April 2020, on a population of 2 million, compared to the 1,422 cases in Riyadh, threefold the size of the holy city.[322] The cause of this staggering rate must be sought in the composition of the inhabitants of the city: a large percentage is made up of expatriates workers, which live in crowded compounds, where the measure of containment of the virus could not be respected.[323] As analysed in the first chapter the immigrants in the country have been living in difficult conditions, which advantaged the spread of the virus in the crowded neighbourhoods. Indeed the inequality between the Saudi and non-Saudis residing in the Kingdom, which will be tackled in the following sections of this chapter, have been exacerbated by the pandemic.

3.4.3 The Saudi G20: for the first time in an Arab country and virtual.

[319] IATA. "Recovery Delayed as International Travel Remains Locked Down." *The International Air Transport Association*, 28 June 2020, www.iata.org/en/pressroom/pr/2020-07-28-02/.
[320] Paul Cochrane, op. cit.
[321] Ibidem.
[322]Nereim, Vivian. "Saudi Arabia Races to Contain Epidemic in Islam's Holiest City." *Bloomberg.com*, Bloomberg, 14 Apr. 2020, www.bloomberg.com/news/articles/2020-04-14/saudi-arabia-races-to-contain-epidemic-in-islam-s-holiest-city.
[323] *Ibidem*.

Within the Kingdom's 2020 events planning agenda, stands out the G20, the summit of the world biggest economies, planned in the capital Riyadh, with the objectives of "Realizing opportunities of the 21st century for all' though three crucial aims: "Empowering People, Safeguarding the Planet and Shaping New Frontiers."[324] The summit, in the KSA's plans, was expected to represent a political and mediatic opportunity for the government, and in particular H.R.H Prince MBS, to restore the recently damaged international image and consecrate its leadership role among the world powers in a critical moment, like the one posed by the COVID-19 pandemic. The awaited Saudi G20 has been a crucial milestone for the Kingdom for some key reasons, which will go down in the history of G20 summits. Foremost, it was the first time for an Arab country to chair it, in fact, Saudi Arabia is the only representative from the MENA region and from OPEC in the group.[325] This would predictably, benefit the Kingdom's political influence both in the Middle East and in the international sphere. Secondly, it is the first summit that has ever been held during a global pandemic. Lastly, and above all, the 2020 summit has been much different from how the Saudi government had planned it to be, as it has been the first to be completely hosted virtually, in compliance with the containment measures of COVID-19.

In fact, the Coronavirus outbreak had extremely affected the G20 organization and the original agenda of the Kingdom, as the Saudi Foreign Minister highlighted.[326] Following the closure of borders and imposition of travel bans to curb the resurgence of the virus, Saudi Arabia has been obliged to chair the summit via videoconference meetings of ministers, central bank governors and other delegates withdrawing the media coverage it had planned.[327] The latter, in particular, has been a drawback both for the economy and the politics of the country. The fully virtualized edition has been indeed, a disruptor for the Kingdom's ambitions within their national rebranding agenda. With the two-day conference to be held only via videoconference, the Kingdom missed the opportunity to showcase the innovation and development the country had undergone.

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[324] "G20." *Saudi Arabia's G20 Presidency on the 1 December 2029*, www.g20.org/.

[325] OPEC, Bulletin February- March, "Davos 2020:Cohesion and sustainability", p. 42

[326] ISPI, 4 Dec. 2020, *op. cit*.

[327] Ángeles Espinosa. "El Coronavirus Frustra Las Ambiciones de Arabia Saudí Como Anfitrión de La Cumbre Del G20." EL PAÍS, 20 Nov. 2020, https://elpais.com/internacional/2020-11-20/el-coronavirus-frustra-las-ambiciones-de-arabia-saudi-como-anfitrion-de-la-cumbre-del-g20.html

Similarly, the tourism and entertainment sectors, already extremely affected, could not benefit from visitors in the country, for the occasion. The Kingdom, indeed, "had planned trips to tourism landmarks, including the $500 billion Neom city of the future mega-project,"[328] which for obvious reasons could not take place and have been a missed opportunity to attract international investors.

On the other hand, for what concerns the Saudi rebranding agenda, the Kingdom attempted to restore the damaged reputation of the country and its representatives, aiming to display the new openness and liberalisation of the society and nation promoted by Prince Mohamed bin Salman.[329] In fact, in recent years, the crown family has been amidst a series of human rights scandals. First and foremost, the globally discussed, outrage around the killing of the Saudi journalist Jamal Khashoggi, dissident of the crown family, in 2018 in the Saudi consulate of Istanbul, with allegations of the Crown Prince MBS involvement. Furthermore, the discrepancy of the new MBS' agenda committed to gender equality and the ongoing incarceration of women's rights activists.

Albeit the critics and even calls for boycott on the Saudi summit, the Crown Prince on November 13th, few days before the G20 before the Council of the shura has decided to conceal critics on the Saudi human rights records, recalling the successes of his campaign for the rights of women by highlighting how:

> "In the past, Saudi women could not travel without a permit, could not attend sports and cultural events, couldn't drive a car, or practice a lot of work and could not solve their issues without a guardian. The Saudi woman has suffered from this situation for decades. Today, the Saudi woman enjoys an unprecedented phase of empowerment. We worked to empower the Saudi woman in the field of labor and personal status. Today, the Saudi woman is effectively a partner with the Saudi man in the development of our nation without discrimination. I am not just talking about the woman driving. I am talking about providing her with an opportunity to lead the development of her country in a comprehensive sense. For example, the rate of women's participation in the labor market has doubled from 17% to 31%."[330]

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[328] Raya, Rashad. "COVID Deals Blow to Saudi Arabia's G20 Summit Ambitions." *U.S.*, 20 Nov. 2020, www.reuters.com/article/us-g20-saudi/covid-deals-blow-to-saudi-arabias-g20-summit-ambitions-idUSKBN2800K6.
[329] Raya, Rashad, 20 Nov. 2020, *op. cit.*
[330] The official Saudi Press Agency, 13 Nov. 2020, op. cit.

Nevertheless, it is emblematic the fact that while pronouncing these words and showcasing the openness to the world, women's rights activist were still under arrest in the Kingdom. For instance, Loujain al-Hathloul, arrested multiple times since 2018 with the allegations of being a "national security threat" for her critics both online and internationally, on the lack of women's right in the country.[331] Lastly the ongoing humanitarian crisis in Yemen caused by the five year long conflict.

Therefore, with such a critic human rights record, the Kingdom has been hoping to re-establish its image on the international scene. In fact, since taking over the G20 presidency, Saudi Arabia has attempted to improve its human rights record with a series of reforms. Namely, introducing new reforms in the legal system, *i.e* abolishing the death penalty for minors as well as eliminating the flogging in public.[332] Secondly, as mentioned, improving women rights and recognizing the right for women to marry or live independently without permission from a legal guardian.[333] Furthermore, as mentioned earlier, KSA introduced a series of labour rights for expat workers residing in the Kingdom within the *Kafala* sponsorship system.[334] Nevertheless, international human rights organizations considered the reforms insufficient. In fact, the Saudi G20 presidency has been in the middle of a series of controversial discussions from international activists, who called for the boycott of the summit by G20 leaders. However, in terms of attendance, all the leaders were virtually present at the meeting, given the urgence of the resurgence of the new wave of covid-19 and the necessity of a unified action to the ongoing economic crisis, which has been the central topic of the two-days videoconference meeting, as Prince Faisal Bin Farhan al Saud, the Saudi Foreign Minister, affirmed during the Rome Med 2020: "One of the things that most important that we learned from this pandemic, is that we are a global community and we need to work together. Without cooperation across borders and across continents we cannot face these kinds of global challenges."[335]

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331 Hope, Bradley and Scheck, Justin, op. cit., p. 277-280
332 Staff Writer. "G20 Host Saudi under Fire over Human Rights; Activists Call for Boycott." *The Globe Post*, The Globe Post, 18 Nov. 2020, theglobepost.com/category/international/middle-east/.
333 *Ibidem*.
334 Ángeles Espinosa. "El Coronavirus Frustra Las Ambiciones de Arabia Saudí Como Anfitrión de La Cumbre Del G20." EL PAÍS, 20 Nov. 2020, elpais.com/internacional/2020-11-20/el-coronavirus-frustra-las-ambiciones-de-arabia-saudi-como-anfitrion-de-la-cumbre-del-g20.html
335 ISPI, 4 Dec. 2020, *op. cit.*

Notwithstanding, with the critics the Kingdom has been praised for its leading actions showed in the international fight to COVID-19. The group, indeed, allocated $21 billion directed to "diagnostics, vaccines, therapeutics, and research and development" with the aim to fight the novel virus.[336] KSA alone has granted $500 million in support to the fight of COVID-19. The total has been divided into "$150 million directed to the Coalition for Epidemic Preparedness and Innovation, $150 million to the Global Alliance for Vaccines and Immunisations, and $200 million to other health organisations and programmes."[337]

Nonetheless, despite the obstacles posed by the virtual G20 to the original plans of the Kingdom, it has still been a great opportunity for Saudi Arabia to showcase the development and investments in the technology sector. The sector has been one of the priorities of Vision 2030 agenda, as a key element to the economic diversification. In fact, it has been undergoing significant developments in the last years even previously to the pandemic forced digitalisation experienced by many countries, as MBS the achievements of the sector in the afore mentioned Shura Council speech:

> "The Kingdom of Saudi Arabia has achieved the first place in the digital competitiveness at the level of the G20 countries in the past three years, and has jumped 40 ranks in the digital infrastructure index for communications and information technology. We have invested more than 55 billion riyals in the digital infrastructure of the Kingdom, which resulted in an increase in the average internet speed until we became the first country with 5th generation speed, and also became among the top ten countries in the world in mobile internet speed, after we were not on the list of the top 100 countries. We tripled the number of homes connected to the optical fiber network from 1 million homes to 3.5 million. This unique global digital transformation enabled us to continue work for more than 94% of government agencies and the private sector during the pandemic, in addition to raising the rate of localization of jobs in this sector to 50%.[338]

Similarly HRH Prince Khalid Bin Bandar Bin Sultan Bin Abdulaziz Al Saud, Ambassador of the KSA to the UK, informed how the Kingdom has been undergoing a dramatic digitalization process already previous to the Covid-19 outbreak, and that now the pandemic and social distancing measures have fundamentally, catalysed the

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[336] Reuters Staff. "G20 Pledges More than $21 Billion to Fight Coronavirus." *Reuters.*, 6 June 2020, www.reuters.com/article/us-health-coronavirus-g20-pledges-idUSKBN23D01H.
[337] *Ibidem.*
[338] The official Saudi Press Agency, 13 Nov. 2020, *op. cit.*

process.[339] As highlighted, as well by the Saudi Foreign Affairs Minister, “Saudi Arabia has already invested hundreds of billions to diversify our economy as we transform the Kingdom into a regional and global engine for economic growth we are creating a high-tech next generation economy building sustainable cities for the future.”[340] The digitalisation, in fact, has played a key role in the economic diversification and employment of the younger generation of unemployed Saudis, as it creates a lively and rich labour market. For instance, in October, few weeks before the G20 Summit, the Kingdom within its digital agenda launched a National Strategy for Data and Artificial Intelligence (NSDAI), with the aim to attract international investment of the value of $20 billion while also training 2,000 Saudis as data and Artificial Intelligence specialists.[341]

Therefore, albeit the difficulties endured by the Kingdom and the missed opportunity to show the advancements in the socio-economic sector to international leaders, it managed through the forced digitalization of the summit to reveal the significant level of development which the technological sector accomplished in the Kingdom. Fundamentally, the virtual summit solution aligned with the country's technology agenda.

[339] Arab British Chamber of Commerce ABCC. “Kingdom of Saudi Arabia Ambassadorial Roundtable.” *Abcc.org.uk*, 22 July 2020, www.abcc.org.uk/details/262/ABCC%20WEBINAR%20-%20Kingd.

[340] The Washington Institute. “A Conversation with Foreign Minister Prince Faisal Bin Farhan Al-Saud.” *The Washington Institute*, 15 Oct. 2020, www.washingtoninstitute.org/policy-analysis/conversation-foreign-minister-prince-faisal-bin-farhan-al-saud.

[341] Reuters Staff. “Saudis Launch National Artificial Intelligence Strategy.” *U.S.*, 21 Oct. 2020, www.reuters.com/article/us-saudi-economy-ai/saudis-launch-national-artificial-intelligence-strategy-idUSKBN2761LZ.

CHAPTER IV

THE SOCIO-POLITICAL CONSEQUENCES:

4.1 INTRODUCTION:

As discussed in the previous sections, the recent double crisis that has hit the Saudi economy hard with an emphasis on the tourism sector has also represented an element of destabilization in the socio-political issues of the Saudi Kingdom. In fact, the economic recession and the spread of the virus have materialized in an aggravating factor for social issues widely discussed in recent years in the Kingdom, such as the growing youth unemployment and the quality of Saudi citizens and foreign workers residing in the country. The twofold crisis posed relevant questions and consequences in the socio political situation of the Kingdom of Saudi Arabia. In particular the adverse economic and health crisis aggravated some fundamental social issues in the country.

4.2 THE RISING UNEMPLOYMENT RATE

The unemployment has been an intrinsically pressing issue of the Saudi society. Since the first development plans promoted by the Saudi Crown, the government has, indeed, centred the focus on the employment reforms with an emphasis on the younger jobless population. Nevertheless, before discussing the current employment issue, it is crucial to juxtapose the characterising features of the Saudi labour market.

In KSA the public sector plays a fundamental role in the employment of Saudi citizens, whereas the foreign expatriates are primarily employed in the private sector. As examined in the first chapter, indeed, during the 1980s and 1990s Saudi Arabia's productive sector was extremely reliant on foreigners, rather than the Saudi work force which on the other hand, was predominantly occupied in the administrative roles in the public sector. The labour environment did not change in the decades and to this day the separation between the two sectors is still very distinctive. As it emerges from the 2019 Saudi Central Bank (SAMA) analysis on the employees in the government sectors, there is still a striking difference between workers employed by the government. The number of nationals employed largely outnumbers the foreigners in the same sector, which account to 47.062 compared to the 1.226.700 Saudis.[342] The reasons behind it, must be sought in the fact that the national populace favour the benefits granted by a public sector occupations and on the other side the private employers prefer the cheaper expat workers for their companies.

This dynamic has backfired on the government, which with the years was not able to absorb the increasing younger population in the public sector. Therefore, as the unemployment rates were increasing, in the fourth development plan (1985-1989), the government introduced the goal to increase the Saudi presence in the labour market, replacing the expatriates workers, which in 1985 accounted to 71% of the manpower, through the "Saudization" program,[343] as stated in the plan: "For the first time since the First plan, when rapid economic development began, not only the share, but also the absolute number of non-Saudi workers in the Kingdom will decline, while the economy will absorb substantial numbers of new Saudi entrants."[344] Indeed the reduction of expats in the working market was one of the fundamental targets of the government as it aimed to replace 374,000 foreigners with national manpower.[345] The program had a faint success, with the deportation of illegal immigrant workers, as discussed similarly in the first chapter. To this day, the unemployment is still a severe issue in the socio-economic and development plans of the Kingdom, in particular between the younger educated population. Similarly, to the former development plans, Crown Prince MBS' posed the decrease of the unemployment rate as a pillar of his Vision 2030, presented in 2016, as he recently highlighted:

> "Increasing employment rates is the top priority of the government since work has begun according to Vision 2030 to reform the labour market and make available more jobs for male and female citizens as Vision 2030 has set an unemployment rate of 7% in 2030 as one of its goals."[346]

The high unemployment rate, in fact, persisted throughout the years in the Kingdom, recording rates averaging around 12%,[347] in the last five years, following the exponential

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[342] Saudi Central Bank. "Yearly Annual Statistics 2019.", Table 42: Number of employees in the Government Sectors (Saudis and Non-Saudis), Sama.gov.sa, 6 July 2020, www.sama.gov.sa/en-US/EconomicReports/Pages/YearlyStatistics.aspx.
[343] WYNBRANDT, J., FAWAZ A. Gerges (2004), *op. cit.* p. 252.
[344] Ministry of Economy & Planning (2019). Fourth development Plan., pp. 50-51 Retrieved from https://www.mep.gov.sa/en/development-plans
[345] Ibidem.
[346] The official Saudi Press Agency. 13 Nov. 2020, op. cit.
[347] GASTAT. "Labor Market Statistics Q3, 2020." General Authority for Statistics, Jan. 2021, www.stats.gov.sa/en/820.

increase from the initial 10% in 2008, as showed in figure 4.1.[348] Predictably, the economic downturn spawned by the coronavirus is seriously threatening the government's efforts in the labour market, exacerbating the unemployment rate, furthering it from the aimed 7% goal. In fact, as the country endured harsh economic drawbacks throughout the first half of 2020, the unemployment rates saw a spike due to the concomitance of the crash of oil prices and lockdowns, as several businesses have suffered deeply from the containment measures, reaching a record high of 15.4% unemployment rate in Q2 (figure 4.1).[349] The situation improved slightly in the third quarter of the year, in which the Kingdom recorded a 14.9% rate, nevertheless, this slight improvement in comparison to the same period in 2019, shows a higher rate by 2.9 percentage points (figure 4.1).[350] It must be taken into account also the fact that a lot of uncertainty rose around Q3 data, as the containment measures started to ease during said period in the Kingdom. Therefore, it was unsure whether they would witness a decrease, or rather an increase, in the national unemployment rate, in comparison with the first quarters of 2020.[351] However, for the official Q3 data from the GASTAT we had to wait until the ending of January 2021, as the publication of the statistics had been delayed several times from the initial announced release in December 2020,[352] rising more uncertainty around the government's labour measures efforts of and the economic recovery. The national General Authority for Statistics (GASTAT) released a statement on January 20 informing about the commitment to release a detailed analysis, seen the importance of this data and therefore causing the delay in publication of said statistics:

> The General Authority for Statistics (GASTAT) would like to point out that the Labor Force Survey (LFS) is one of the most important statistical products the Authority is committed to publish according to the dates specified in the Statistical Calendar. The delay on the announcement of the third Quarter of Labor Force Survey is due the GASTAT's commitment to ensure that the data collected and procedures followed on the information

[348] IMF Middle East and Central Asia Dept., "Saudi Arabia : Selected Issues.", vol. 2018, no. 264, IMF, 2018, pp. 30–46, www.elibrary.imf.org/view/IMF002/25442-9781484374382/25442-9781484374382/25442-9781484374382_A002.xml

[349] GASTAT. "Labor Market Statistics Q2 , 2020." General Authority for Statistics, 2020, www.stats.gov.sa/en/820.

[350] GASTAT. "Labor Market Statistics Q3, 2020." *General Authority for Statistics*, Jan. 2021, www.stats.gov.sa/en/820.

[351] Nereim, Vivian. "Saudi Arabia Delays Release of Sensitive Jobless Data Four Times." *Bloomberg.com*, Bloomberg, 21 Jan. 2021, www.bloomberg.com/news/articles/2021-01-21/saudi-arabia-delays-release-of-sensitive-jobless-data-four-times?utm_source=twitter&utm_content=middleeast&utm_medium=social&utm_campaign=socialflow-organic.

[352] *Ibidem*.

provided by participants, who reached 33 thousand households within the COVID restrictions period, are up to the standards GASTAT is committed to. GASTAT affirms that the period of Q3 2020 where the COVID pandemic and its repercussions related to had an impact on the economy that affected the Saudi Labor Market in terms of labor stability, job loss, job availability.
The review of the data and their validity is extended in order to carry out a thorough analysis of the data. GASTAT will inform the public about the new release date in due course.[353]

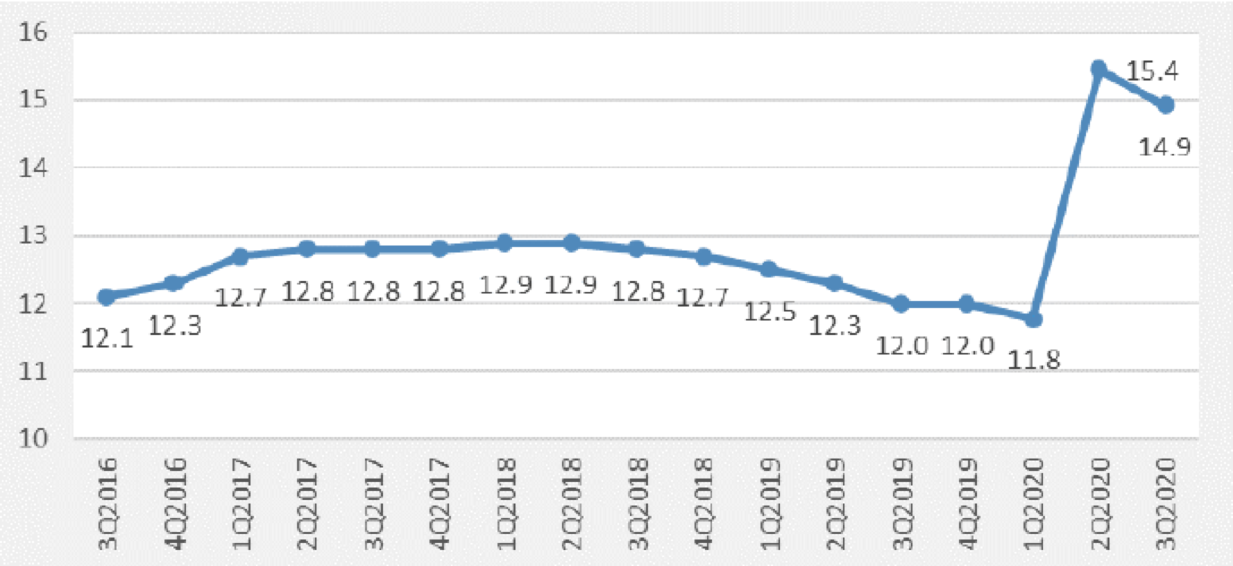

Figure 4.1: Saudis unemployment rate in %   Source: estimated data from LFS - (GASTAT)

As mentioned before, the data highlighted that the most affected category in the Kingdom has been the youth, as 60.7% of the surveyed unemployed Saudis belong to the age group between 20-29 years.[354] The organisation cleared the methodology used in the study: the statistics have been elaborated by GASTAT through the Labour Force survey,[355] carried out by telephone calls to 33.000 Saudi households during the months of July, August and September.[356]

Notwithstanding, the critic economic downturn and consequences on the labour market, Prince MBS expressed his optimism in the efforts to lower the unemployment rate by the end of 2020, and that KSA would be the least affected G20 economy, stating

[353] GASTAT, "Statistics: The Results of the Labor Market Survey Will Be Released during the Coming Period, due to the Importance of the Target Period, and More Reviews.", General Authority for Statistics Kingdom of Saudi Arabia, 20 Jan. 2021, www.stats.gov.sa/en/news/402.
[354] GASTAT, Jan. 2021, *op. cit*.
[355] GASTAT, "Labour Force Survey Form." *General Authority for Statistics*, Jan. 2021, www.stats.gov.sa/en/820.
[356] GASTAT, Jan. 2021, *op. cit*.

that: "the increase of the unemployment rate in some G20 countries to 15% and 20% and more. We believe that the programs and policies set by the government will enable us to achieve an unemployment rate of 7% before 2030."[357]

However, it is still difficult to esteem if the H.R.H Prince forecast proved right in the closing quarter of 2020 as the data has not yet been made available. Surely, the Kingdom performed an improvement between Q2 and Q3, however, it is difficult to make predictions for Q3, as the last quarter of the year has endured still some turbulences both coronavirus wise and from oil prices, as oil markets have been adapting to OPEC's latest adjustments, the third COVID-19 wave of infections and new strands spread, as examined in the previous chapter. The 2020 Q4's data would potentially be published in late spring or early summer as the Q3 data has been released in January 2021 after several delays, and as the GASTAT has not yet announced any update on the publication.

In the light of the described labour environment in the country, the economic diversification is imperative for the creation of a higher number of occupations, in particular for the Saudi youth. As analysed up until now, the public sector cannot absorb the increasing number of graduates and the private sector is unattractive for the lower benefits it offers in comparison to governmental occupations. Furthermore, the oil sector accounts for the greatest share of the Saudi GDP, however it represents a small offer of employment for the population,[358] as we described as one of the characteristics of the rentier economy based on the oil industry, in the first chapter.

These figures show how the Kingdom is still a long way from the aimed 7% unemployment rate expected for 2030. Surely, the issue is critical and pivotal for the government, but it also poses a political matter as a threatening factor to the crown's legitimacy. The high rates registered in the years and the scarce results from the reforms introduced up until now, through the several developments plans, could disrupt the social equilibrium and break in uprisings, as it has been the motive for the revolts in the Middle Eastern region in 2011. Young Saudis voiced their dissent on Twitter in March, with the

[357] The official Saudi Press Agency.13 Nov. 2020, *op. cit.*
[358] International Monetary Fund. Middle East and Central Asia Dept. "Saudi Arabia: Selected Issues." *IMF*, 9 Sept. 2020, www.imf.org/en/Publications/CR/Issues/2019/09/09/Saudi-Arabia-Selected-Issues-48660.

hashtag "Unemployed and we won't stay silent" (عاطلين_محنا_بساكتين).[359] The frustration of young graduate Saudis is spawned by the fact that a high percentage have never found a job after graduation, namely 79.0% of jobless Saudi males and a much higher rate between Saudi women, 93.3% as the GASTAT data highlighted, with more than half of the total holding a bachelor degree.[360] Therefore, the issue is still extremely acute in the country and the 2020 Economic downturn further destabilized the frail situation, which is unbearable for the youngest population, which could voice its frustration only via Twitter protests.

4.3 WIDENING INEQUALITY

The Gulf societies prior the Covid-19 spread, suffered from a further socio-economic issue, a severe social inequality. The Saudi society has been indeed described as a "highly polarised society"[361] divided between the local population on one side and immigrant workers on the other. As mentioned in the first chapter, the reason behind this phenomenon must be sought in the fact that Saudi Arabia, similarly to the other oil economies in the Gulf, has been a host for a significant number of immigrant workforce, especially from South Asia, which accounted for 67% of the total workforce in the Kingdom in 2019.[362] However, it is important to bear in mind that the percentage is much higher than the official data, as many workers continue living illegally in the country once their visas and permits have expired.

Thus, as examined in the first chapter, the standards of life of the two opposed communities are significantly different. The substantial inequality dividing the two groups in the Kingdom has been striking in the last years and the spread of the novel COVID-19 materialized furthers concerns on the living conditions of the immigrant workers. The large communities of expatriates, in fact, have been living in grim

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359 Uddin, Rayhan. "Saudi Youth Take to Social Media to Complain about Unemployment." *Middle East Eye*, 4 Mar. 2021, www.middleeasteye.net/news/saudi-arabia-unemployment-youth-graduates-complain.
360 International Monetary Fund. Middle East and Central Asia Dept., 9 Sept. 2020, *op. cit.*
361 Afsah, Ebrahim. "After the Arab Spring: Democratic Aspirations and State Failure: Course Manual." *University of Copenhagen, Faculty of Law*, University of Copenhagen, 14 July 2017, jura.ku.dk/english/staff/research/?pure=en%2Fpublications%2Fafter-the-arab-spring-democratic-aspirations-and-state-failure(1a0c541d-5855-45d9-b73c-f2e0335e480d)%2Fexport.html
362 Ali, Mohamed Abdelghafour, Abdullah Murhaf Al-Khani, and Laila Awad Sidahmed. "Migrant health in Saudi Arabia during the COVID-19 pandemic." *Eastern Mediterranean Health Journal* 26.8 (2020): 879-880.

conditions in slums neighbourhoods in the suburbs of the main Saudi urban centres, therefore, the already sensible situation has been further magnified by the spread of the virus which has particularly affected these communities in the Kingdom. As a matter of fact, immigrant workers have been contracting the virus at a higher rate than nationals, due to the lack of proper sanitarian and hygienic conditions in compounds where they live in large numbers alongside the inability to practice social distancing as the residences are overly crowded.[363] Here the virus has found a fertile territory to spread, causing the hubs of contagions as it has happened in Mecca and Medina. Indeed, the vast majority of foreign workers did not have access to housing conditions that would allow them to comply with the virus containment measures which the local population has been able to implement, which resulted in a lower rate of infected Saudis. As a result, Dr. Ishavy stressed how this tragic condition has been accompanied as well by phenomena of "stigmatisation and xenophobia" by the local population blaming the foreign labour force of importing and transmitting the virus in the nation.[364]

Furthermore, the permanence in the country of many illegal workers had restricted them the opportunity to access to medical treatment, for fear of being repatriated and detained. For this reason, Health Minister Tawfig Al-Rabiah, after identifying the clusters of infections in these communities, implemented an active free screening and health care treatments campaigns in these facilities during the months of the higher rates of positive cases. [365] Thanks to his action, the KSA was able to detect a higher number of asymptomatic cases, which helped with the containment of the virus. The action has been praised by the WHO General Director in a tweet: "This is what #HealthForAll means! Thank you so much @KingSalman for your leadership and commitment to ensure everyone has access to the health services needed to fight #COVID19. I hope other countries will follow your lead! Solidarity!" [366]

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[363] *Ibidem*.

[364] Rickli, Dr Jean-Marc. "Session 2: The Impact of the Coronavirus on the Middle East." *Geneva Centre for Security Policy(GCSP)*, 9 Apr. 2020, www.gcsp.ch/digital-hub/live-stream/COVID19-Webinar-Series-session-2.

[365] Ali, Mohamed Abdelghafour, Abdullah Murhaf Al-Khani, and Laila Awad Sidahmed. *op. cit*.

[366] Tedros Adhanom Ghebreyesus (@DrTedros), via Twitter, 30 Mar., 2020, 3.58 p.m., https://twitter.com/DrTedros/status/1244625035152838657

Moreover, as mentioned earlier, the Kafala sponsorship has seen some progresses in November 2020 improving the rights and work contracts of the immigrant manpower in the territory, as the Crown prince mentioned in the Shura council:

> "With regard to the rights of expatriates, we have taken numerous measures to restructure the contractual relationship in a manner that preserves their rights and contributes to raising the degree of professionalism in the labor market. We have worked to correct the conditions of nearly half a million expatriates in the Kingdom, to attract qualified workers with added value. The initiative to improve the contractual relationship was launched in order to give the expatriate laborer more freedom of career mobility. This initiative is expected to raise laborer's productivity and increase competitiveness in the Saudi economy."[367]

In spite of this initial steps towards a more open healthcare system, and labour rights, the pathway to decrease the gap between nationals and immigrant workers is still very long and difficult in the Kingdom. Human rights activists have been criticising for years the dire conditions of thousands of workers in Saudi Arabia. During the first months of the spread, as the adverse impact of COVID-19 was materialising on the Saudi economy, thousand of expatriates left the Kingdom. In fact the government has been offering subsidies to the nationals, thus excluding the expat workforce, which however, was similarly losing jobs. In the second quarter of 2020, in fact, 178.000 departure applications were filed to "Awdah", which helps the repatriations of immigrants to their native countries through the Ministry of Interior, as reported by Jadwa Investment.[368] Furthermore, based on the health insurance coverage of expats, the investments group estimated that a total of 323.000 workers left the Kingdom by the end of June 2020 and by the end of the year they forecast that a total of 1.2 million immigrants were to leave the Kingdom (figure 4.2).[369] Similarly, in Q3 the labour market has witnessed a decrease of 231.000 foreign workers, translating into an increase of substitution with Saudis in occupations in "retail, administrative services, manufacturing, and accommodation and food services."[370] This has not been the first voluntary exodus of immigrants from the

[367] The official Saudi Press Agency. 13 Nov. 2020, *op. cit.*
[368] Jadwa Investment. "Saudi Labor Market Update-Q2 2020." *Jadwa.com*, June 2020, www.jadwa.com/en/researchsection/research/economic-research/labor-market-reports.
[369] Ivi., p. 4
[370] Jadwa Investment. "Saudi Labor Market Update-Q3 2020." *Jadwa.com*, 1 Feb. 2021, www.jadwa.com/en/researchsection/research/economic-research/labor-market-reports.

KSA, similarly in 2018 and in 2019 a total of 2 million workers departed following the exponential increase of the aforementioned expat levy.[371]

Hence, it is clear how the current situation spawned by the pandemic, has shed the light on the deeper issue of immigrants' rights in Saudi Arabia. The Kingdom, under international pressures, as the call for the G20 boycott, has been implanting small reforms aiming to improve the human rights record, in particular in the matters of immigrant workers. Nevertheless, the issue is deeply radicalized within the Saudi society and requires a fundamental change in the society composition therefore, needing a longer period and a series of reforms.

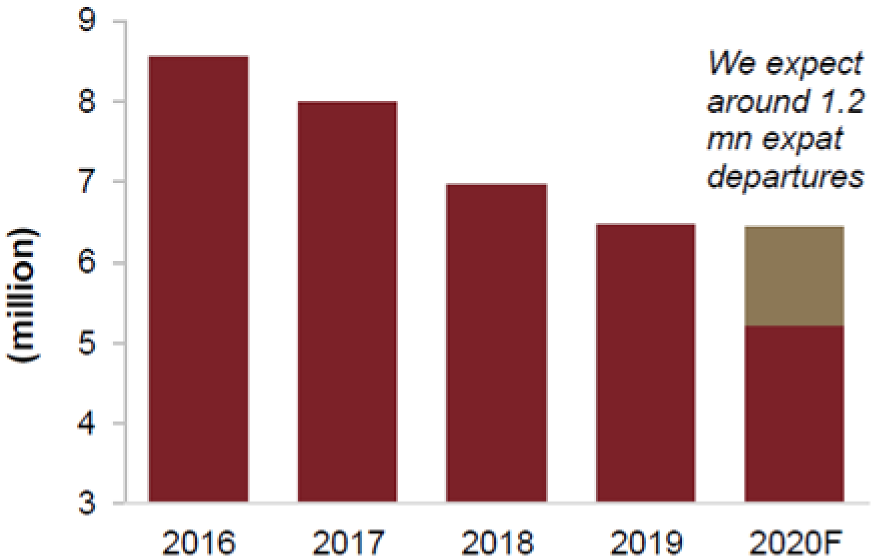

Figure 4.2: Number of foreign workers in the labour market (million) Source: Jadwa Investment

4.4 THE INCREASE OF THE AUTHORITARIANISM IN THE KINGDOM.

For what concerns the Saudi Arabian political system, the scenario is very specific to the country. Saudi Arabia is one of the main political, religious and economic centres of the Middle East. Since 1932, the country has been under the control of the House of Saud. It is a young modern state, it has been officially reunited under the crown on the 23rd of September 1932. As mentioned in the previous chapters, the monarchy relies on a

[371] Ivi., p. 7

“authoritarian bargain” between the government and the population, based on the ‘citizens’ willingness to accept political exclusion in return for state provision of services, employment, subsidies, health care, housing, education and other benefits.”[372] The al-Saud family has held power since the founding of the modern state of Saudi Arabia, in “familistic” state management through a system of internal successions.[373] As mentioned, the current ruling king is King Salman bin Abdulaziz Al-Saʿūd nevertheless, Crown Prince Muhammad Bin Salman is de facto leading the nation. The Prince is extremely ambitious and has set bold goals, such as Vision 2030, to reinvent the country.

Hereby, it is fundamental to juxtapose two fundamental characteristics of his ruling strategy. If on one hand, the prince is opening the Kingdom to modernity, and liberalization introducing new social reforms and economic plans, on the other hand, this does not translate in a greater democratic opening, but quite the opposite. Crown prince MBS loosened some of the social and cultural strict traditional rules however, there was no improvement of the political freedom or freedom of speech, but instead, measures became even harsher for political dissidents and for questioning MBS’ policies or the monarchy.[374] In the last years, there have been various examples of the policies employed by the crown prince against his political opponents, first and foremost the case of the killing of the Saudi journalist Jamal Khashoggi.[375] Secondly, the anti-corruption campaign, which translated in a further revenue to government amounting to “SAR 247billion over the last three years, representing 20% of the total non-oil income”,[376] which had a parallel political role in his rise to power, eliminating any dissident even within the royal family.[377] Lastly the 2014 Twitter campaign, in which MBS was fighting and detecting negative comments about his figure and the royal family which could threaten his image and his policies. Therefore, through a system of hacking and spying he was able to find the online opposers and fight against the negative

[372] Afsah, Ebrahim, 2017, *op. cit.*
[373] Emiliani, M. (2010). Rentier States arabi in crisi: il caso dell'Arabia Saudita. *Scienza & Politica. Per una storia delle dottrine, 18*(34), p. 78
[374] Hope, Bradley and Scheck, Justin, *op. cit.*, pp. 199-204
[375] *Ibidem*.
[376] The official Saudi Press Agency. 13 Nov. 2020, *op. cit.*
[377] Hope, Bradley and Scheck, Justin, *op. cit.*, pp. 199-204

comments online by creating a Twitter propaganda with the aim of spreading positive comments about his operate.[378]

These are just a few examples of the authoritarian rule enacted by the young Prince. A dominant argument, in fact, contends that Muhammad's revolution is more of a top-down revolution, a "state-driven development" rather than a bottom up initiated by the population.[379] One of the examples of this strategy has been witnessed within the women's rights framework. Saudi women rights activists have been demanding to the Crown the same reforms which later MBS has implemented in his plans, namely the elimination of the male guardianship and the right to drive. Nevertheless, these activists have faced imprisonment for the demand of these same rights, as in the most known case of the activist Loujain al-Hathloul. The reason behind this approach must be sought in the political agenda of the Prince. The population should not perceive the possibility that through protesting and opposing the crown family they would acquire their political requests, especially following the 2011 Arab revolts events. Instead, these reforms would have came down on them from the crown, in a top-down political system.[380]

Indeed, the revolts and uprisings have always been the greatest fear of the Al-Saud family as they would undermine the loyalty to the royal family. The politics of MBS can be seen therefore, as an active effort to respond to the nations requests by maintaining the control and on the other hand gain the extremely fundamental consent to the al-Saud family. Clearly, the political stability has always been a critical issue for the crown family, which has lived, in Hope and Scheck's words, "in a perpetual fear of people's uprising."[381] Predictably, the concerns have been further accentuated by the 2011 revolts in the MENA region, as the population, especially the Arab youth, rose against the dictatorships and regimes. The younger generation has since then become a central element in the development agendas of the country, as potential similar actions by the Saudi youth alarmed the government. In fact, thanks to the internet young Saudis were witnessing the outside world changes and especially revolts, which could have led to unrest in the Kingdom. Subsequently, the government has been concentrating on its

[378] Hope, Bradley and Scheck, Justin, op. cit., pp. 59-65.
[379] Grand, Stephen, and Katherine Wolff. "ASSESSING SAUDI VISION 2030: A 2020 REVIEW." *Atlantic Council- Rafik Hariri Center for the Middle East*, June 2020, p. 63 www.atlanticcouncil.org/wp-content/uploads/2020/06/Assessing-Saudi-Vision-2030-A-2020-review.pdf.
[380] Hope, Bradley and Scheck, Justin, op. cit., pp. 277-279
[381] *Ivi*., p.59

rebranding agenda, to restore its image both internally and internationally, as we examined before. Nevertheless, "on the surface Saudi Arabia seemed to be reforming. But its underlying problem -the fact that people had no say in their governance and that their freedom was left to the whim of a single man- was worse", as stated by Hope and Scheck.[382]

The situation became clearer during the fight to the COVID-19 virus reforms. Akin many other countries, during the pandemic, the authoritarian governments strengthened their powers and limited political opposition in the name of the virus containment. In fact, many countries banned political demonstrations and suppressed freedom of speech as containment measures and fight against fake news arising around COVID-19. Similarly, in the Kingdom, the government has been acquiring more power with the presented aim to protect and to recover the Saudi economy and acting in the favour of the populace.

As we analysed shortly above, the government imposed a series of "painful" economic reforms with the aim to respond to the loss of oil revenues, which would not have been implemented before as they would have been met by strong opposition from the populace. The most relevant for the authoritarian rule has been the increased 15% VAT rate. As mentioned before, higher taxation is meant to yield an increased political representation of the population. Nevertheless, this was not the case in the Kingdom neither in 2018, when the taxation system was firstly introduced nor the most recent July sudden rate increase. Indeed, in 2018 the population's response has been so adverse that King Salman, to avoid any kind of uprising announced, only five days after the implementation,[383] a series of temporary subsidies to the lower income families through the distribution of "additional cost-of-living allowances for government workers, military personnel, students, pensioners, and those on social security."[384] In other words, within the social bargain strategy, the Saudi population has been paying more taxes without receiving in exchange any political rights, but as an alternative was granted with a large system of living allowances, in action up until June 2020. The latter allowances have been then suppressed with the implementation of the newly increased 15% rate in July. In

[382] Ivi., p. 204
[383] Ivi., p. 272
[384] International Monetary Fund, Middle East and Central Asia Dept., *IMF*, Sept. 2019, *op. cit.*, p.31

response, Saudis enacted an online protest on Twitter, sharing on Twitter images of the late King Abdullah, who is remembered for his care towards the poor.[385]

The frail political balance in the Kingdom, and in the region in general, could unfold in a renewed uprising movement, due the pandemic acting as an aggravating factor. In fact, Micheline Ishay, from the university of Denver, outlined a political projection of the current crisis' aftermath in the Middle East. In particular, she juxtaposes two opposite paths. On one hand, the authoritarian leaders could continue concentrating powers in their hands, thanks to the measures enacted during the COVID-19 pandemic and the emergency law.[386] On the other, a "new wave of social protests" could rise in the region in the aftermath of the economic and social crisis spawned by the adverse impact of the virus, as the same social, political and economic requests have not been met during the 2011 and 2019 protests.[387]

Although the recent period is still full of uncertainty, nevertheless, the second pathway could come to be reality in the Saudi Kingdom. As mentioned shortly above, in July 2020 and in March 2021 through Twitter, many young Saudis voiced their distress about the unemployment issue, the failed reforms by Prince MBS in his Vision 2030, and the VAT increase. This has not been the first time, as Twitter represents the only opportunity to discuss social issues in the Kingdom. As we know, the Arab revolts of 2011, in the region were initiated by the social networks which were able to bypass the lack of political freedom and the absence of freedom of speech. The same elements which caused the 2011 revolts in the rest of the Arab region are present in Saudi Arabia: the authoritarian rule of the family in power alongside the lack of political participation of the population, the crescent unemployment rates within the younger generations and the lack of freedom of speech. Prince MBS is well aware of this risk and he precautiously focused several plans on his Vision 2030 toward the youth, a fundamental part of society, as in the Kingdom citizens under 30 years accounts to more then 60%of the population. As Okruhlik,and Gwenn note, "The vulnerability of the regime has been exposed in

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385 Ulrichsen, Kristian Coates, and Krane, Jim, "The 'New' Saudi Arabia, Where Taxes Triple and Benefits Get Cut." *Forbes*, 13 May 2020, www.forbes.com/sites/thebakersinstitute/2020/05/13/the-new-saudi-arabia-where-taxes-triple-and-benefits-get-cut/?sh=2e9638032a22.

386 Rickli, Dr Jean-Marc. "Session 2: The Impact of the Coronavirus on the Middle East." *Geneva Centre for Security Policy(GCSP)*, 9 Apr. 2020, www.gcsp.ch/digital-hub/live-stream/COVID19-Webinar-Series-session-2.

387 *Ibidem*.

crisis”,[388] therefore, on the success or fail of the Vision 2030 could depend a potential social unrest of the Saudi population, as the goals outlined are extremely ambitious and could experience some severe slowdown spawned by Covid-19 pandemic.

4.4 THE 2014 CRISIS AND THE 2020 CRISIS IN COMPARISON

In the last decade the KSA has endured a series of economic crisis, mainly oil driven. We have briefly delineated the issue in the first chapter and hereby, I would like to compare the current COVID-19 crisis with the 2014 economic recession and the 2015 MERS outbreak in the country. As mentioned before, the Covid-19 driven economic crisis has been like defined as unprecedented, nevertheless, in the response of the Saudi Kingdom there are some similarities with the 2014 economic downturn and the 2015 MERS virus driven crisis.

First and foremost, oil has played a key role, not only in these crises, but in the entire economic and political history of the Kingdom. The 2020 health crisis, in fact, has been aggravated by the parallel and consequent oil prices crash. In these case, as in 2014, Saudi Arabia played a fundamental role in the price trends as in 2014, reducing the daily production to raise the international prices whereas, in the Q2 of 2020 enacted a war on prices within OPEC against the fellow member and competitor in the markets, Russia. The March events, as we described in the previous chapter, led to an unprecedent plunge of oil prices in the history of oil, causing damages especially to the Kingdom, which is extremely reliant on the commodity. As a result, in both cases the Saudi government realised the risk posed by the heavy reliance on the oil industry of the Kingdom and the dire economic consequences it could pose for its development plans. Despite the economic downturn, the Saudi economy showed resilience and following the recession implemented a series of reforms aimed to reduce the dependence on the sector, through the series of amendments within the framework of Vision 2030. Similarly, this could be the case in the aftermath of the 2020 crisis, which will predictably catalyse the shift to a greener and a more diversified economy, as planned by Vision 2030.

[388] Okruhlik,and Gwenn, Rentier Wealth. "Unruly Law, and the Rise of Opposition." *The Political Economy of Oil States, in Comparative Politics* 31.3 (1999), p. 197

Secondly, as it happened in 2014, the economic recession led the Saudi government to address the social spending and enacted the urgence to find alternative sources of revenue, as the oil industry in both cases has suffered largely. In both scenarios, the Kingdom reverted to an austerity reform based on the taxation of the citizens. As we mentioned, experts do not recommend the implementation of this type of fiscal policies in a critical economic environment as the aftermath of 2014 and 2020 oil crises. In spite of this, the Kingdom introduced the VAT rate and a series of levies and taxes in the aftermath of 2014, starting from 2016 when in cooperation with the GCC members agreed for the common 5% rate. The economic reform has been both revolutionary and controversial for the government, as in the Kingdom there were virtually no taxes hitherto. The reform was met by a strong disagreement by the citizens, which until then had been used to "provider" government rather than a taxing one. Furthermore, the introduction of a taxation system did not yield political rights and participation to the Saudi populace, as it would be expected. A similar scenario was witnessed in 2020, as we analysed, even if the financial outcome has been harsher. Firstly, the VAT has been triplicated with a short notice of just a couple of months, while in the case of 2018 the reforms had been introduced for the first time in 2016. Secondly, the sudden hike caused a parallel increase in inflation in the Kingdom and a decrease of the Saudis' purchasing power. Moreover, it is still not clear the amount of revenue it represented for the government.

Thirdly, the health sector in the 2020 pandemic has been proactive and was able to contain the spread of the coronavirus with early and precautious measures, as closing to tourism and the cancellation of Mecca pilgrimage. In this strategy it has been crucial the MERS experience which affected Saudi Arabia in 2015. Similarly, in both cases the adverse impact of the infectious diseases caused a severe slowdown of the development of various economic sectors. Foremost, it hampered the tourism sector, which in both crises experienced an unprecedented revenue loss. Indeed, in 2015 travel restrictions and containment measures enacted to hinder the virus spread, caused to the Kingdom's tourism industry an estimated $5 loss in revenues.[389] Similarly, the COVID-19 crisis

[389] Smith, Kristine M et al. "Infectious disease and economics: The case for considering multi-sectoral impacts." *One health (Amsterdam, Netherlands)* vol. 7 100080. 9 Jan. 2019, doi:10.1016/j.onehlt.2018.100080

hindered harshly the developing tourism sector. The industry, which recently became central in the economic diversification promoted by MBS in Vision 2030, registered unprecedented losses estimated to be around 35-45%.[390]

In conclusion, we can affirm that the aftermath of the 2014 crisis, represented a turning point for the Kingdom, as the government faced the reality posed by the risk that comes with an almost completely reliant economy on such a volatile commodity like oil. In fact, following the crisis the government outlined Vision 2030, with the aim of diversifying the economy and developing several industries in support of the economy. After only six years, the Kingdom is experiencing again another pivotal period in its economic history, as today's crisis has been having a never seen before impact on societies and economies. It is still early to forecast a precise outcome of the current crisis as it is still de facto further developing, however, it is possible that some of the reforms embarked by the Kingdom are here to stay and pose some challenges in the social contract with the Saudi population and the economic strategy for the future.

4.6 CONCLUSIONS

If one the health sector the Kingdom has not endured the same harsh consequences experienced by many countries from the economic and socio political side, however the situation has been far more disruptive. The impact of the current twin fold crisis has brought unprecedented consequences to the economy and politics of the Kingdom of Saudi Arabia.

As it has emerged in the research the aftermath of the COVID-19 crisis will probably represent an initial setback for the economic development projects of the Kingdom and the goals within the Vision 2030 framework. As we analysed, due to the austerity plan and the conspicuous cuts on the governmental budget, some plans have been resized and others cancelled or postponed, materializing unparalleled revenue losses. Therefore, the government reverted to "painful" economic reforms, which have been essential to recover and rebound the extremely hit economy, with an emphasis of 2020 Q2, the harshest quarter for the country in decades. From the research emerges that

[390] Rashad, Marwa. "Saudi Tourism Sector Could See 35%-45% Decline This Year on Coronavirus." *Reuters*, 24 Apr. 2020, www.reuters.com/article/health-coronavirus-saudi-tourism/saudi-tourism-sector-could-see-35-45-decline-this-year-on-coronavirus-idUSL5N2CC70A.

elevated risk spawned by the dependency on the oil industry unfolded the urgent necessity for a diversification in the Saudi economy.

Similarly the socio-political frail equilibrium inside the Kingdom has been destabilized by the health crisis and economic recession, has brought to light the deep social issues which the country has been facing for decades, that if not addressed properly and in time could represent an aggravating factor for the country's political stability.

The current crisis, like many other in the past, has unveiled and further highlighted the vulnerability of the Saudi oil dependency. However, certainly, in the long term, this crisis will probably have a strong role as a catalyst in the economic diversification, the increasingly necessary and fundamental objective for the survival of Saudi Arabia as a superpower in the world economic scenario.

CONCLUSIONS

Since the discovery of oil in 1938, the Saudi economy has been heavily dependent on the oil revenues, being among the top producers and exporters in the world. However, the commodity is highly influenced by market trends and international politics, which cause strong volatility, unpredictable fluctuations in prices and in the international demand. Hence, these typical characteristics of the economies of the rentier state have made Saudi Arabia highly vulnerable to external shocks impossible to control by the government.

Indeed, as discussed, a dominant argument contends that the role of oil in the Saudi economy has been both a blessing and a curse. In fact, if we take a look at the economic history of the country in the immediate period after the discover of oil the, resource represented an economic windfall which spawned an extremely fast and never seen before development and transformation of the nation. Nevertheless, on the other hand, it has simultaneously distorted the economic and political systems rooting some structural issues in the Kingdom. Within the social bargain, in fact, the citizens have profited of social and economic benefits at the expenses of their political participation. Furthermore, this particular system led to a deeply rooted inequality and social division between Saudi nationals and expatriates workers, as well as to the creation of a labour market uncapable to absorb the increasing numbers of job-seekers, especially within the younger generations.

Therefore, the Saudi economic model based on the oil revenues has unfolded in the last decades in a series of economic recessions, spawned by adverse external impacts on the oil markets. The recent outbreak of the Covid-19 virus in China, and subsequent global expansion, is the most recent example of the strong vulnerability of exogenous rent-based economies to external factors. The containment measures, alongside the closure of international borders and lockdown measures undertaken globally led to a sharp decrease in demand which subsequently resulted in a drastic collapse of prices alongside a clash between oil powers, meaning a strong economic loss for Kingdom. Indeed, 2020 has been a unprecedented year in the oil industry, with prices enduring the harshest falls since 1991 and registering for the first time ever negative prices.

The Kingdom, as we discussed, is not new to economic recessions spawned by the oil volatility, since the discovery of the commodity, KSA has experienced periods of unprecedented windfalls of revenues, as well as disruptive economic downturns, the most recent in 2014. The Saudi government has always showed resilience, and efforts in the economic growth. Nevertheless, as it has emerged from the study, that in the Saudi society deep-rooted social inequalities have been further exacerbated by the recent pandemic. As we discussed, for instance, the unemployment rate, one of the most pressing issues in the region and in the Kingdom, reached a record rate in 2020, with a 15% rate, more than twofold the 7% rate aimed by the government by 2030. An additional concern has been the political freedom which has been further restricted with the aim of hampering the spread of fake news about the novel virus, and the demonstrations bans as a containment measures of the COVID-19 spread. Moreover, the productive structure is still fragile and not sufficiently diversified. The Kingdom is still extremely reliant on the oil revenues although the recent efforts for the development of new sectors, such as tourism. Fundamentally, even the programs aiming to diversify the economic sectors are being funded by the oil sector revenues therefore, threatening the positive and efficient outcome of said programmes in the long term.

Therefore, in this scenario the COVID-19 driven oil crash, has been a nightmare for producers, nevertheless, it can be also be perceived as a wake up call for the Saudi Kingdom. KSA since 2016, with the MBS's presentation of Vision 2030, has been proactive and engaged in the economic diversification. This goal has been pursued by the Kingdom since the first five years development plans, introduced in as the total dependence on the oil industry for the state revenues could represent an extremely precarious scenario and has been proven in the past to be a dangerous. Therefore, the current crisis hopefully has represented for the Kingdom a catalyser for the efforts in this direction, as the current disruptive year in the oil industry could represent an initial phase of the further destabilizing factors forecasted in the future of the sector. As we have seen, some economist have harshly criticised the newly implemented reforms, deeming them unsustainable amidst the current crisis. However, reforms as the increased VAT rate could pose a new beginning for the fiscal policies in the Kingdom. Seen the benefits yielded by the introduction of the VAT rate in 2018, along with a series of levies and smaller fees, the Kingdom could decide to maintain the tax and even improve its taxation system.

Nevertheless, to do so it would need to extend a series of political right to the citizens as with the increased taxation comes an increased political representation, and if that would not be the case social unrest could rise in the Kingdom. However it is still unclear whether the government would definitively apply the VAT or remove it once the economy rebounds after the current downturn. A strong influence is exerted also by the other GCC members taxation, as it could be unlikely, and above all disadvantaging for the Kingdom to be the country with the highest taxation in the region, especially with regards to the efforts of attracting foreign investor.

Hence, the productive and economic diversification is clearly the most advisable and necessary solution for the Saudi economy to achieve economic stability over time and to bring all economic sectors to a fair and equal development. The oil industry has been enduring difficult times in the recent years, as we have analysed in this study. The aforementioned issues must then be contemplated with the volatility of price in the markets and the external events affecting the price, not in control of the oil producing country, such as the unpredictable disrupt brought to the market by infectious diseases, as the COVID-19 virus outbreak of 2020. Furthermore, environmental issues and climate change, are pressuring many industries and countries in investing in the renewable energy and preferring more ecological choices over oil and gas. Secondly, the oil peak demand theory is also threatening the oil markets, which forecasts that "the demand for oil may reach a peak and decline thereafter" estimated around 2040.[391] However, new estimates, following the Covid-19 impact on the markets, are anticipating the peak to 2028.[392] Within this framework of this research topic, it is clear that the research is just at the dawn of the studies, as the events are in continuous transformation and further elements are affecting the oil industry.

This study provides early estimates of the impact of the COVID-19 pandemic on the Saudi economy, however the research is just at the dawn and as we write the market is in

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[391] Luciani, Giacomo "Politics and Economics of International Energy ." *Coursera*, 2019, www.coursera.org/learn/global-energy/lecture/WhUhP/how-fossil-fuels-were-formed-optional.

[392] Rystad Energy. "Covid-19 and Energy Transition Will Expedite Peak Oil Demand to 2028 and Cut Level to 102 Million Bpd." *Rystadenergy.com*, 2 Nov. 2020, www.rystadenergy.com/newsevents/news/press-releases/covid-19-and-energy-transition-will-expedite-peak-oil-demand-to-2028-and-cut-level-to-102-million-bpd/.

continuous change. Indeed, in February 2021, after more than a year, oil prices regained the pre-coronavirus levels, with Brent and WTI reaching $63.76 and $60.95 respectively, the highest prices recorded since January 2020, just before the demand started plummeting internationally.[393] The first weeks of 2021, in fact grew the industry's optimism for the awaited markets' recovery, nevertheless the uncertainty around the virus and the vaccine has still represented an hampering factor for the expected oil rebound. It is clear that the projected full recovery is estimated to be still a long and troubled journey that will likely change the oil market forever.

[393] Browning, Noah. "Oil Hits 13-Month Highs as Market Rebalances." *Reuters*, 15 Feb. 2021, www.reuters.com/article/us-global-oil-idUSKBN2AF013.

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