



**Economic Diversification in the
Kingdom of Saudi Arabia**
Analytical Brief



CONTENTS

EXECUTIVE SUMMARY	4
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1. WHY IS DIVERSIFICATION IMPORTANT, AND HOW CAN IT BE MEASURED?	7
--	---

2. MACROECONOMIC CONTEXT	9
--------------------------	---

3. ECONOMIC DIVERSIFICATION	12
-----------------------------	----

3.1 SITUATION ANALYSIS	12
------------------------	----

3.1.1 SECTORAL CONTRIBUTION TO GDP

3.1.2 EXPORT DIVERSIFICATION

3.1.3 SOURCES OF FISCAL REVENUES

3.1.4 FOREIGN DIRECT INVESTMENT

3.2 ECONOMIC DIVERSIFICATION COMPOSITE INDEX	20
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3.3 NATIONAL STRATEGIES AND INITIATIVES	21
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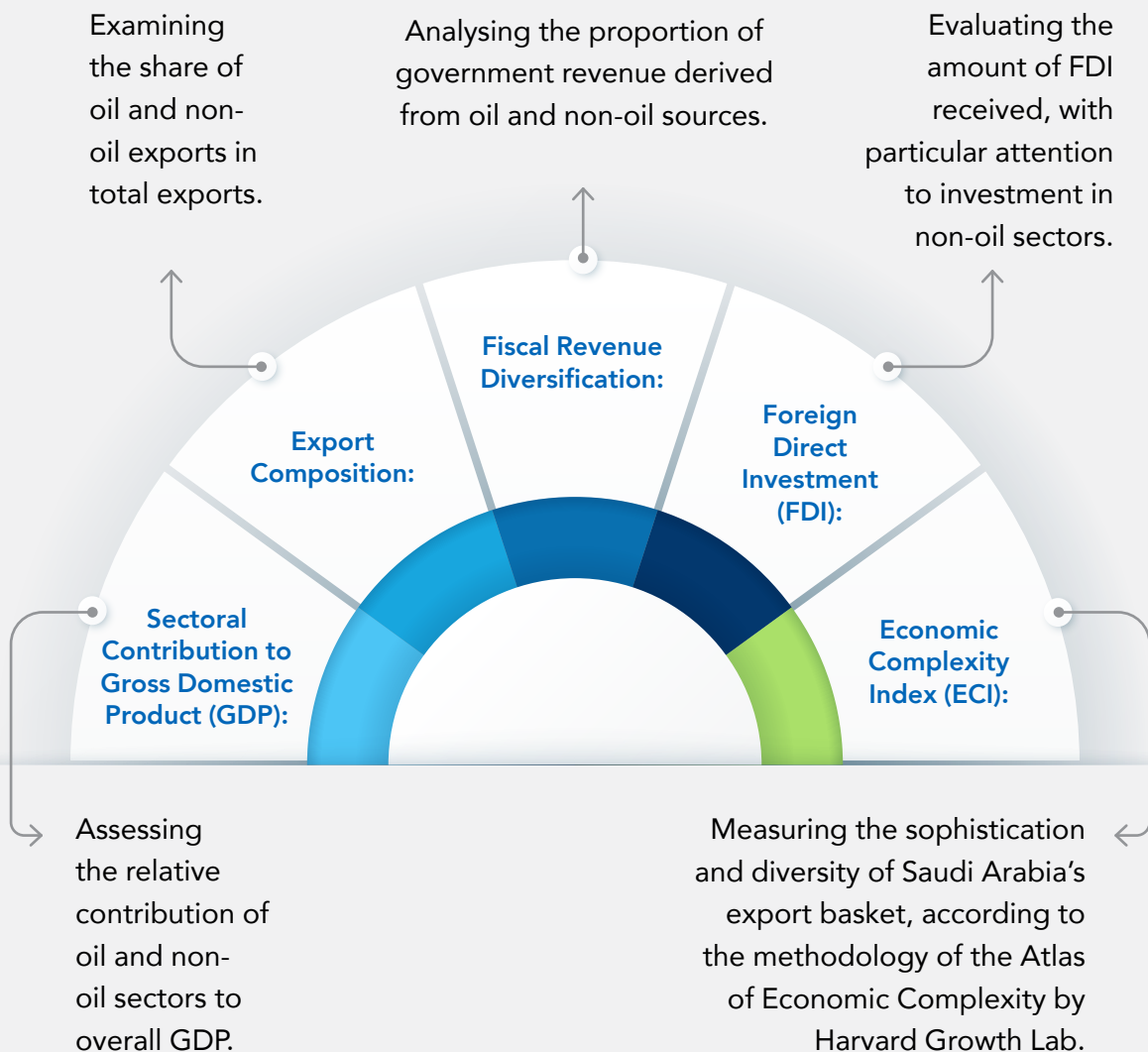
4. OUTLOOK AND POLICY RECOMMENDATIONS	24
---------------------------------------	----

REFERENCES	26
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EXECUTIVE SUMMARY

This analytical brief examines Saudi Arabia's economic diversification efforts. Economic diversification is a critical determinant of economic development and resilience, enabling countries to reduce dependency on a single sector and mitigate economic risks. In the context of resource-dependent economies like Saudi Arabia's, diversification not only reduces reliance on hydrocarbons, aligning the economy with global efforts toward climate change mitigation, but also lessens vulnerability to external shocks and enhances long-term stability. A diversified economy is more attractive to investors, promotes job creation, and enhances adaptability to global market changes.

The analysis employs a quantitative approach, evaluating several key indicators:



These indicators are synthesised into a Composite Index of Economic Diversification developed by Smart Investment Gateway (SIG) and Konrad-Adenauer-Stiftung (KAS), enabling a comprehensive evaluation of diversification progress over time. The Composite Index can be accessed on the website of the GCC Economic Diversification Barometer (<https://gccdiversification.com/>).

In general, the results underline the dependence of the Saudi economy on the hydrocarbons sector, which is not surprising considering that the Kingdom is the largest oil exporter worldwide. Nevertheless, the brief also shows Riyadh's efforts to overcome its reliance on the oil sector and diversify the Kingdom's economy. Since 2015, the country has managed to improve the complexity of its economy and export portfolio, along with reducing the contribution of oil activities to GDP from 45% on average between 2000 and 2014 to 29% since 2015. In addition, the Kingdom has a vibrant services sector contributing 61% of GDP and, with its Vision 2030 and related implementation plans, is investing heavily in economic reforms, modernisation, and digital transformation.



AS THE WORLD'S LARGEST OIL EXPORTER, SAUDI ARABIA REMAINS SIGNIFICANTLY DEPENDENT ON HYDROCARBONS, THOUGH IT IS ACTIVELY PURSUING DIVERSIFICATION TO REDUCE THIS RELIANCE.



45% → 29%

THE SHARE OF OIL ACTIVITIES IN GDP DECLINED FROM AN AVERAGE OF 45% (2000–2014) TO 29% SINCE 2015, INDICATING STEADY PROGRESS IN ECONOMIC DIVERSIFICATION.

THE SERVICES SECTOR NOW CONTRIBUTES

61%

OF GDP, HIGHLIGHTING ITS ROLE AS THE MAIN NON-OIL DRIVER OF ECONOMIC ACTIVITY.



BASED ON THESE FINDINGS AND REFLECTING ON THE STRENGTHS AND WEAKNESSES OF THE SAUDI ECONOMY, THIS ANALYTICAL BRIEF PROPOSES THE FOLLOWING POLICY RECOMMENDATIONS:

1. Strengthening Support for SMEs:

Saudi Arabia should continue investing in its thriving entrepreneurship scene, enhancing access to finance, reducing bureaucratic barriers, and offering mentorship to support small- and medium-sized enterprises (SMEs).



2. Augmenting Localisation Efforts in Manufacturing:

To foster localisation in the manufacturing sector, Saudi Arabia should offer tax incentives and subsidies to attract foreign investment in high-tech sectors, in addition to prioritising local production in strategic sectors, such as defence, pharmaceuticals, and electric vehicles. While Saudi and GCC investors are already incentivised in that they are only subject to Zakat, foreign companies need to pay a corporate tax of 20% of net profits. Reducing the tax burden on foreign investors or providing subsidies would precipitate positive spillover effects for local production and localisation efforts.



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3. Sustaining the Green Energy Transition: In order to accelerate green energy adoption, Saudi Arabia should deploy public-private partnerships, financial incentives, and investments in research and development (R&D) for renewable energy. This would further align national policies with global efforts to address climate change and realise the net-zero emissions goals by 2060.



4. Strengthening Education and Vocational Training:

Saudi Arabia should continue efforts to align education and vocational training programmes with the needs of the labour market, focusing especially on emerging industries like artificial intelligence (AI) and renewable energy.



5. Investing in Digital Technologies and AI: Building on its excellent digital infrastructure, low energy costs, and top ranking in terms of digital innovation, Saudi Arabia should deepen investments in digital transformation. In this regard, the country should foster cooperation between the private sector and academia and establish dedicated research centres, enabling Saudi Arabia to become a hub for R&D and an incubator for digital innovation, especially in AI.

WHY IS DIVERSIFICATION IMPORTANT, AND HOW CAN IT BE MEASURED?

Economic diversification, defined as the process by which an economy becomes more diverse in terms of goods and services, has been increasingly recognised as a key determinant of economic development (World Bank Group, 2017) and an essential factor in improving economic performance (Neffati and Jbir, 2024).

Through reducing dependence on a single sector of economic activity, economic diversification enables countries to minimise vulnerability to shocks and mitigate risks. Economic diversification reduces exposure to risk and volatility by distributing activities across various sectors, preventing over-reliance on a single industry. This results in more stable government revenues and increased job opportunities, as downturns in one sector can be offset by growth in others. A diversified economy is also more attractive to investors, as it presents lower risk. Additionally, diversification allows economies to better adapt to global market changes, such as price fluctuations or trade shifts. Overall, diversification ensures greater economic resilience, reducing the impact of sector-specific shocks on the entire economy.

In resource-dependent countries, economic diversification involves shifting the production base away from the extractive sector by promoting manufacturing and other non-resource-intensive industries. In these contexts, diversification is also relevant for bolstering climate resilience (UNFCCC, 2017), as in oil-dependent economies, this process brings production into alignment with global climate change reduction efforts. As the world shifts toward renewable energy sources to combat climate change, demand for fossil fuels like oil is expected to decline. This poses a long-term risk for economies heavily reliant on oil revenues. Diversifying into renewable energy, technology, and other sustainable sectors allows these economies to reduce their dependence on oil, ensuring long-term economic stability. It also enables them to contribute to global climate goals by reducing carbon emissions and adopting more sustainable practices.

Economic diversification can be classified as vertical and horizontal (UNCTAD, 2023). Horizontal diversification involves broadening the range of production and exports across



**ECONOMIC
DIVERSIFICATION
REDUCES
EXPOSURE
TO RISK AND
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DISTRIBUTING
ACTIVITIES
ACROSS VARIOUS
SECTORS,
PREVENTING
OVER-RELIANCE
ON A SINGLE
INDUSTRY**

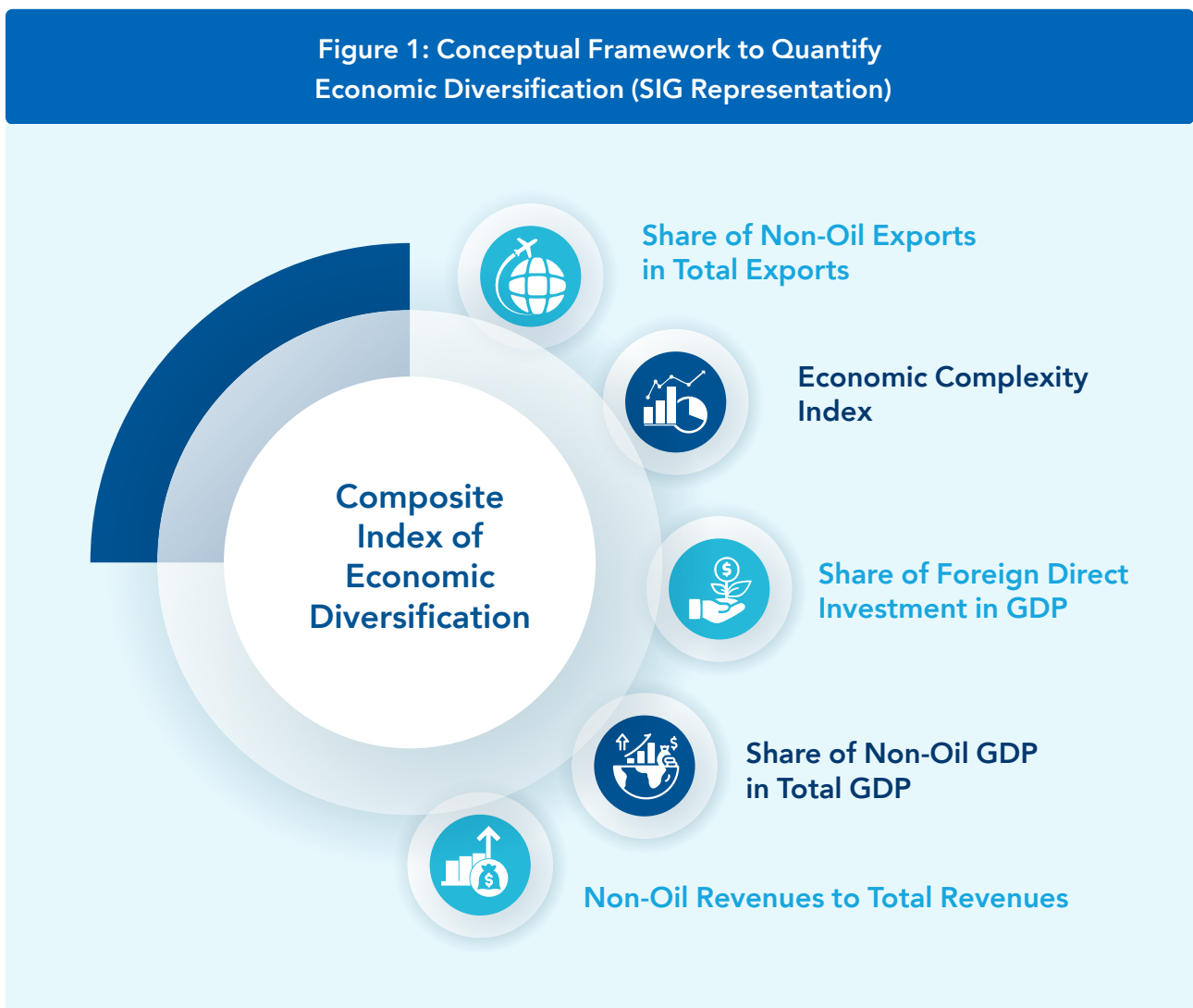


different sectors. For example, a country might expand from traditional exports into new industries, such as moving from agriculture to high-tech manufacturing. This reduces reliance on a single sector and opens up new economic opportunities. Vertical diversification, on the other hand, involves expanding within the same sector by adding more links to the value chain. This could include refining raw materials, such as turning crude oil into gasoline or processing mined minerals into battery components. It helps countries capture more value from their natural resources and enhances economic resilience (UNCTAD, 2023).

This brief quantifies and monitors economic diversification by analysing various indicators

that reflect the shift from a reliance on oil to a more balanced economy. One key measure is the contribution of non-oil sectors to GDP, which highlights the diversification of production away from oil. Additionally, the share of non-oil exports compared to total exports provides insights into export diversification. Tracking non-oil revenue as a proportion of total fiscal revenue further reveals the extent to which an economy is reducing its dependence on oil. In addition, this brief will consider FDI, focusing especially on investments allocated to non-oil sectors of the economy. These indicators are consolidated into SIG and KAS's Economic Diversification Composite Index, depicted in Figure 1. The brief concludes with an outlook and policy recommendations.

Figure 1: Conceptual Framework to Quantify Economic Diversification (SIG Representation)

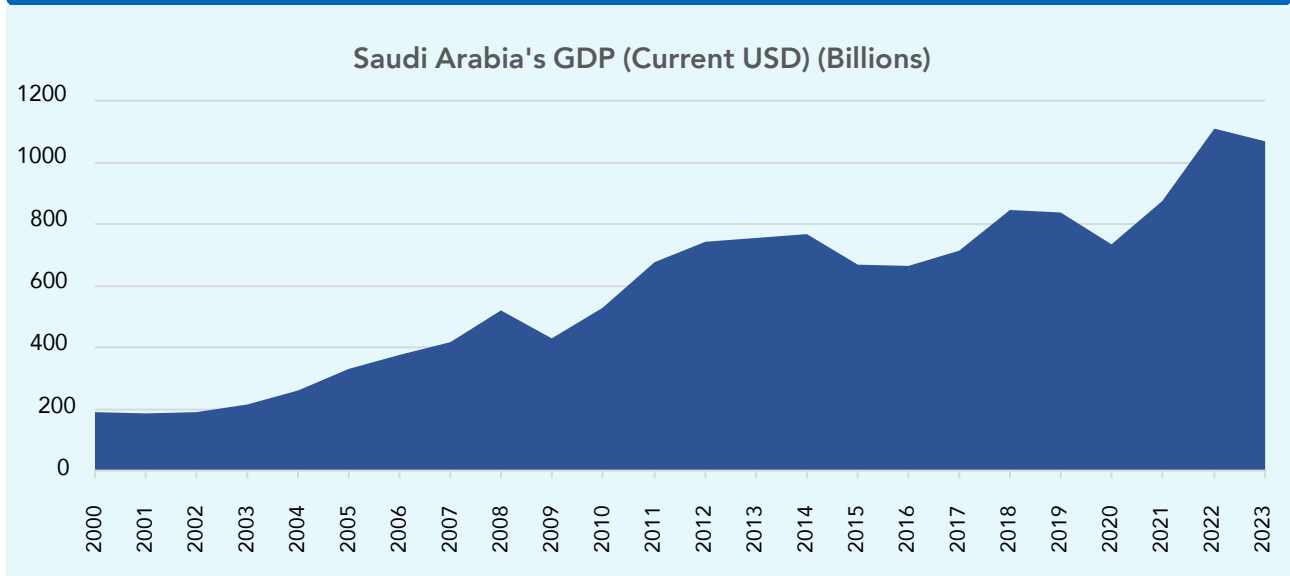


MACROECONOMIC CONTEXT

With a surface area of 1.15 million km squared, Saudi Arabia is the largest country in the Middle East and the 13th largest country worldwide. The Kingdom's population has expanded at a rate of almost 3.2% per year, translating into the doubling of Saudi Arabia's inhabitants from 16 million in 2000 to over 33 million in 2023 (World Bank, 2024). In 2024, 41.6% of Saudi Arabia's inhabitants were foreigners (General Authority for Statistics, 2025).

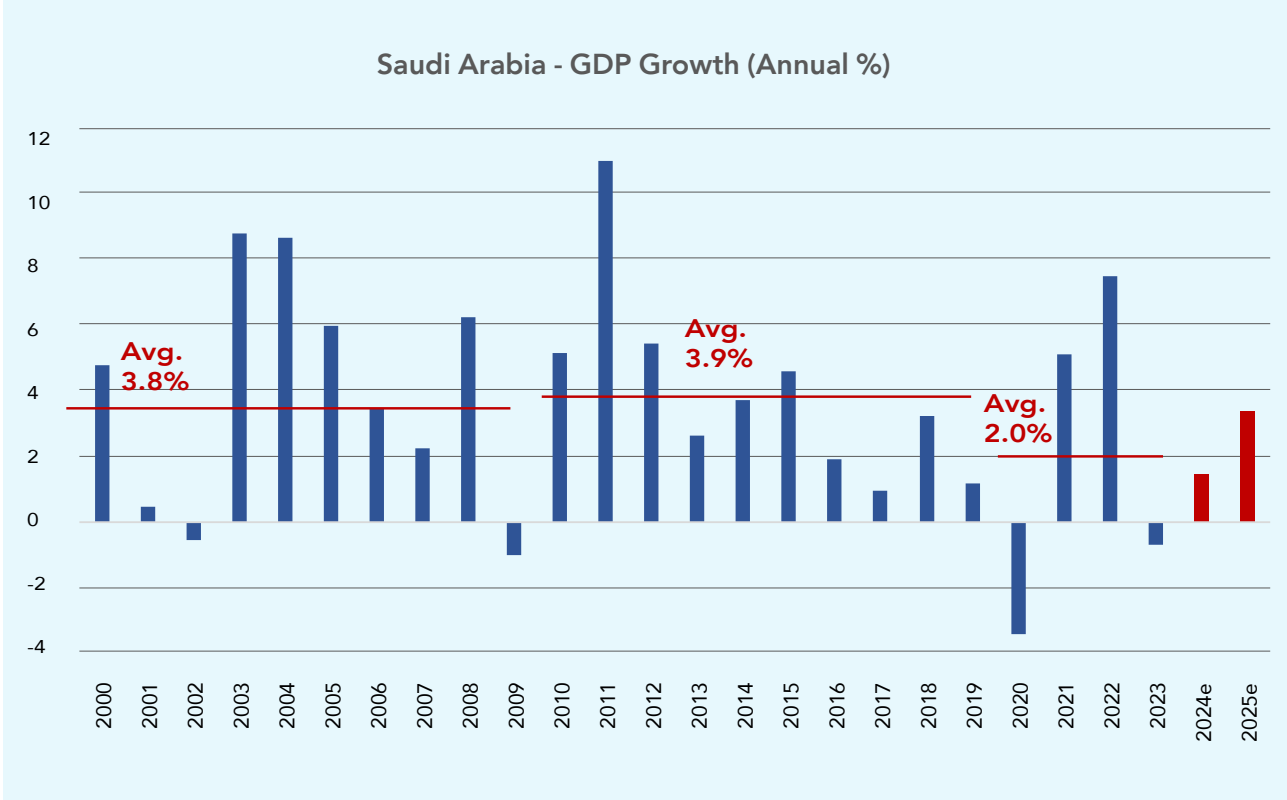
In 2023, GDP was 1.07 trillion USD (see Figure 2). With a per-capita GDP of 32,093 USD for the year 2023, Saudi Arabia is classified as a high-income country and ranks 27th worldwide in this metric (Worldometer, 2024).

Figure 2: Saudi Arabia's GDP at market prices between 2000 and 2023
(Data source: World Bank, 2024)



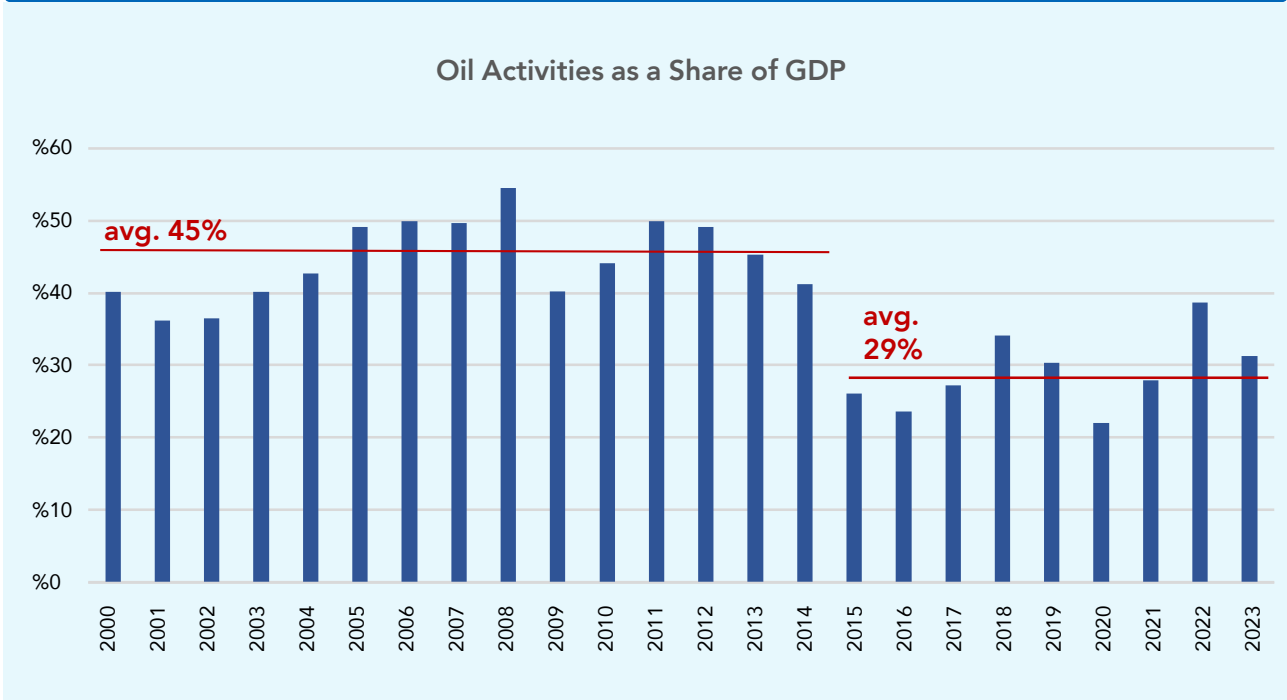
GDP growth rates are characterized by volatility, reflecting dynamics on the international oil market (Figure 3). Between 2000 and 2019, average growth rates were approximately 3.8%. The COVID-19 pandemic significantly impacted Saudi Arabia's economy, leading to an economic contraction of 3.6%. In addition to the sharp decline in oil demand and prices, which reduced government revenues, the pandemic disrupted relevant non-oil sectors, particularly tourism, retail, and entertainment, resulting in job losses and reduced income (UNDP, 2020). After 2020, Saudi Arabia's economy showed strong signs of recovery, driven by higher oil prices, government stimulus measures and reforms, and Vision 2030 initiatives. Non-oil sectors, particularly tourism, entertainment, and retail, rebounded (PwC, 2023). In 2022, Saudi Arabia was the "fastest growing G20 economy" (IMF, 2023), with non-oil sectors gaining momentum. In January 2025, however, the IMF reduced its annual growth expectations for Saudi Arabia from 4.6% to 3.3%. (Reuters, 2025).

Figure 3: Real GDP Growth, expressed in percentages, in the Kingdom of Saudi Arabia
 (Data source: World Bank, 2024, and IMF estimations for 2024 and 2025)



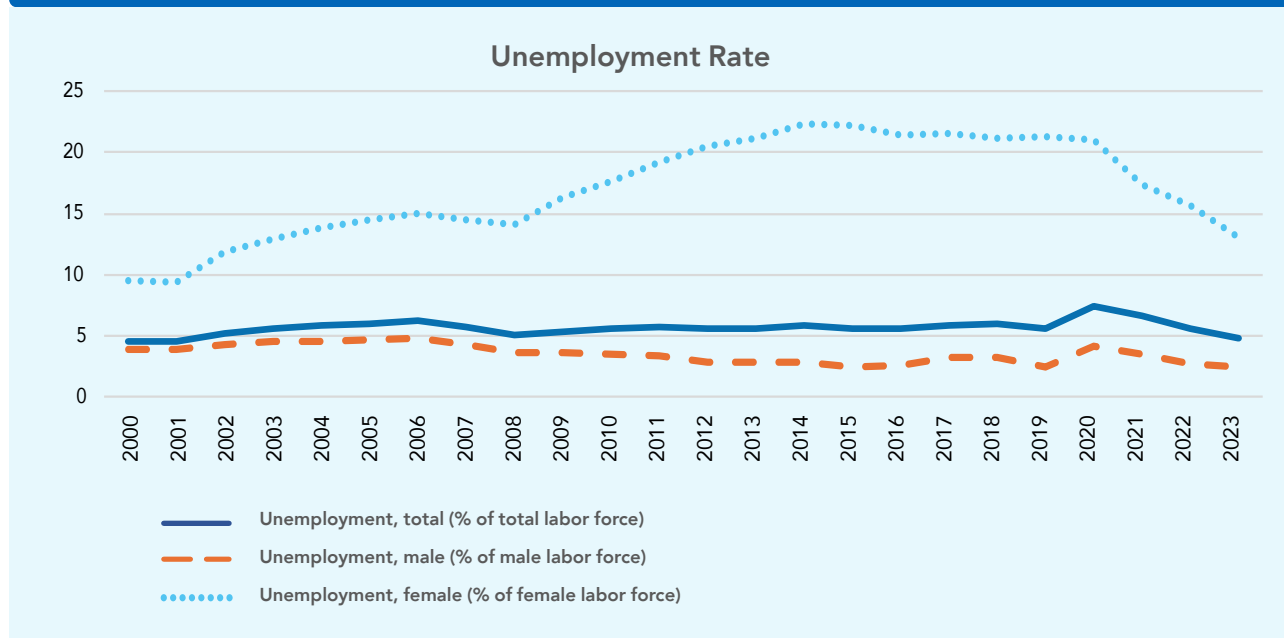
As shown by Figure 4, Saudi Arabia was successful in reducing the share of oil activities in GDP from an average of 45% between 2000 and 2014 to an average of 29% since 2015.

Figure 4: Contribution of Oil Activities to Saudi Arabia’s GDP between 2000 and 2023
 (Data source: General Authority for Statistics, 2025)



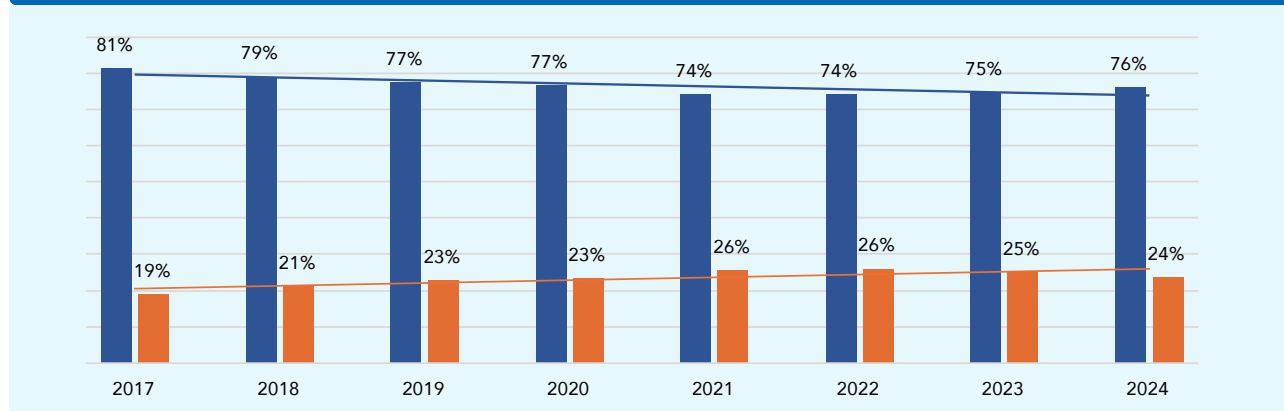
The unemployment rate in Saudi Arabia is low, averaging 5% (Figure 5). Female unemployment, however, exceeds male unemployment and peaked at 23% in 2014. Since then, however, it has decreased, thanks in part to targeted labour market reforms (IMF, 2023).

Figure 5: Unemployment Rate, expressed in percentages, in Saudi Arabia between 2000 and 2023 (Data source: World Bank, 2024)



Like all other GCC countries, Saudi Arabia relies heavily on foreign workers. As Figure 6 shows, foreign workers represent the majority of the registered workforce in the Kingdom. However, the country has increased the share of the national workforce, as shown by the rise in the proportion of Saudi employees from 19% to 26% in 2022, followed by a slight decrease to 24% in 2024. While Saudi Arabia is trying to nationalise its workforce – notably through the Saudi Nationalisation Scheme, Nitaqat, which was introduced in 2011 – the government aims simultaneously to attract highly qualified foreign workers to develop expertise, diversify the economy, and reduce dependency on oil revenues (Global People Strategist, 2023).

Figure 6: Percentage of Registered Workers by Nationality in Saudi Arabia (Source: SIG calculations based on quarterly data by the General Authority for Statistics, 2025)



ECONOMIC DIVERSIFICATION

3.1 SITUATION ANALYSIS

According to the framework for measuring economic diversification outlined in Section 1, the development of diversification in the Kingdom of Saudi Arabia can be captured by measuring changes in sectoral contribution to GDP, export- and fiscal-revenue composition, and FDI. These indicators are presented in the following sub-sections.

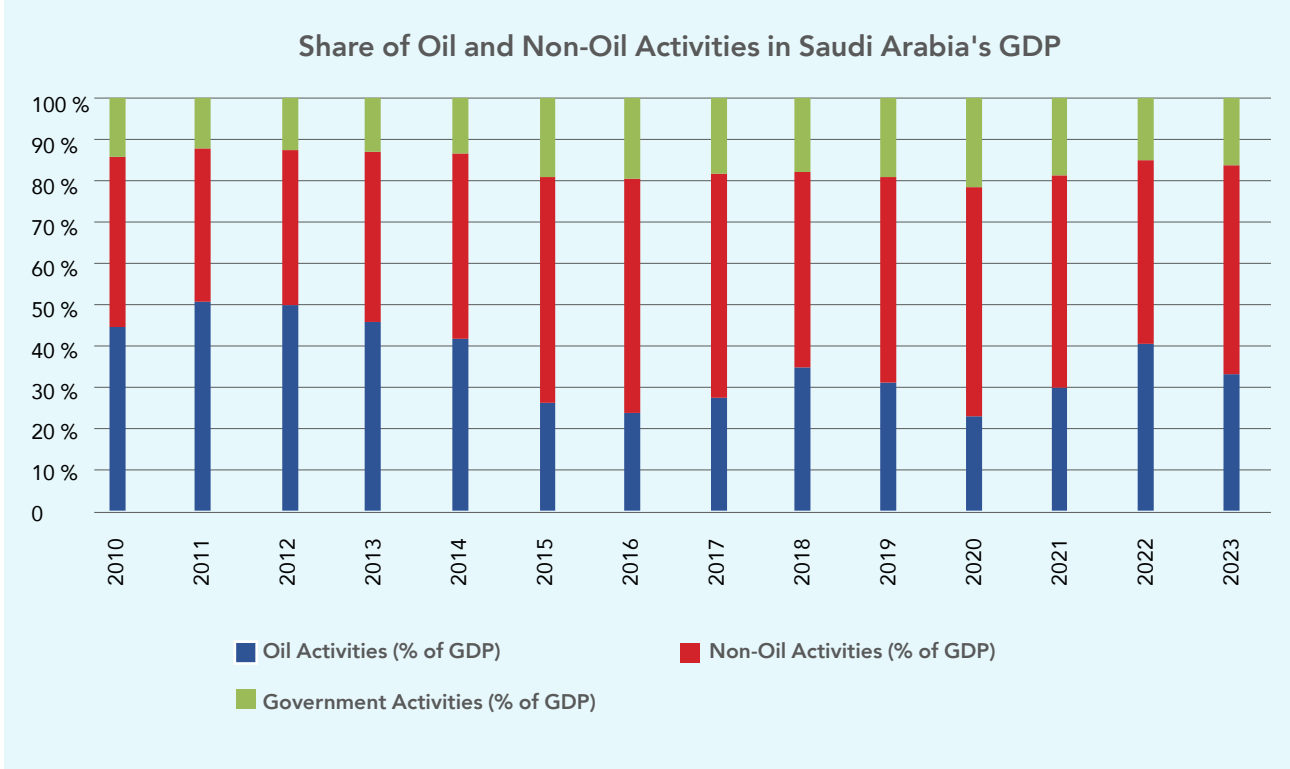
3.1.1 Sectoral Contribution to GDP

In 2024, oil activities contributed 27% to GDP, down from 39% in 2022 (Figures 7 and 8). At 61%, services represent the largest constituent sector of Saudi GDP, a proportion that aligns with the average for high income countries, which stands at 69%. Within the service sector, in 2024, the largest share was represented by government services (34%), followed by finance, insurance, real estate, and business services (26%), and wholesale and retail trade, restaurants, and hotels (22%). Other notable sectors include transport, storage, and communication (11%) (SIG calculations based on General Authority for Statistics, 2025).

Figure 7: Contribution of Different Economic Activities to Saudi Arabia's GDP for the year 2024 (Data source: General Authority for Statistics, 2025)

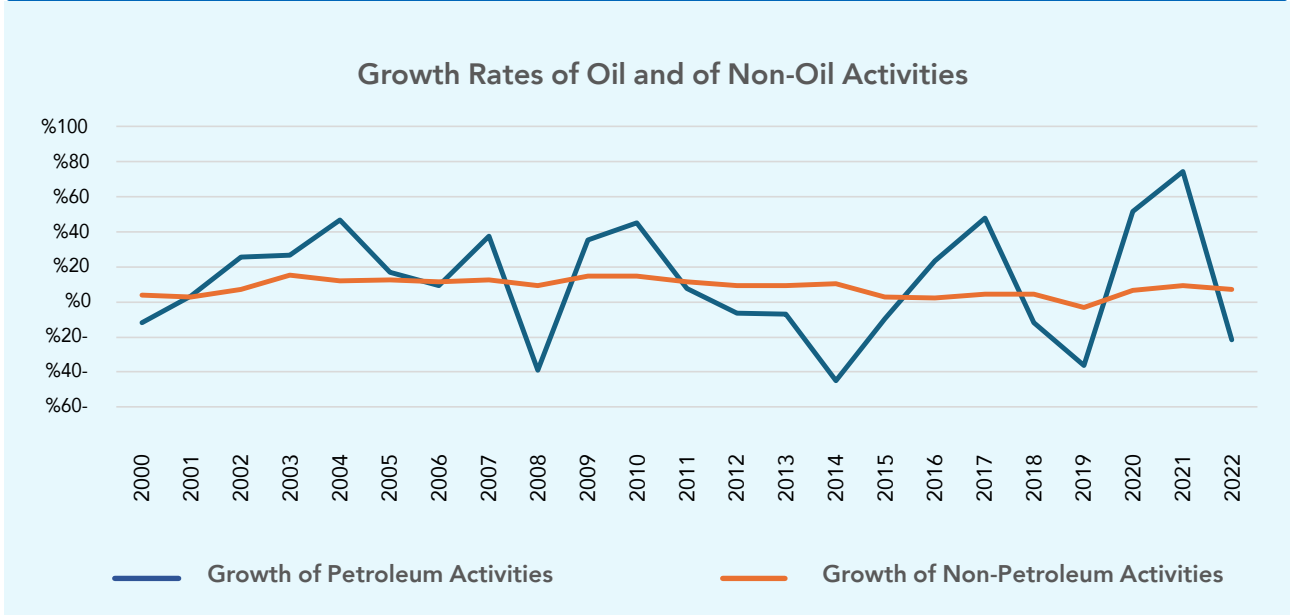


Figure 8: Share of Oil and Non-Oil Activities to GDP (Data source: SIG calculations based on General Authority for Statistics, 2025)



An important indicator of the strength of the Saudi non-oil sector is the low correlation between growth rate of oil and non-oil activities, which is significant only at the 10% level (Pearson's correlation coefficient=0.35, $p < 0.09$) (Figure 9). This provides evidence that non-oil sectors can drive growth and thus minimise the economic repercussions of downturns in international oil markets, contributing to a decoupling of economic growth from the hydrocarbon sector.

Figure 9: Growth Rate of Oil and Non-Oil Activities in Saudi Arabia (Data source: SIG calculations based on General Authority for Statistics, 2025)



3.1.2 Export Diversification

Figure 10 illustrates trends in oil and non-oil exports between 2005 and 2023. Oil exports continue to dominate the country's total exports, highlighting Saudi Arabia's significant reliance on its petroleum industry as a driver of its export-led growth model. Throughout this period, there are noticeable fluctuations in oil exports, likely influenced by factors such as global oil prices and changes in global demand. Non-oil exports, while smaller in comparison, show some variability, indicating ongoing efforts to diversify the economy as part of Saudi Arabia's Vision 2030 agenda. In terms of share of GDP, it can be estimated that between 2005 and 2014, oil exports represented 48% of national output on average, after which the share decreased to approximately 27% between 2015 and 2023 (SIG estimation).

Figure 10: Percentage Contribution of Oil and Non-Oil Exports between 2005 and 2023 (Data source: SIG)

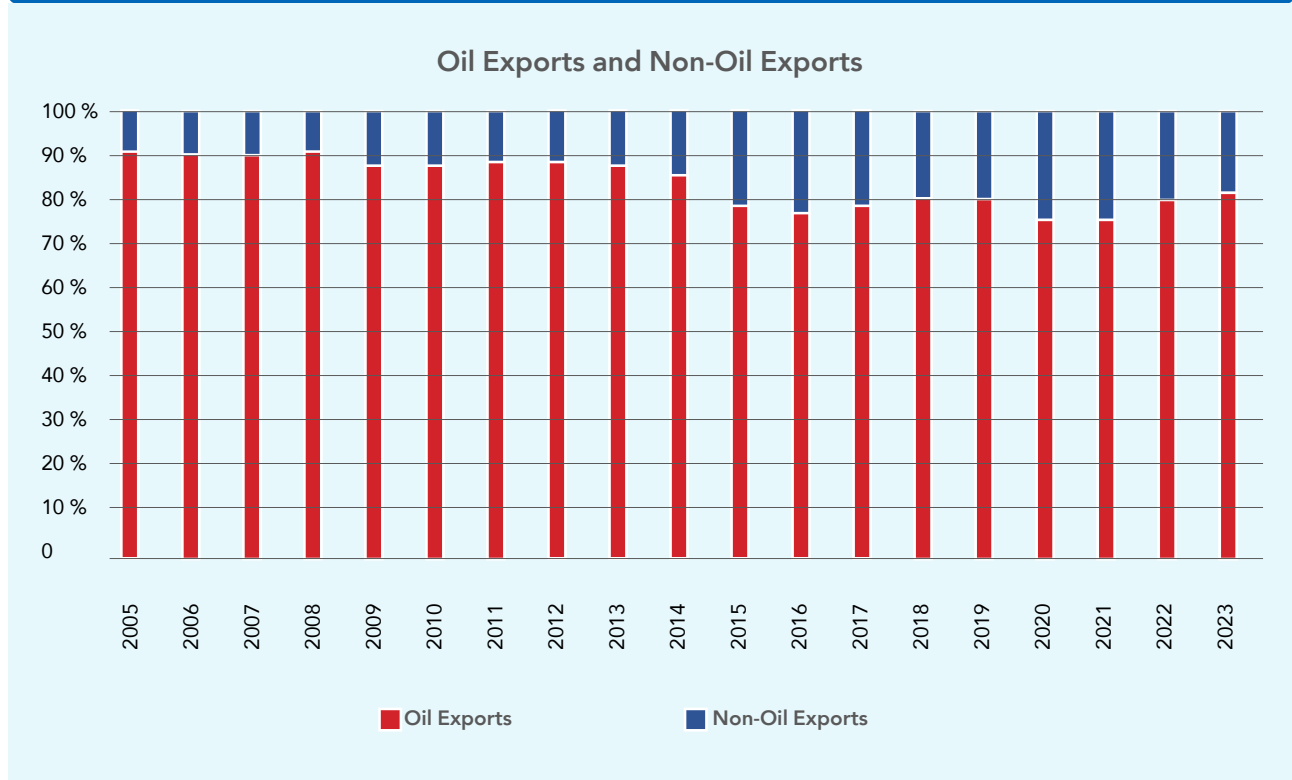


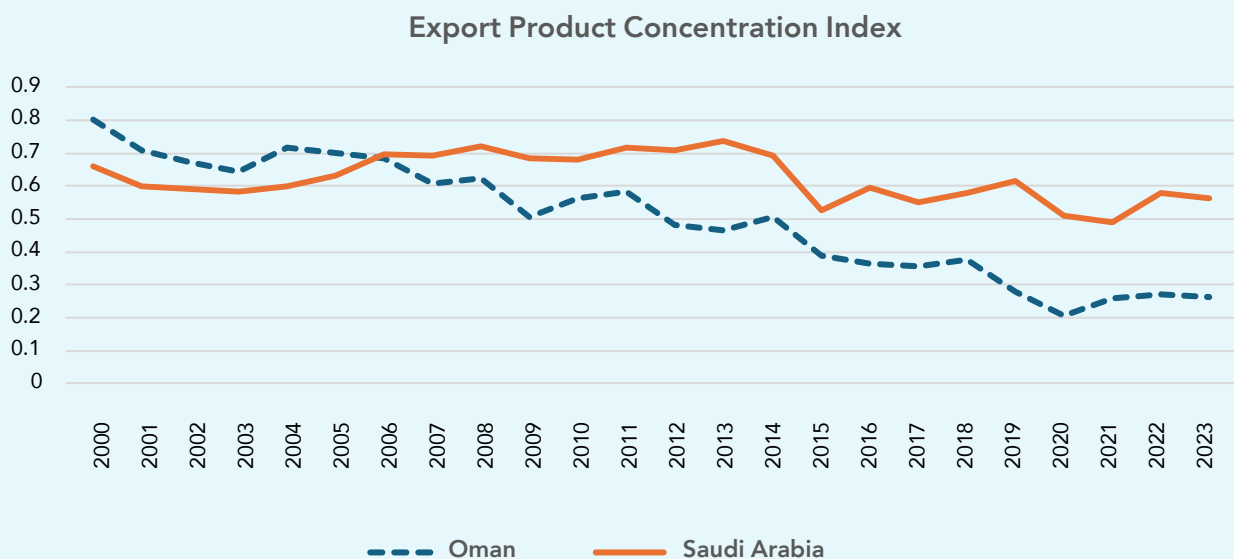
Figure 11 illustrates Saudi Arabia's export composition in 2023. Fuels dominated at 74%, followed by manufactured goods, which accounted for 21% of exports. These figures underscore the need for Saudi Arabia to further diversify its economy, which would help the Kingdom reduce its dependence on hydrocarbons and vulnerability to price shocks, thus enhancing economic stability, creating jobs, and positioning Saudi Arabia for a more sustainable and resilient future. Furthermore, such steps would align with the country's Vision 2030 goal of raising the share of non-oil exports in non-oil GDP from 16% to 50% through promoting sectors such as manufacturing, logistics, and technology.

Figure 11: Saudi Arabia's Export Composition by Main Commodity Group in 2023
(Data source: UNCTAD, 2024)



UNCTAD's export product concentration index measures the extent to which a country's exports are focused on a limited number of products, as opposed to being more evenly spread across different goods. The index ranges between 0 and 1, with larger values reflecting a higher reliance on exporting a limited number of products. As Figure 12 shows, Saudi Arabia has not registered significant progress in terms of export concentration between 2000 and 2023, in contrast to the consistent reductions in concentration achieved by its neighbour, the Sultanate of Oman. The Kingdom has also barely increased its number of export goods, which rose from 246 in 2000 to 250 in 2023.

Figure 12: Comparison of Export Product Concentration Index Scores for Saudi Arabia and Oman, 2000-2023 (Data source: UNCTAD, 2024)

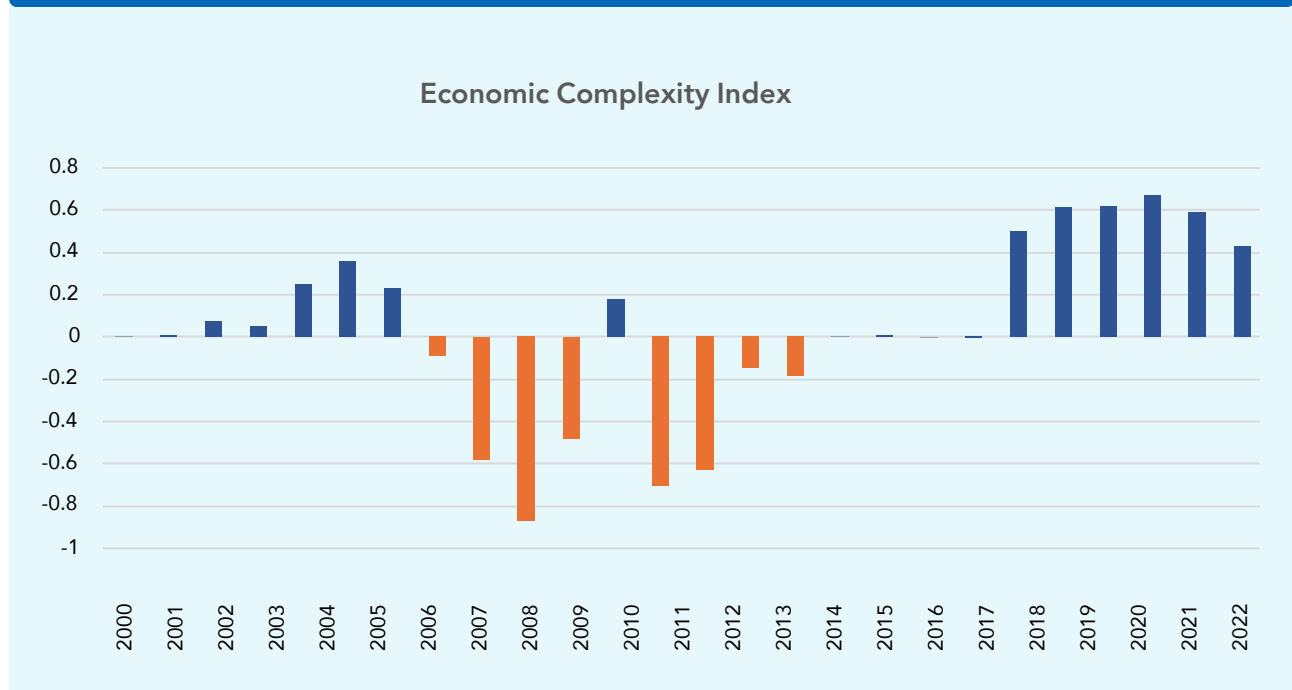


To spur the diversification of the Kingdom’s export portfolio, Riyadh launched the Saudi Export Development Authority (also named “Saudi Exports”) in 2013. Saudi Exports is a government entity dedicated to increasing the country’s non-oil exports, promoting their penetration into the global market, and leveraging Saudi Arabia’s economic potential to enhance the efficiency of its export environment. Its mission includes developing programmes, providing incentives for exporters, promoting Saudi products in international markets, and improving their competitive profile and quality. Despite these efforts, however, the Kingdom has struggled to expand its export portfolio, even in comparison to neighbouring oil exporters in the GCC. For instance, Oman successfully expanded its export portfolio from 177 goods in 2000 to 228 in 2023(UNCTAD database, 2024).

The Economic Complexity Index (ECI) assesses and ranks countries based on the diversity and sophistication of their export baskets. High-complexity countries produce a diverse range of advanced products, reflecting specialised capabilities. ECI considers not only the number of products a country exports but also their ubiquity (how many other countries produce them) and sophistication.

As Figure 13 displays, Saudi Arabia’s lowest ECI score was recorded in 2008. Despite fluctuations, the country’s score improved thereafter, reaching a maximum of 0.67 in 2020. Progress tapered off thereafter, however, due to the economic aftershocks of the COVID-19 pandemic, disruptions in supply chains, and a spike in the price of oil due to the Russian invasion of Ukraine in 2022.

Figure 13: Economic Complexity Index, Saudi Arabia (SITC product classification)
(Data source: Harvard Growth Lab, 2024)



Saudi Arabia’s ranking according to the ECI shows significant fluctuations over time, with the lowest (best) ranking being 31 in 2019 and the highest (worst) being 106 in 2008 (Figure 14). In 2022, Saudi Arabia ranked 44th, indicating a slight regression compared to 2019, which the Ministry of Economy and Planning’s (2022) Annual Report attributed to the impact of regional geopolitical instability on the logistics sector, as well as exchange rate fluctuations. Nevertheless, an overall trend of advancement in Saudi Arabia’s global ranking can be identified since 2011, with especially large ameliorations occurring after 2015. These improvements coincide with the post-2014 decrease in oil prices and the proclamation of Vision 2030 in 2016.

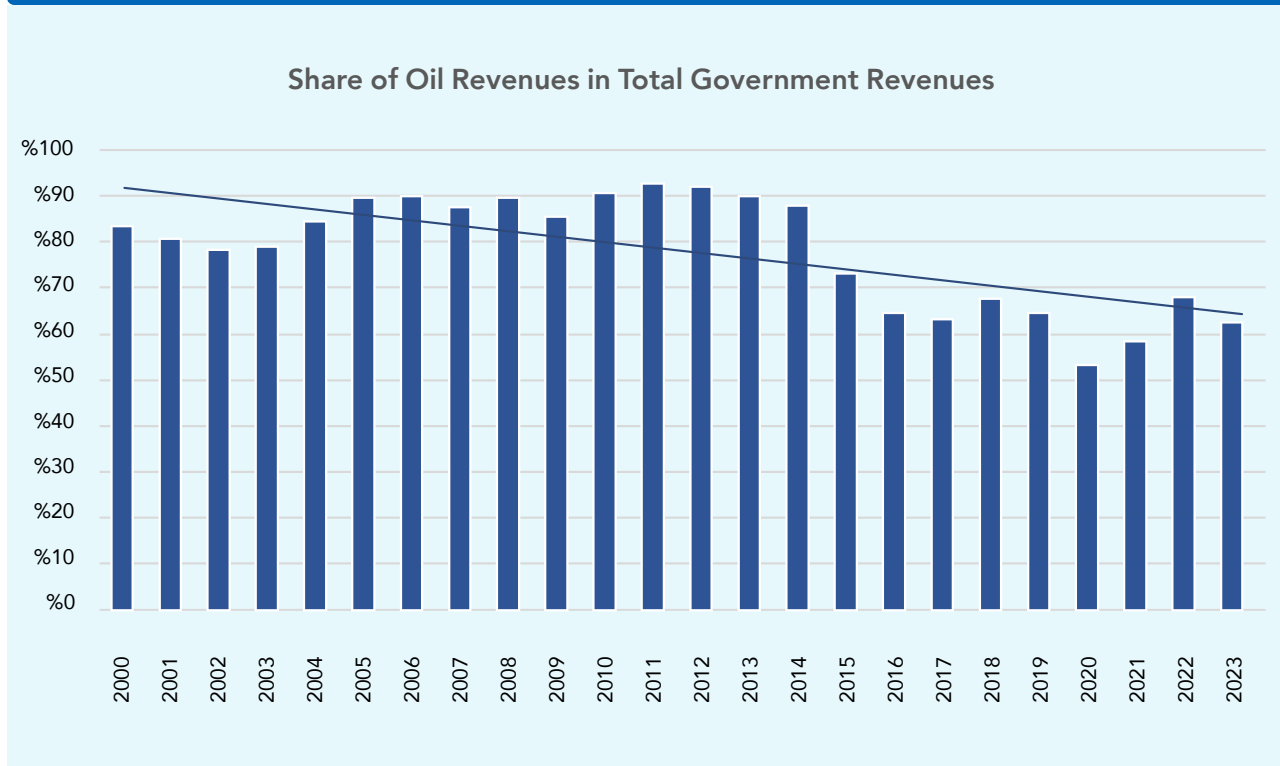
Figure 14: Saudi Arabia’s ECI Ranking out of 133 Countries (1=best rank, 133=worst rank) (Data source: Harvard Growth Lab, 2024)



3.1.3 Sources of Fiscal Revenues

Figure 15 shows the share of oil revenues in Saudi Arabia’s total government revenues between 2000 and 2023. Over this period, oil revenues have consistently made up most of the government’s income, exceeding 70% in many years. The decreasing trend since 2014 reflects on the one hand the fall in oil prices starting in 2014-15 and, on the other hand, Riyadh’s efforts towards fiscal and tax reform and economic diversification. For example, as part of an agreement with other GCC countries, Saudi Arabia in 2016 introduced a 5% value-added tax (VAT) that entered into force in 2018. The VAT was then increased in 2020 to 15%, with the specific purpose of enabling the country to provide countercyclical economic stimulus. Similarly, in 2017, some excise taxes on unhealthy products like tobacco, soft drinks, and energy drinks were introduced (PwC, 2025). All of this contributed to reducing the share of oil revenues in the government budget, as shown by the negative slope of the line of best fit superimposed upon Figure 15. However, dependency of public revenues on the oil sector remains high, underscoring the importance of economic diversification to reduce reliance on hydrocarbons and create a more resilient and sustainable economy.

Figure 15: Share of Oil Revenues in Saudi Arabia's Total Government Revenues
(Data source: SIG)



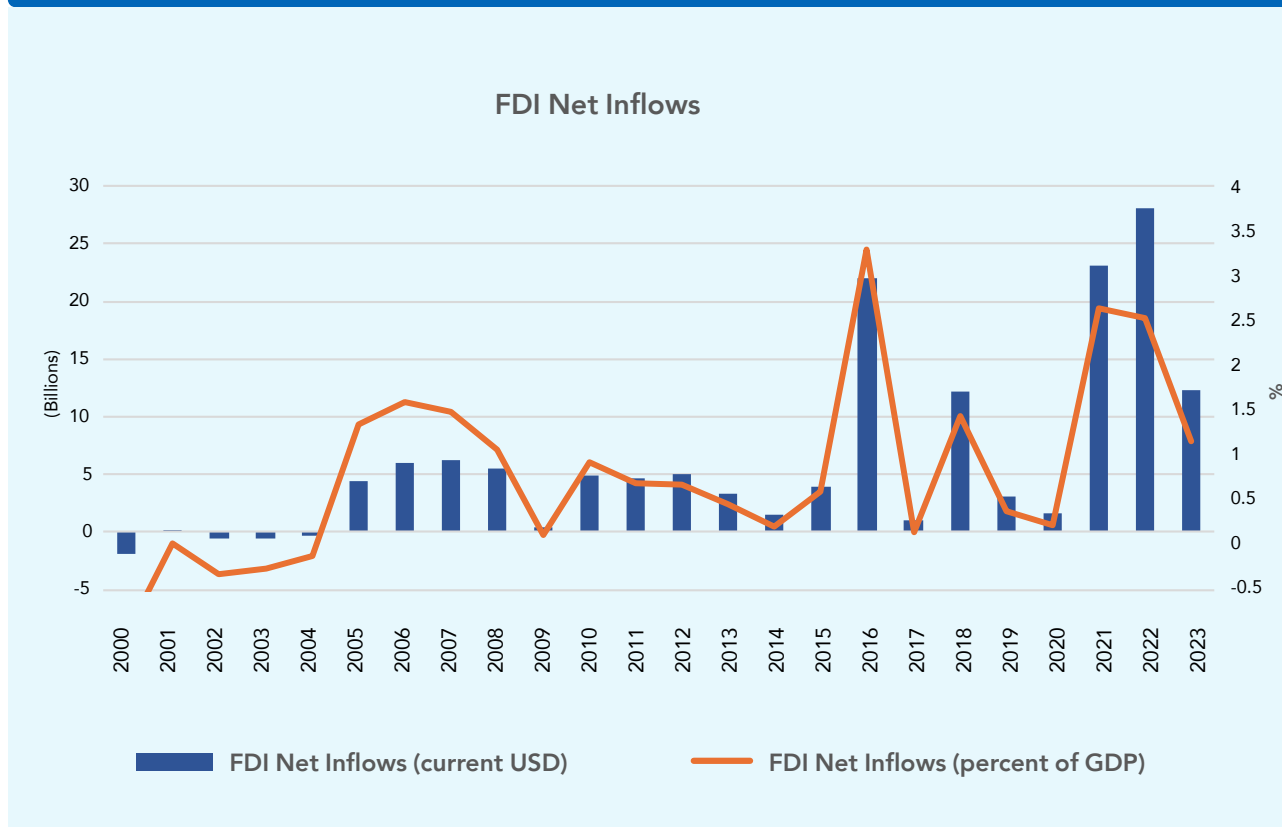
3.1.4 Foreign Direct Investment

FDI is a crucial factor for understanding economic trends and identifying opportunities for diversification. By drawing in foreign capital, technology, and expertise, FDI can stimulate growth across diverse sectors, create jobs, and promote resilient, sustainable economic development. This diversification strengthens competitiveness and enhances overall economic performance (Alharthi et al., 2024). Vision 2030 highlights the importance of FDI for strengthening and diversifying the economy and sets the target to increase net inflows from 1.5% of GDP in 2021 to 5.7% in 2030.

Figure 16 presents FDI net inflows, measured in billions of USD and as a percentage of GDP, between 2000 and 2023. While the data reveal significant fluctuations, the increase in FDI around 2016-2017 might be attributed to the launch of Vision 2030 and the decline in 2020 to the global economic slowdown caused by the COVID-19 pandemic. Notably, Saudi Arabia has undertaken significant reforms to enhance its investment climate, including liberalising foreign ownership laws, streamlining business regulations, and investing in sectors like tourism, transportation, entertainment, and technology. Despite the Kingdom's military intervention in Yemen, which started in 2015, a FDI inflows to Saudi Arabia as a share of GDP increased from an average of 0.83% between 2005 and 2015 to an average of 1.47% of

GDP between 2016 and 2023. In general, progress is noticeable, but inconsistent: while the country surpassed the intermediate target of 2% outlined in Vision 2030 in 2022, it fell well short of its goal of 2.4% for 2023 (Ministry of Investment of Saudi Arabia, 2024). It should also be noted that Saudi authorities recently amended their methodology for FDI calculation, leading to a retroactive, cross-the-board inflation of investment figures (Reuters, 2024).

Figure 16: Net Inflow of Foreign Direct Investment into Saudi Arabia between 2000 and 2023 (Data source: World Bank, 2024)

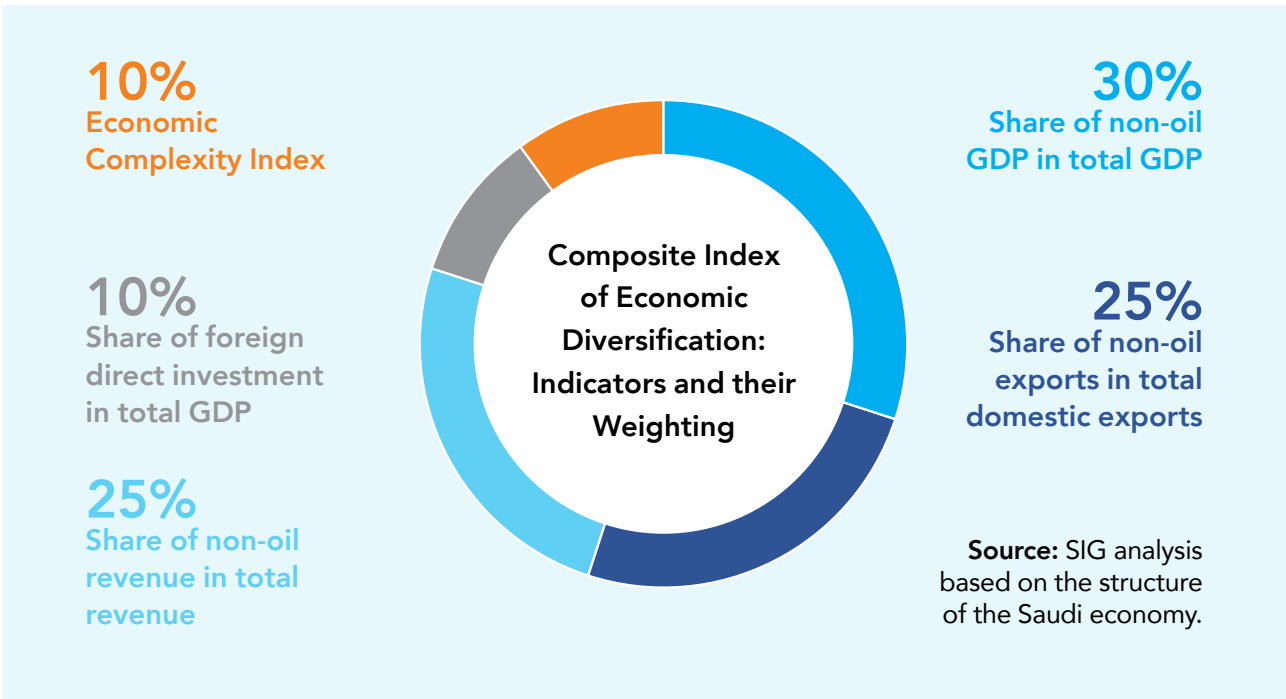


Focusing on recent FDI trends, the Ministry of Investment of Saudi Arabia (2024) reports that in 2022, the Kingdom witnessed significant investment inflows in both oil and non-oil sectors. In the oil-related sector, mining and quarrying attracted approximately USD 1.28 billion in FDI, with a total FDI stock of around USD 6.39 billion. Despite ongoing investment in oil, there is a clear shift toward reducing dependency on hydrocarbons and increasing investment in non-oil sectors.

Key non-oil sectors like manufacturing, transportation and storage, and retail trade saw substantial FDI inflows, accounting for 87.2% of the total. Transportation and storage led the inflows, attracting approximately USD 13.92 billion. Other significant sectors included manufacturing, followed by wholesale and retail trade, vehicle repair, financial and insurance activities, construction, information and communication, and professional services.

3.2 ECONOMIC DIVERSIFICATION COMPOSITE INDEX

As part of the GCC Economic Diversification Barometer, SIG and KAS have developed an original index to quantify and compare economic diversification in GCC countries. This index, called the Composite Index of Economic Diversification in GCC Countries, consists of the weighted average of five normalised indicators of economic diversification: share of non-oil GDP in total GDP; share of non-oil exports in total domestic exports; share of non-oil revenue in total revenue; share of FDI in total GDP; and the country’s score in Harvard University’s Atlas of Economic Complexity. Weights are applied as in Table 1. Scores range between 0 and 100, with higher scores representing higher levels of economic diversification.

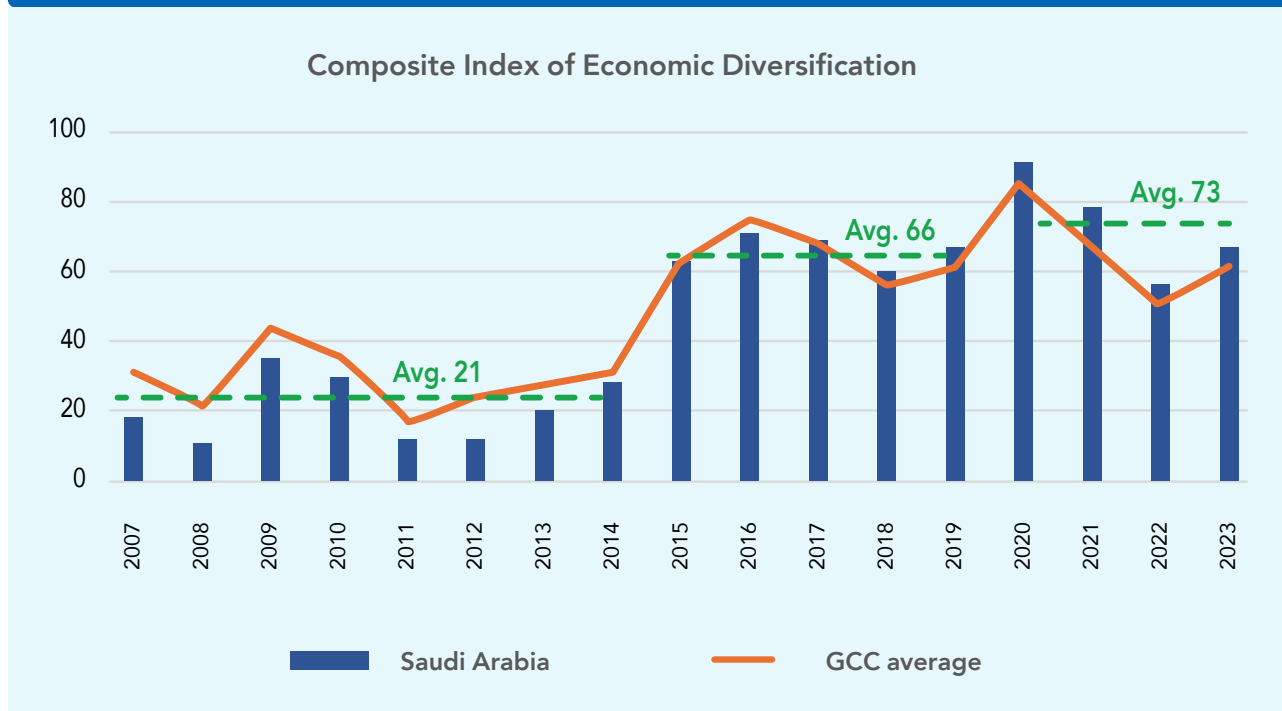


The Composite Index of Economic Diversification for Saudi Arabia, as illustrated in Figure 17, demonstrates strong fluctuations and an overall non-diversified economy between 2007 and 2014. During this period, the Kingdom’s average score was 21 and reached a minimum of 11 in 2008. Since 2015, in concomitance with the decrease in international oil prices and the start of the reform agenda, the index shows consistent improvements: it surged to 62.6 in 2015 and continued its strong rise, peaking at 71.3 in 2016. Although there was a slight decrease to 68.4 in 2017, the overall trend remained positive.

In 2020, due primarily to the pandemic-induced decrease in global demand for fossil fuels, the index rose to 90.8. Despite setbacks in the past few years, the average for the index since 2020 has been 73, seven points higher than the average for the 2015-2019 period. Overall, this displays long-term progress in Saudi Arabia’s efforts to diversify its economy and corroborates the Kingdom’s success in advancing national strategies for economic reform, as

discussed further in the next section. Comparing the index scores for Saudi Arabia with the GCC average, it can be concluded, however, that the level of diversification in the Kingdom follows the regional trend without fail. This indicates that Saudi Arabia still has a long way to go to achieve its aspirations, outlined in Vision 2030, to become a leader in the GCC with respect to economic diversification and shifting production away from the hydrocarbons sector.

Figure 17: Composite Index of Economic Diversification, Saudi Arabia
(Data source: SIG calculations)



3.3 NATIONAL STRATEGIES AND INITIATIVES

Saudi Arabia, which is the largest oil exporter worldwide, has embarked on an ambitious economic transformation under Vision 2030. Released in 2016, the Vision aims to diversify the Kingdom’s economy and reduce its dependence on oil. Central to this strategy is the Public Investment Fund (PIF), which has expanded significantly in recent years and is tasked with catalysing private investment and developing new sectors such as hospitality, digital services, and sports. To achieve this ambitious aim, Vision 2030 suggests a holistic approach, which manifests in thirteen realisation programmes: the National Transformation Programme (NTP), Quality of Life Programme, Fiscal Balance Programme, Public Investment Fund (PIF) Programme, Privatisation Programme, Human Capability Development Programme, Strategic Partnerships Programme, Hajj and Umrah Programme, National Industrial Development and Logistics Programme (NIDLP), Financial Sector Development Programme, Housing Programme, Health Sector Transformation Programme, and the National Transformation Programme for Education.

Among the strategies released to achieve Vision 2030's objectives, the National Investment Strategy (NIS) is a cornerstone. It calls for transforming the economy through attracting foreign investment and diversifying revenue streams beyond oil. Launched in 2021, the strategy sets out a comprehensive approach to boost both domestic and international investments. A key priority of the strategy is the diversification of the economy. It aims to reduce the Kingdom's reliance on oil by fostering growth in non-oil sectors such as tourism, renewable energy, mining, logistics, manufacturing, and digital infrastructure. One of its main goals is to increase the private sector's contribution to the economy. By encouraging private investment, fostering entrepreneurship, and supporting small and medium enterprises (SMEs), the government aims to create a more dynamic and resilient economy. Another key objective is to attract FDI, positioning Saudi Arabia as a leading global investment destination. To achieve this, the strategy focuses on enhancing the business environment, streamlining regulations, and offering incentives to foreign investors.

The development of infrastructure is also central to the strategy, with projects like NEOM, the Red Sea Project, and Qiddiya playing a vital role in attracting global investors and stimulating economic growth. In addition to economic transformation, the NIS places significant emphasis on human capital development, aiming to equip the workforce with the necessary skills to meet the demands of a modern economy. This includes a focus on education, training, and innovation, particularly in fields such as technology and advanced industries.

The strategy also aligns with global sustainability efforts, promoting investments in clean energy projects such as solar, wind, and hydrogen, as well as initiatives aimed at reducing carbon emissions. Investment promotion is a critical part of the NIS, with the Saudi government offering a range of financial and non-financial incentives to attract both domestic and foreign investments. The Public Investment Fund (PIF) plays a crucial role, acting as a catalyst for investment in key sectors and forming partnerships with international investors.

Reforms to the legal and regulatory frameworks are another critical element, aimed at improving the ease of doing business, ensuring transparency, and protecting investor rights. An example in this regard is the establishment in 2023 of four Special Economic Zones (SEZ) as part of the NIDLP. Also important to mention are major investments in tourism, such as the Jeddah Central Project, a gigantic overhaul of the city's waterfront, and Diriyah Gate, which aims to revitalise heritage and create a unique touristic experience in the capital city, Riyadh. Through this multi-faceted strategy, Saudi Arabia seeks to position itself as a global investment powerhouse by 2030, enhancing its economic resilience and securing a sustainable future for the Kingdom.

- **Industry Localisation:** Localisation of industries is a key driver of diversification. The country has focused on increasing local content in government procurement and the military sector, boosting local manufacturing. Additionally, Lucid Group – an American company whose majority shareholder is an affiliate of the Saudi PIF – established its first international electric vehicle manufacturing plant in Saudi Arabia in 2023, positioning the Kingdom as a hub for the EV industry (Lucid Motors, 2023). However, Lucid has incurred significant losses and has struggled to boost production and attract demand beyond the Saudi government, illustrating the challenges, particularly in the short term, associated with transplanting industries to the Kingdom and building them from the ground up (Smith and Gavin, 2025).
- **Entrepreneurship:** Saudi Arabia has become a leader in entrepreneurship, achieving excellent ranking (first or second) in almost all dimensions captured by the Global Entrepreneurship Monitor 2023-24. There has also been robust growth in venture capital investments, further fuelling the private sector and innovation. SMEs have doubled since the launch of Vision 2030, reflecting strong support for small businesses.
- **Green Energy Transition:** Saudi Arabia is advancing its renewable energy capabilities. By 2023, renewable energy contribution to electricity production tripled, rising from 0.9% in 2022 to 3% in 2023 (Kingdom of Saudi Arabia, 2023). Key projects include solar energy plants and plans to become a global leader in hydrogen production, as well as the target to reach net-zero greenhouse-gas emissions by 2060 (Saudi Green Initiative, 2025).
- **Digital Transformation:** Saudi Arabia has built a thriving GovTech ecosystem by fostering collaboration between the public sector, private sector, and academia. Saudi Arabia ranks first in the GovTech Maturity Index (GTMI) developed by the World Bank (World Bank, 2022). This underscores the country's proactive role in leveraging technology to drive government transformation and economic diversification. This recognition highlights Saudi Arabia's commitment to digital innovation and its ability to harness technology to improve public service delivery, enhance governance, and support its broader Vision 2030 goals. Key enablers include the establishment of clear regulations, such as the Personal Data Protection Law, and public-private partnerships (PPPs), through which the government has partnered with tech companies and startups to develop innovative solutions and drive digital adoption. By nurturing a supportive ecosystem, Saudi Arabia has positioned itself as a regional and global leader in GovTech (World Bank, 2022).

The macroeconomic assessment by Nasser et al. (2024) suggests that, with appropriate fiscal measures, labour supply reforms, and improved public-sector efficiency, the NIS could increase non-oil growth by 4.8 percentage points, reaching 8.8% in the medium term. In general, Saudi Arabia has made significant strides in diversifying its economy, as summarised in the box above.

OUTLOOK AND POLICY RECOMMENDATIONS

As outlined in Section 3, economic diversification constitutes a pillar of Saudi Arabia's ambitious national policy agenda, Vision 2030. Nevertheless, the preceding analysis highlights that despite some progress in reducing the dominance of oil in the export basket, attracting FDI, and other components of the practical implementation of diversification, the Kingdom still has a long way to go to reach its sky-high ambitions. To realise Vision 2030's objectives, the following recommendations are proposed:

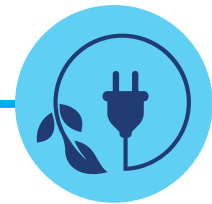


Strengthen Support for SMEs:

Continue developing policies that enhance access to finance, reduce bureaucratic barriers, and provide mentorship for SMEs. Given the pivotal role of SMEs in job creation and innovation, further simplifying business setup processes will support sustainable growth.

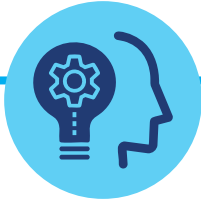
Encourage Local Manufacturing and FDI:

Expand localisation efforts by offering tax incentives for foreign investors and subsidies to attract FDI in high-tech industries. Build on the achievements realised in encouraging local production in sectors like defence, pharmaceuticals, and electric vehicles, in addition to boosting local industrial content in government procurement.



Sustain Green Energy Transition:

Promote public-private partnerships to accelerate the adoption of green energy technologies. In addition, introducing financial incentives for companies transitioning to clean energy and investing in R&D for renewable energy solutions can support the Kingdom's goal of achieving net-zero emissions by 2060.

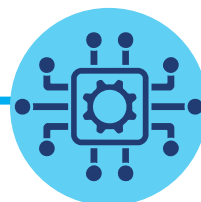


Strengthen Education and Vocational Training:

Tailor education and vocational programmes to meet the demands of the labour market, with particular attention paid to new and emerging industries like AI, renewable energy, and advanced manufacturing, which could be especially attractive to young Saudis. Creating a highly qualified workforce in this innovative sector will also motivate foreign investment in the Kingdom.

Invest in Digital Technologies:

Saudi Arabia's ranking of first worldwide in the World Bank's GovTech Maturity Index (GTMI) is a significant milestone that underscores the country's proactive role in leveraging technology to drive government transformation and economic diversification. Saudi Arabia has built a thriving GovTech ecosystem by fostering collaboration between the public sector, private sector, and academia. Key enablers include the establishment of clear regulations, such as the Personal Data Protection Law, and PPPs, through which the government has partnered with tech companies and startups to develop innovative solutions and drive digital adoption. Building on this progress, the Kingdom should invest in artificial intelligence (AI), which has the potential to transform industries, drive innovation, and create new economic opportunities, making it a critical enabler of Saudi Arabia's long-term development strategy. For instance, the country could create specialized AI research centres in collaboration with universities, tech companies, and international partners, provide grants and incentives for startups and researchers working on cutting-edge AI technologies, and develop AI solutions tailored to Saudi Arabia's unique needs, such as Arabic-language processing, desert agriculture, and energy optimisation.



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