

Jumpstarting Saudi Arabia's Productivity

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Abstract

Saudi Arabia's long-run development has expanded capital, employment, and infrastructure, but delivered uneven gains in output per worker. Using Van Ark et al.'s productivity framework, this chapter reviews the Kingdom's growth record. It evaluates how policies across investment, skills, market functioning, internationalization, and institutional foundations have shaped productivity outcomes since 1970. The analysis shows that sustained input expansion, weak incentives, and uneven institutional capacity limited total factor productivity growth. Saudi Arabia's current strategy, entitled Vision 2030 aims at coordinated reform, yet implementation gaps persist. The paper concludes by examining the rentier dynamics that have slowed the diffusion of productivity and finds that escaping its influence is essential to future progress.

1 Introduction

Propelled by its ambitious Vision 2030, Saudi Arabia is undergoing a deep policy shift to sustainably unlock its economic potential. Reforms are underway to socially and economically transform the country, aiming at inclusivity in the labor force and diversity in economic activity. So called Vision Realization Programs (VRPs) focus on enhancing industry productivity, government efficiency, and human capacities. (Saudi Vision 2030, 2021).

Vision 2030 continues a development path that Saudi Arabia embarked upon in 1970 with its first five-year development plan. Over the years, nine such plans have been implemented before the ambitious Vision 2030 was launched. Notably the initial plan, the fifth plan, and Vision 2030 were introduced following a change of leadership in the country's monarchy and shaped by the unique domestic pressures and global context of their respective times.

Historically, Saudi Arabia has been primarily an oil-exporting country that recognized, both then and now, the risks of depending on a single resource, with volatile value (Central Planning Organization, 1970). Therefore, each five-year development plan sought to build on previous efforts in cultivating a productive economy diversified away from oil and supported by institutional change, better infrastructure, and a skilled workforce.

This development path was shaped by the state's direct receipt of oil rents and their allocation through the economy. Public employment, subsidies, and transfers formed an implicit social contract, while public spending sustained demand and reinforced the state's central economic role (Beblawi, 1987; Luciani, 1987; Yamada, 2020). Oil revenues financed rapid capital accumulation, institution building, and structural change.

At face value the diversification efforts were relatively successful. Mining and oil refining accounted for one-third of the country's real GDP in 2015, down from two-thirds in 1970. However, in the process, the economy developed dynamics of a "productive rentier" economy. Extending Luciani's (1987) distinction between allocation and production states, Yamada (2020) describes this as an economy reliant on state demand, resource-linked advantages, and imported labor, while the development of transferable capabilities and the institutional discipline associated with production states remained limited (Niblock & Malik, 2007; Hertog, 2024). As a result, the concentration of demand and employment around the state weakened market discipline and reduced incentives for firms to upgrade, workers to acquire productive skills, and institutions to support competition and innovation (Papyrakis & Gerlagh, 2004; Bravo-Ortega & de Gregorio, 2005; Van der Ploeg, 2010; Cavalcanti et al., 2012; Hertog, 2024). Moreover, the productive rentier state model exposed the economy to

the volatility in global oil markets and the pressures of a growing youth population (International Monetary Fund, 2015).

Consequently, the Kingdom faced recurring difficulties in sustaining productivity gains. With the exception of a couple of periods, labor productivity growth in Saudi Arabia has been mostly either negative or marginally positive since 1970, with only brief periods of improvement, indicating underlying inefficiencies throughout its developmental journey (Van Ark et al., 2024). In the lead-up to the launch of Vision 2030 in 2016, the country grappled with a decline in productivity across most economic sectors (Van Ark et al., 2019). Since the launch of Vision 2030, labor productivity has improved in the public sector relative to the private sector, alongside improvements in digital government, public procurement, and the legal framework for business (IMF, 2024; Hertog, 2024). These gains have been clearest where the state exercises direct administrative control. Across the private economy, investment and reform have yet to generate broad productivity gains, as persistent distortions labor markets, institutions, and industries, continue to limit the overall impact of the vision on the country's total factor productivity performance (IMF, 2023, 2024; Hertog, 2024).

Despite considerable efforts, Saudi Arabia's inconsistent productivity performance serves as a compelling case study for evaluating the effectiveness of pro-productivity policies in resource rich economies. This paper aims to better understand the impact of pro-productivity policies in the early years of its nation building, and in transitioning from a small, relatively closed economy to a more open economy focused on internationalization.

In this context, the policy typology offered by Van Ark et al. (2024), offers a suitable framework to illustrate the type and sequencing of policies needed to support productivity-led growth. Indeed, as the framework implies, policies are more powerful when combined rather than when used in isolation. As this paper shows, Saudi Arabia began its journey through a simple input-led approach before shifting to a more complex set of concurrent policies. These aimed to integrate the country in the global economy and build resilience despite the lagging productivity.

Section 2 starts with a look at the Kingdom's output and productivity trends to contextualize its development journey. Section 3 then analyzes the Kingdom's policies using the typology developed by Van Ark's et al. (2024) through five levers for productivity-led growth: accumulation of physical and human capital; technological and structural change; markets and resource allocation; internationalization; and institutional frameworks. Finally, section 4 draws these findings together through the political economy of the rentier model and identifies the shifts required for wider productivity gains.

2 Output, Productivity, and the Resource Curse

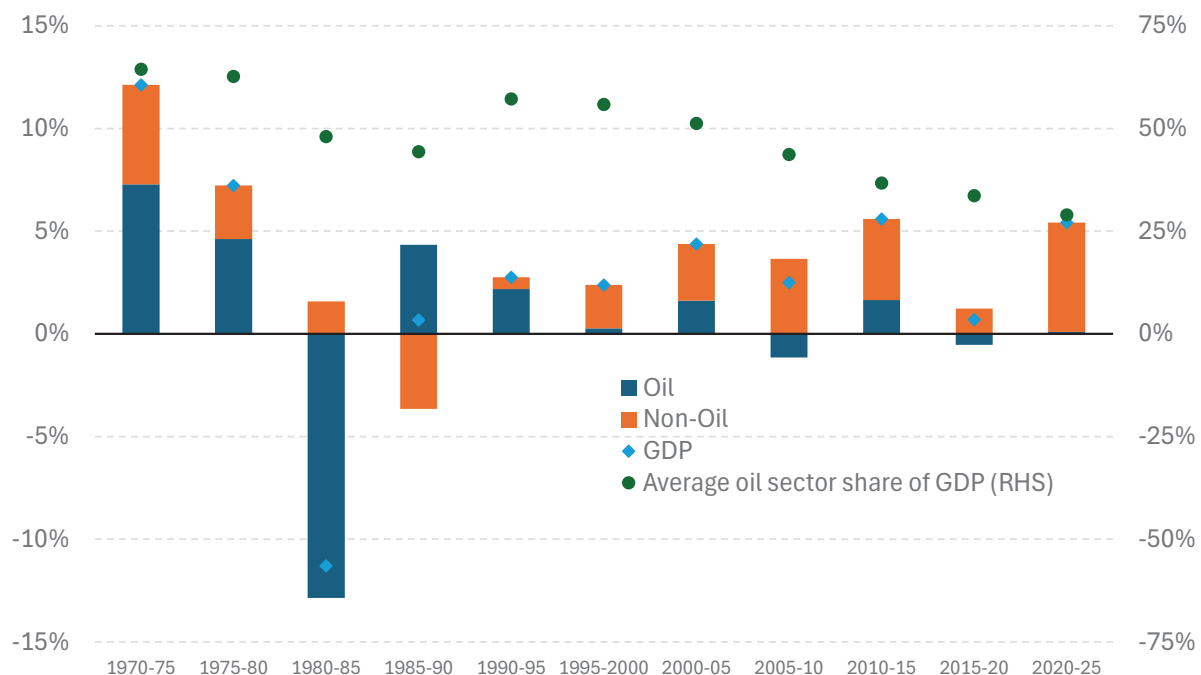
2.1 Saudi Arabia's Output Growth Trends

Since 1970, Saudi Arabia's growth has been primarily driven by oil prices, which trickled down through two main channels: oil production responded to changes in prices and oil revenue fueled government spending, which served as the primary catalyst for the non-oil economy. This pattern continues broadly till the mid-2010s, after which the non-oil sector became the primary contributor to output, although reliance on public investment as a driver for growth persists (Figure 1).

Saudi Arabia's growth trends can be divided into four major periods:

- **1970-1985 – A period of strong oil-led growth and collapse:** 1970 to 1980 was characterized by high oil prices, strong growth (+12% per year between 1970-75 and +7% per year between 1975-1980), high capital expenditure in oil and non-oil infrastructure, and strong private demand. From 1980 to 1985, Saudi Arabia's economy suffered a substantial decline as it assumed the role of swing producer and bore the brunt of the OPEC cuts, largely due to the low commitment from other members. With oil production dropping by 60% between 1981 and 1985, from 9.8 million barrels per day (mmbbl/d) to 3.5 mmbbl/d, government revenues dropped from SAR 328.6 billion to SAR 88.4 over those five years, in turn choking both public and private investment. (Niblock & Malik, 2007; Ramady 2010; IMF 2013).
- **1985-2000 – A period of recovery, stagnation, and restructuring:** Saudi Arabia reneged on its role as a swing producer in 1986, choosing to adopt a more market-centric approach. This was reflected in a return to natural production levels, with the oil sector driving output between 1985 and 1995 (IMF 2013; Figure 1). However, chastened by the oil bust, capital expenditures were cut and government spending slowed, depressing activity in the non-oil sector, which contracted between 1985 and 1990, and barely added value in the following five years. Growth, afterward, remained mostly modest, with a temporary acceleration in the early 1990s associated with Gulf War-related demand (Niblock & Malik, 2007).
- **2000-2015 – The longest extended period of sustained growth in Saudi Arabia's recent economic history:** GDP grew by an average of 4.3% per year over the period, led by non-oil activity, with the strongest performance since the 1990s, with the economy expanding by over 5% per year between 2010 and 2015 (Figure 1). High oil prices between 2005 and 2015 translated into higher capital spending, which boosted private sector activity. Even when they briefly dropped in 2009-2010, ample government surpluses continued to finance expansive projects (IMF 2015).

Figure 1 – Contribution of Oil and Non-Oil Output to Real GDP Growth.



Source: GASTAT

- 2015 – Present – Stagnant oil markets and national transformation:** The 2015 crash in global oil prices, resulting from uneven global growth and oversupply, eroded fiscal buffers, expanded the deficit, and coincided with new leadership taking over. The Kingdom undertook wide-ranging countercyclical reforms, embodied in its Vision 2030. Growth lagged as the economy adjusted to deep structural shifts in employment, taxation, and public spending in response to lower oil revenues and the Kingdom assuming once again its swing producer role. Output barely grew during the period between 2015 and 2020, compounded by the COVID pandemic. However, as the initial drag of the reforms wore off, and post-pandemic investment picked up, non-oil activity gradually gained momentum. Output growth has been strong from 2020 onwards (Figure 1), expanding at an average rate of 6.9% per year thanks to a robust investment program and business environment reforms.

Saudi Arabia's growth story illustrates how oil revenues can drive impressive economic results at times. However, each collapse in oil prices has exposed the economy's underlying frailty. Past efforts at economic restructuring were reactive and unsustainable, and they failed to produce lasting productivity gains. While Vision 2030 provides a more robust answer to Saudi Arabia's economic challenges it remains to be seen whether it can increase productivity in the long-term.

2.2 Saudi Arabia's Productivity Trends

2.2.1 Methodology and Data Sources

Total Factor Productivity (TFP) is estimated as the residual component of output growth after accounting for the contributions of capital and labor. For a time t gross domestic product (GDP) growth can be decomposed into contributions from factor inputs, capital (K), labor quantity (L), labor quality (H), and total factor productivity (TFP) growth as:

$$\Delta \ln GDP_t = \bar{v}_t^K \Delta \ln K_t + \bar{v}_t^L \Delta \ln L_t + \bar{v}_t^H \Delta \ln H_t + \Delta \ln TFP_t \quad (1)$$

where $\Delta \ln X_t$ indicates the growth rate (measured in log changes) of any given variable X (GDP, K , L , H and TFP). $\bar{v}_t^K$ and $\bar{v}_t^L$ denote the share of capital compensation and labor compensation relative to nominal GDP, respectively, both averaged over the current and previous year. Under constant returns to scale $\bar{v}_t^K + \bar{v}_t^L = 1$, the capital compensation share can be obtained by subtracting labor compensation from the nominal value added.

Using the growth accounting framework, we can also observe the drivers of labor productivity in Saudi Arabia, which, as will be shown below, stem mostly from either capital deepening or changes in TFP. Substituting the growth in labor quantity from equation (1) gives us:

$$\Delta \ln y_t = \Delta \ln GDP_t - \bar{v}_t^L \Delta \ln L_{j,t} = \bar{v}_t^L \Delta \ln H_t + \bar{v}_t^K \Delta \ln k_t + \Delta \ln TFP_t \quad (2)$$

Where $\Delta \ln y_t$ is the natural log change of labor productivity and $k_{j,t}$ is capital per worker (also known as capital deepening).

The data used are derived from The Conference Board's Total Economy Database, a comprehensive database with annual data covering Gross Domestic Product (GDP), population, employment, hours, labor quality, capital services, labor productivity, and total factor productivity (TFP) for 123 countries worldwide between 1950 and 2025. (The Conference Board, 2025)

2.2.2 Labor Productivity and Employment

A quick glance at Figure 2 reveals that employment growth has consistently been the main driver of output growth throughout Saudi Arabia's development journey, particularly in the early stages, and has remained relatively strong in subsequent years. Such rapid increases in employment are characteristic of oil-exporting countries, particularly those of the Gulf Cooperation Council, which experienced strong growth since the 1970s thanks to their oil revenues that required a large number of workers in construction, government, and commercial activities. There was a tacit preference for importing large numbers of cheap, short-

term foreign labor versus developing local human capital to keep up with the fast pace of growth. This was particularly characteristic of Saudi Arabia (Baldwin-Edwards, 2011; Al-Mejren et al. 2019).

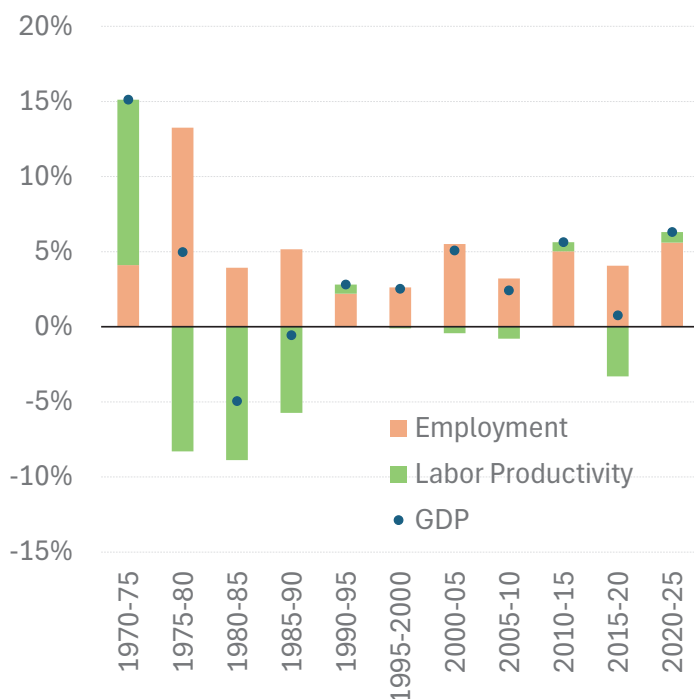
On the other hand, labor productivity growth was mostly minimal or negative over the entire period, with particularly noticeable declines during periods that coincide with oil price drops, or when other external shocks occurred, such as the 2007-09 financial crisis and the COVID pandemic of 2020. Often, these declines in labor productivity are due to the procyclicality of fiscal spending in oil exporting countries, particularly in sectors that are heavily dependent on subsidies and employ many low-skilled workers (Cavalcanti et al., 2012; Nada et al., 2016)

Looking at the trend through the lens of the four major periods:

- **1970-1985:** While labor productivity outpaced the increase in employment due to the rapid output increases between 1970 and 1975, Saudi Arabia experienced, on average, declines in these years, with the sharper fall occurring between 1980 and 1985 (Figure 2). Nonetheless, employment still grew strongly throughout the period, with the labor force more than doubling from 1.9 million in 1975 to 4.3 million by the end of the period. This was driven by a rapid increase in foreign laborers, whose share rose from 25% to 63% as Saudi Arabia implemented its first development plans, which laid the foundations of the Kingdom's economic infrastructure (Al-Asmari, 2008).
- **1985-2000:** Labor productivity improved between 1985 and 1995 but showed little to no growth between 1995 and 2000. Employment contributed positively throughout the period, with the total labor force almost doubling again, growing from approximately 4.3 million in 1985 to 7.2 million in 2000, still driven by the import of foreign labor. The non-Saudi share peaked at 67 percent in 1990 and ended the period at 62 percent¹. The temporary improvement in output per worker coincided with the completion of earlier construction programs and a shift in activity toward petrochemicals and higher-productivity services, such as transportation and financial services (Ministry of Economy and Planning, 1990; Figures 2 and 3).

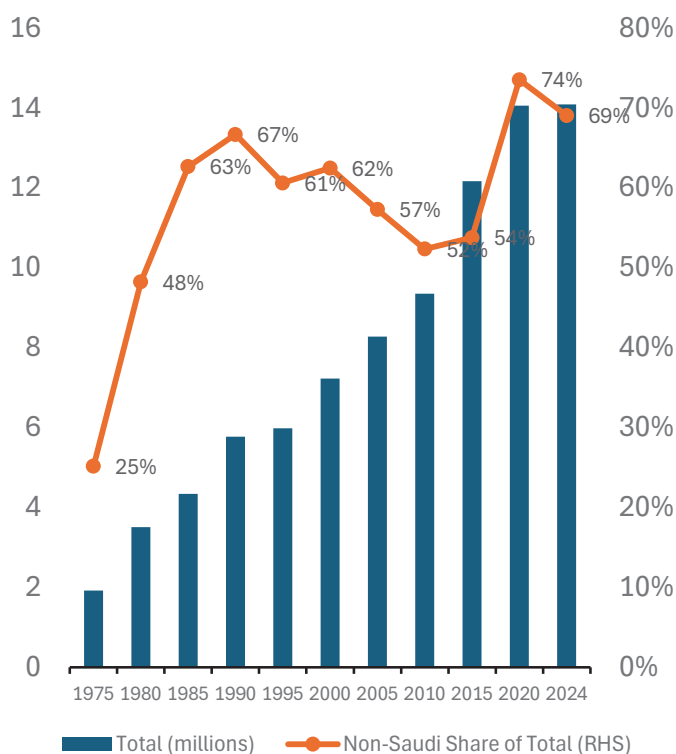
¹ Recorded increases may reflect demographic growth, higher Saudi participation, and broader formalization and statistical coverage. However, inconsistent employment estimates across official sources limit comparability and deeper analysis.

Figure 2 – Contribution of Labor Productivity and Employment to GDP Growth (change in natural log, period annual average)



Source: Total Economy Database™, The Conference Board, September 2025.

Figure 3 – Total Labor Force and Non-Saudi Labor Share.



Sources: Al-Asmari, 2008, GASTAT, author's estimates

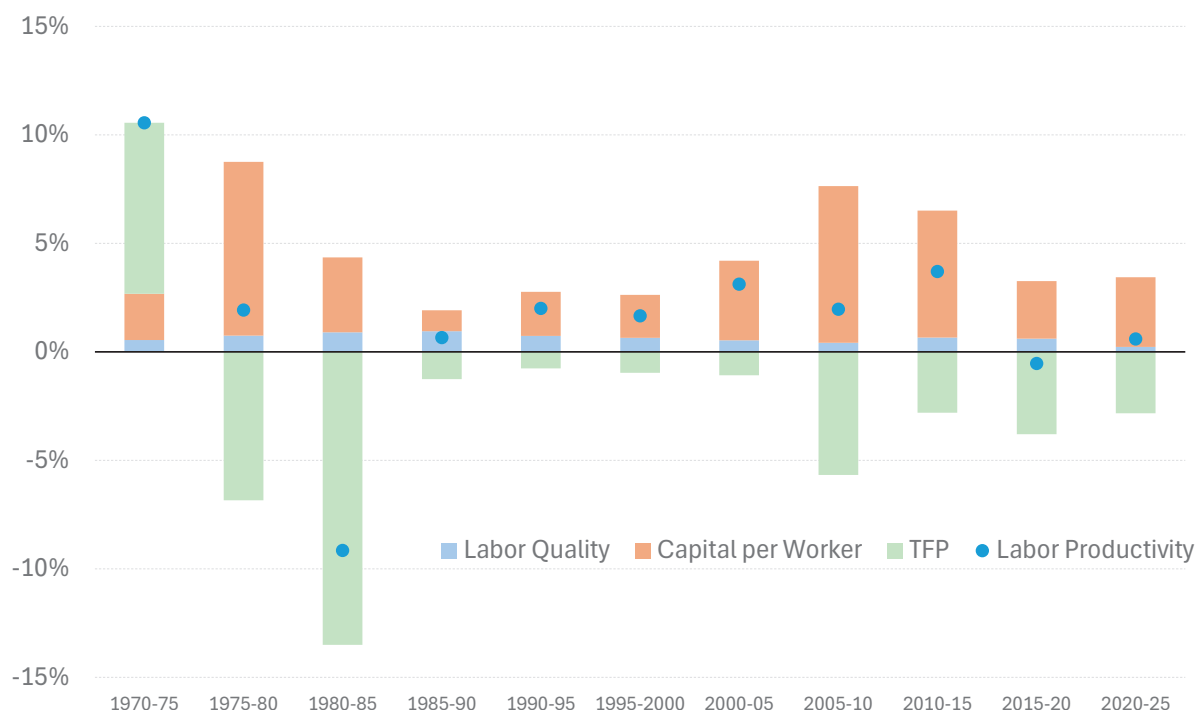
- 2000-2015:** The period's sustained positive output performance was mostly driven by further increases in the number of workers, with little to negative contributions from increases in labor productivity (Figure 2). The total labor force increased strongly from approximately 7.2 million to 12.1 million. However, the non-Saudi share declined from 62 percent in 2000 to 54 percent in 2015, as the Kingdom prioritized its citizens' employment in response to an impending youth bulge. Citizens mostly entered public-sector employment, traditionally an inefficient sector in Saudi Arabia. Meanwhile, foreign labor continued to pour into low-productivity labor-intensive sectors (Ramady, 2010; Baldwin-Edwards, 2011). Despite this, non-oil related activities are estimated to have recorded positive productivity growth since 2005, buoyed by Saudi's ascension to the WTO in 2005, stock market liberalization, and healthy government spending, which are partially credited with driving the modest improvement in productivity between 2010 and 2015 (IMF, 2013).
- 2015 – 2024:** Employment growth maintained its momentum, while labor productivity deteriorated, suggesting that productivity gains did not keep pace with increases in output. The period saw a return to a dependence on foreign labor, with the non-Saudi

share of workers rising to 69 percent in 2024, driven by the scope and severity of structural shifts in the economy. However, the focus shifted to attracting skilled foreign labor, following a desire to transition into productive sectors of the economy with the launch of Vision 2030. The reforms' impact on labor productivity is still unfurling, with expectations of improvement in the later part of the current decade. (IMF 2019; 2021)

2.2.3 Looking Behind Saudi Arabia's Labor Productivity's Weakness: TFP, Capital Deepening, and Labor Quality

To assess the prevailing weakness in labor productivity, it is helpful to break it down into its components, as shown in equation 2, and evaluate its drivers. Figure 4 shows the disconnect between increases in TFP growth and capital deepening throughout the past 54 years. Except for one small period (1970-1975), TFP growth in the Kingdom has been negative, with the bulk of the gains in labor productivity derived from increases in capital deepening. The latter is closely dependent on oil price dynamics. Labor quality provided small contributions in the early days of the Kingdom's development journey. However, its impact dwindled over time. Unpacking this over the four major periods yields a story of input-led growth followed by persistent ambitions for structural reform that rarely translated into sustainable TFP gains:

Figure 4 – Contribution of Capital per Worker, TFP, and Labor Quality to Labor Productivity.



Source: Total Economy Database, The Conference Board, 2023

- **1970-1985:** The period started with a productivity boom supported by both surges in capital deepening and TFP growth (1970-75), coinciding with the launch of the first development plans and benefitting from the “tabula rasa” state of the Saudi Economy at the time². Technology, high-skilled workers, and R&D were imported thanks to the vast oil wealth. However, given the transactional nature of those imports and the absence of preexisting frameworks, the productivity gains were unsustainable, with TFP immediately dropping in the following decade. First, the launch of state-led mega infrastructure projects required large numbers of blue-collar workers which depressed average output per worker. Second, with the education system being based on rote learning, the local population lacked the skills to absorb the large injections of capital appropriately. Concurrently, the state introduced the Kaffala system (a labor import permit system) in the private sector and wage subsidies in the public sector. This drove nationals away from the productive private sector into government jobs and replaced them by cheap imported low-skilled foreign labor, which had a depressive effect on wages in the private sector. The private sector also benefitted from windfalls from the state-led spending on infrastructure which prevented low-productivity sectors such as construction and trade from undertaking riskier ventures. Consequently, towards the end of the period (1980- 1985), the Kingdom struggled to absorb all the capacity it built, leading to underutilization in various industries and causing TFP to drop dramatically (Gutierrez 1995, AlQudsi et al., 2004, Ramady, 2010)
- **1985-2000:** This period starts on the heels of a slump in oil prices which, as can be seen in Figure 4, deterred investment. Oil price volatility limited fiscal buffers. The large wage bill, which accounts for the bulk of public spending and is a key part of the Saudi social contract, further constrained capital spending. The period also saw the implementation of Saudization³ initiatives to encourage firms to employ Saudi nationals. However, the private sector continued to display a preference for cheap, imported, low-skilled labor, as the skills of Saudi nationals were not suitable for their needs, which became more evident toward the end of the period as tighter quotas reduced firm productivity (Ramady, 2010). Nevertheless, the initiatives reflected a shift in Saudi Arabia’s thinking, which was adamant on becoming an economy led by a productive private sector. This goal formed the basis for its fifth development plan, which was launched during this period (Gutierrez, 1995). The plan sought to prepare state-owned enterprises for

² Tabula rasa refers here to the Kingdom’s limited initial stock of modern infrastructure, industrial capacity, skilled labor, and state institutions. This allowed new economic and administrative structures to be built with relatively few pre-existing constraints, creating considerable scope for early gains from investment, imported expertise, and institution building. (Niblock and Malik, 2007; Yamada, 2020)

³ Saudization refers to policies aimed at increasing Saudi employment in the private sector. Initially centered on hiring quotas, it gradually expanded to include sector-specific targets, restrictions on foreign labor, and incentives to recruit and train nationals.

privatization by improving their performance and capacity utilization, starting with Saudi Basic Industries Corporation (SABIC) in 1999 (Ministry of Economy and Planning, 2000). In its attempt to do more with less, TFP gains posted their smallest rates of decline relative to other periods. (Figure 4)

- **2000–2015:** Despite the intention to develop into a more productive economy, the TFP gains from central planning attempts failed to fully materialize, with growth during this period stemming from higher investment rates. Despite the period coinciding with the financial crisis, capital deepening was at its strongest thanks to the greater maturity of the Kingdom’s fiscal management frameworks, which allowed for some resilience against oil price fluctuations (IMF, 2016). Private financing, however, was constrained by central bank regulations following the crisis that served as a barrier to private investment (Ramady, 2010). Nevertheless, the period also marked the start of the private sector becoming the major contributor to the Kingdom’s GDP, accounting on average for 56% of output during the period, thanks to almost all investments (more than 90% of total GFCF) being targeted at the non-oil sector (Ministry of Economy and Planning, 2005 & 2010). The period also saw an increase in Saudization quotas and the replacement of foreign workers with nationals. However, such actions weighed heavily on TFP growth, primarily due to the persistent skills mismatch and the wage gap between nationals and non-nationals, with Saudi workers commanding higher wages for lower average skill levels. These effects may explain the almost negligible contribution of labor quality and TFP to productivity growth over the period (Al-Mejren et AL., 2019; Figure 4). The period, as mentioned above, coincided with Saudi Arabia’s accession to the WTO, which benefited both its financial and export sectors, and helped to support TFP improvements (IMF, 2013)
- **2015–2024:** As is typical for the Kingdom after existential crises caused by oil revenue volatility, it doubled down on structural reform. It launched a transformational plan, Vision 2030, at the start of this period. Like its predecessors, it focused on the deployment of large sums of capital, such as a SAR 12 trillion (\$3.1 trillion) investment strategy targeting industry, logistics, and tourism. This recurrent focus on investment explains the persistent dominance of capital deepening as a source of labor productivity. However, as expected, there were also signs of limited absorption capacity shown by the negative trend in TFP growth, which were aggravated by the intensity of the undertaken reforms.⁴ Indeed, IMF’s simulations showed that public

⁴ Cacciatore et al. (2012) argue that labor and product market reforms take time to pay off, usually a few years. They also find that product reforms have a greater impact when complemented by a flexible labor market, which helps frontload the benefits and maintain their sustainability over time. Affirming this dynamic for emerging economies, Dabla-Norris et al. (2016) found that most reforms pay off around four years after

investment would only raise Saudi Arabia's long-run output if accompanied by productivity increasing reforms across labor markets and industries (IMF, 2019). The period also began with subsidy cuts, the introduction of a VAT tax, and the COVID pandemic, creating business disruption in the short term and time lags to adjust in the medium- to long term (IMF 2017, 2019, 2021). Despite these initial setbacks to productivity, the Kingdom enhanced its regulatory and legislative frameworks by updating several laws, including those related to bankruptcy and competition. Additionally, this period marked the first time in the Kingdom's history that the female labor force was fully included. This provided an observable boost to output, but the impact on productivity remains unclear.

In short, since 1970, Saudi Arabia's productivity performance reflects the persistent struggle to translate investments into productivity gains. Oil wealth and imported capabilities led to initial productivity surges between 1970 and 1985, but these quickly faded due to limited absorptive capacity, compounded by the low skill level of local workers. Between 1985 and 2000, fiscal tightening and early Saudization policies exposed skill mismatches and structural weaknesses, further limiting productivity gains. From 2000 to 2015, despite renewed capital investments from higher oil revenues, lingering structural inefficiencies, including wage duality and credit constraints, limited genuine productivity improvements. Finally, Vision 2030 (2015–2024) coupled extensive capital investment with significant regulatory and social changes. However, ongoing structural frictions and external shocks have continued to limit sustainable TFP gains, begging the question: why is it so difficult for a resource-rich economy to develop sustainable productivity gains?

3 Pro-productivity Framework for Sustained Productivity

To make sense of Saudi Arabia's uneven rentier driven development narrative, this paper uses the Van Ark et. al (2024) framework to provide an insightful multidimensional lens on pro-productivity policies. Their typology links productivity-related policy domains to five levers that affect output per worker. "Accumulation" policies increase the quantity and quality of production inputs such as capital and human capital. "Technological and structural change" focuses on innovation and firm-level transformation. "Markets and resource allocation" concerns competition and the efficient use of capital and labor. "Internationalization" boosts productivity through trade and integration into global value chains. Lastly, "foundational institutions" ensure reforms are implemented effectively by providing policy coherence and

implementation. However, financial and labor market reforms have the quickest impact on the manufacturing sectors.

macroeconomic stability. This framework highlights that productivity growth results from aligned, mutually reinforcing reforms across these domains.

Applied to Saudi Arabia, the framework highlights a gradual transition from an input-driven, state-led model toward an economy seeking better resource allocation and, more recently, aspiring to become more open, innovative, and diversified. It also shows the initiatives Saudi Arabia has undertaken to spark its transformation from a rentier economy into a production state, helping clarify which policy successes have occurred, where gaps still persist, and which levers matter most for the Kingdom's pro-productivity transition.

The following few sections apply this framework across the four phases of Saudi Arabia's development since 1970, examining how policies evolved along each of the five levers and impacted productivity.

3.1 1970-1985: Build, Build, Build!

Development policies in this period centered on building modern infrastructure, expanding basic government services, growing the hydrocarbon sector, and laying the groundwork for industrialization and regional economic engagement (Ramady, 2010). Achievements were substantial but uneven, reflecting both the large scale of ambition and the limits of absorptive capacity. Oil revenues gave the state the fiscal autonomy to lead this transformation directly, with public employment, subsidies, and spending becoming central to the emerging rentier bargain (Niblock et al., 2007).

3.1.1 Accumulation: Investment and Human Capital

The state devoted significant resources to the construction of roads, telecommunications, power and water networks, ports, airports, and housing. These efforts laid the foundation for a modern economy but often exceeded domestic construction capacity, leading to delays and cost overruns (Ramady, 2010). Human capital policy focused on expanding schooling, developing new curricula, and rapidly increasing vocational training centers. Female education grew quickly and surpassed plan targets. (Ministry of Economy and Planning, 1985). At the same time, the fast pace of construction led to heavy reliance on imported low-skill labor, which diluted the overall quality of the workforce and reduced the immediate pressure to build national capabilities within firms (Niblock et al., 2007).

Moreover, to address the high demand for foreign workers, the state adopted the Kafala sponsorship system, which facilitated their access, restricted their domestic mobility, and capped their wages. Meanwhile, generous public sector wages steered nationals toward government employment (Al-Mejren et al., 2021; Ministry of Economy and Planning, 1985).

3.1.2 Technological and Structural Change

The Kingdom also began diversifying away from crude oil by developing downstream activities in petrochemicals, fertilizers, steel, and aluminum. State owned enterprises, including SABIC and the Saudi Arabian Fertilizer Company, were established to lead investment in these capital-intensive activities (Ministry of Economy and Planning, 1980). The cement industry expanded rapidly to serve construction demand. Technology was largely imported through foreign investments and technical agreements, with limited domestic capability building. As a result, industrialization increased capacity in selected sectors without yet creating wider production linkages or stronger technology diffusion (Niblock et al., 2007).

3.1.3 Markets and Resource Allocation

This state-led approach also shaped a dependent relationship with the private sector. Although the government maintained a formal commitment to private enterprise (Ministry of Economy and Planning, 1975), it remained the main allocator of capital and directed private activity through selective support and state oversight. It introduced policy instruments to guide private investment, including revisions to the mining code, industrial incentives, and protective measures for domestic producers. The Industrial Development Fund was created to provide long-term loans and venture financing for sectors the state considered strategic, including basic industries, utilities, and food production, in support of the Kingdom's rapid development needs. The agricultural sector also received targeted financing and subsidy schemes. These measures helped private firms expand, but largely around public contracts, protected markets, and state funded demand, reinforcing dependence on the state and limiting incentives for autonomous productivity upgrading (Niblock et al., 2007).

3.1.4 Internationalization

During this period, there was no explicit focus on Saudi's international role beyond its role in supplying oil and importing the goods necessary for domestic consumption and development.

3.1.5 Institutional Foundations

Public administration and sectoral agencies were built in parallel with the five-year development plans. New entities, such as the Electrical Services Department, were created to expand service provision. The government established a manpower training organization and a manpower planning department to oversee recruitment and training programs, and the Central Planning Office coordinated plan implementation. The Ministry of Labor reviewed the Labor and Workmen Law and issued an occupational classification manual to support emerging labor market needs. Alongside these administrative reforms, the

government sought to assess the state of the economy and identify priorities for the Kingdom's development, aiming to improve policy alignment and resource allocation. This effort included a population census, surveys of existing infrastructure and human resources, and several design and feasibility studies. Together, these efforts helped establish the investment and market frameworks needed to support the Kingdom's growth. (Ministry of Economy and Planning, 1980, 1985, 1990).

Nevertheless, the fast pace of institution building was accompanied by uneven coordination as new agencies developed around sectoral mandates, segmented authority, and immediate delivery needs (Niblock et al., 2007; Hertog, 2011).

3.2 1985-2000: Structural Pivot: More Private, Less Public

The period marked a transition for Saudi Arabia, with much of the basic infrastructure completed and the government turning toward structural realignment with the private sector. The oil bust exposed the limits of a state-dominated development model, while falling oil prices reduced capital expenditures. In response, the government sought a greater private-sector role in sharing the state's development-spending burden while preserving the social bargain built around public employment and distribution (Niblock et al., 2007). To support this shift, the government extended financial support to productive sectors of the economy, such as domestic manufacturing and financial services; ensured private sector participation in public procurement; and promoted closer relations between the public and private sectors (Ministry of Economy and Planning, 1985). In parallel, the government pursued a gradual shift from central planning to program planning, aimed at improving policy coordination, and laid the foundations for a privatization framework (Ministry of Economy and Planning, 1995; Ramady, 2010)

3.2.1 Accumulation: Investment and Human Capital

Physical capital accumulation was subdued during this period as lower oil prices constrained government revenue, and the infrastructure projects of the initial boom were completed or approached completion. Yet the government remained committed to its development goals. As such, it decided to gradually transfer the development-investment burden to the private sector as part of its strategy to become a regulator rather than a financier and operator (Ministry of Economy and Planning, 2000). The government also initiated its first efforts of Saudization, seeking to replace non-Saudis in public- and private-sector jobs. Training sought to close Saudi workers' skills gaps, while quotas required private firms to employ them. The policy gained urgency towards the end of the period as the precipice of the Saudi youth bulge emerged. It, however, sat uneasily with a private sector built on cheaper, more flexible foreign labor (Niblock et al., 2007).

3.2.2 Technological and Structural Change

The period also saw the emergence of Industrial Development Companies to provide venture capital for risky and large manufacturing projects, including the National Industrialization Company. These companies assumed the previous role played by the government in medium to large-sized production projects (Ministry of Economy and Planning, 1995).

The Kingdom also began developing a privatization strategy to increase the private sector's role in key economic activities and improve the efficiency of activities dominated by the public sector largesse. The Kingdom encouraged "Ownership privatization" schemes that involved establishing government-owned companies and selling them to the private sector, such as the Saudi Telecommunications Company (STC). However, effective sales of ownership did not begin until the early 2000s; for example, 30% of STC was sold to the private sector in 2002. "Leasing Contracts" were also issued, which allowed the private sector to lease government properties (Ministry of Economy and Planning, 2000). Another initiative replaced foreign suppliers with local suppliers in government projects to build domestic capacity. However, while these measures expanded private participation, much of it still remained tied to public procurement and to protected opportunities (Niblock et al., 2007).

3.2.3 Markets and Resource Allocation

Financial and regulatory measures also aimed to expand the private sector's role in development. To deepen the capital pool, it assigned a larger role to specialized credit institutions (such as the Industrial Development Fund, Real Estate Development Fund) and commercial banks in the long-term financing of large development projects (Ministry of Economy and Planning, 1995).

Also, to smooth out its capital spending in light of the high volatility of oil prices during the period, the government introduced government development bonds, which were first introduced in 1988. Other monetary instruments were also introduced, later in the period, to manage excess liquidity and stem foreign exchange outflows, such as a reverse repurchase agreement facility and Murabaha debt securities, a type of Sharia-compliant T-bill and bond (International Monetary Fund, 2016b).

3.2.4 Internationalization

Foreign investment promotion and export development also gained prominence during this period. The Offset program sought to secure knowledge and technology transfers from foreign investors. The Export Promotion Council and the Saudi Company for Industrial Exports were established to advance non-oil exports abroad, emphasizing enhanced regional trade integration, particularly within the Gulf Cooperation Council (GCC). Yet, the government remained cautious in opening the economy. Saudi Arabia applied to join the WTO in 1993,

but the necessary reforms for accession moved slowly, particularly where they threatened subsidies, protected domestic interests, or the wider rentier bargain (Niblock et al., 2007).

3.2.5 Institutional Foundations

To signal its pivot toward the private sector, the Kingdom strengthened its relationship with the private sector by improving communication through better information, economic data, and research into potential investment opportunities. This aligned with a policy-oriented approach based on macroeconomic models and tools to quantify the impact of these policies (Ministry of Economy and Planning, 2000). These steps supported the gradual transition from central planning to a more program- and policy-oriented approach. Implementation, however, remained fragmented and shaped by political compromise (Niblock et al., 2007)

3.3 2000-2015: Reform regulations, Develop Manpower, and Integrate Internationally

High oil prices and stronger fiscal positions allowed Saudi Arabia to push for deeper structural reforms while retaining state-led development, marking a shift toward reform during an upswing rather than under fiscal stress. The private sector assumed a more pivotal role during this period, supported by a steady pace of structural reforms aimed at enabling it, starting with a more accommodating business environment for investors in newly privatized companies and for prospective entrepreneurs. WTO accession also gave the leadership a political tool to build elite consensus for reforms that had previously moved slowly. Following 9/11, these changes also became necessary for Saudi Arabia's deeper integration into the global economy, as credibility in a more scrutinizing international environment required a more tangible reform agenda (Niblock et al., 2007). They also highlighted the need for a more inclusive labor market for Saudis, who remained sidelined because of their lower skills and higher relative costs. Therefore, the government pursued increased participation and upskilling through education reforms. The period also saw the introduction of the Eighth Development Plan, which marked a shift toward quantitative and scheduled policy targets.

3.3.1 Accumulation: Investment and Human Capital

The period was essential for human capital development, with an emphasis on government's actions to increase total labor force participation, continuously upgrade the skills of the Kingdom's workers, and provide productive jobs. This was achieved by expanding education and vocational training programs, giving priority to nationals in employment, and tackling the

pressing youth bulge⁵ and over-reliance on foreign labor (Ministry of Economy and Planning, 2010). However, despite these reforms, nationals remained expensive and poorly matched to the needs of productive sectors, while cheaper foreign workers remained concentrated in inefficient, labor-intensive activities (Al-Mejren et al., 2021). To narrow the wage gap between nationals and expatriates, an expat levy was introduced in 2012, with fees increasing over time (IMF, 2018b). Wage subsidies supported the hiring and training of Saudi workers, notably in retail and manufacturing. Such programs included ‘Women’s Employment in the Retail Sector’ and the ‘Support Women’s Jobs’ in Factories’. The Nitaqat system, introduced in 2011, imposed differentiated Saudization quotas across firms. Together, these policies made national employment a more binding private-sector obligation, but they also exposed gaps between labor-market targets, firm capabilities, and the pace of skills formation (Al-Sulayman, 2020).

3.3.2 Technological and Structural Change

In 2001, the objectives and priority sectors for privatization were identified, and the process of privatization began in earnest. This involved first improving the self-reliance of private sector management, followed by the deregulation of the sector, and finally, the move towards private ownership of selected enterprises (IMF 2016b).

In addition, throughout the period, the government worked on updating its Companies Law to facilitate the frameworks for doing business in the Kingdom, particularly for SMEs. Although the law only came into effect in 2016, it built on the challenges faced by investors and entrepreneurs over the previous decade. The new law strengthened minority shareholder rights and improved corporate governance (IMF, 2016b).

3.3.3 Markets and Resource Allocation

The government undertook the initiative to improve investments (domestic and foreign) by promoting and attracting private investment, which included offering incentives and streamlining investment procedures. Other efforts targeted challenges faced when investing in Saudi Arabia’s private sector, such as improving the absorptive capacity of industrial zones, enabling long-term finance, and improving access to international financial markets (Ministry of Economy and Planning, 2005).

⁵ By the start of this period, Saudi Arabia’s youth bulge was already feeding large numbers of nationals into the labor market. According to GASTAT statistics, Saudi nationals aged 15 to 29 made up about 28 percent of the population between 2000 and 2016, while the 30 to 44 cohort nearly doubled in number and their share rose from 14.9 to 22.3 percent.

3.3.4 Improving the role of capital markets was also critical to the privatization and economic financing of Saudi Arabia during the period. In 2003, the Capital Market Law was enacted, which established the regulatory and institutional framework of the Kingdom's stock market in line with international best practices. The law included the establishment of the Securities and Exchange Commission, the Saudi Securities Exchange Market, the Securities Deposit Center, and the Securities Disputes Settlement Committee (Ministry of Economy and Planning, 2005). These institutions allowed for better regulation of the domestic capital markets for real estate, mergers and acquisitions, and investment funds.Internationalization

Supporting the privatization program were a range of reforms aimed at attracting foreign investments, which were facilitated by new investment laws and the establishment of the Saudi Arabia General Investment Authority (now the Ministry of Investment). In this reform push, one-stop shops for investors were established and restrictions on capital flows and foreign ownership were liberalized (with 100% ownership allowed in all sectors except for a negative list). Complementing these was Saudi Arabia's ascension to the WTO (IMF 2016b). Saudi Arabia joined the WTO in 2005, following a decade of negotiations that saw it align its tariffs with the GCC common external tariff. It also made commitments under the General Agreement on Trade and Services (GATS) and signed the Information and Technology Agreement (World Trade Organization, 2011).

3.3.5 Institutional Foundations

To support and promote investment in the private sector, the banking and financial system was improved by increasing the supervision of the banking sector. Additionally, an SME Authority to oversee all government policies affecting the SME sector was established to reduce the legal and administrative burden of setting up a business.

3.4 2015–2024: Vision 2030 and Saudi Arabia's New Era: Global, Innovative, Value-Adding

The collapse in oil prices in 2014 and the fiscal pressures that followed in 2015 re-exposed the fragility of a growth model still heavily dependent on state spending to generate demand, finance investment, and create new productive capacity. As discussed above, these vulnerabilities were not new. They had been identified repeatedly over previous decades, especially since the early 2000s, but earlier reforms delivered only partial and uneven improvements (Hertog, 2024). Many of these changes amounted to the minimum

adjustment needed to signal reform, preserve domestic stability, and strengthen international credibility, without sufficiently altering the incentives shaping investment, labor markets, firm behavior, and public-sector delivery (Al-Sulayman, 2020). Saudi Arabia, therefore, entered this period with still-constrained fiscal space, a segmented labor market, an underdeveloped SME sector, and slow progress in privatization and partnership programs. Weak industrial linkages, burdensome bureaucracy, and uneven alignment between investment and business climate reforms further limited the productivity effects of earlier policy efforts (IMF 2016a, 2017, 2018a, 2019, 2021, 2022, 2023, and 2024).

Vision 2030 represented the most ambitious attempt to address these accumulated constraints. It emerged as a comprehensive strategy to safeguard development gains and secure the private sector at the core of economic transformation. It combined institutional reform with large-scale investment, while seeking to reduce dependence on the old channels of rent distribution. It also placed the private sector at the center of the transformation and drove intensive reform across all five productivity levers. However, to ensure delivery, the government centralized its authority, which helped push through reforms that had previously moved slowly, but it also made implementation dependent on the ability of new delivery structures to work through inherited administrative structures and established state-business relations (Hertog, 2024).

3.4.1 Accumulation: Investment and Human Capital

Even as the reform agenda placed the private sector at the center of the transformation, the state remained the main catalyst for diversification. Since the launch of the Vision, Saudi Arabia has pursued large-scale capital investments through its Public Investment Fund (PIF) and the National Investment Strategy (2021), which together aim at investing over SAR 12 trillion by 2030 in priority sectors. To avoid misallocating resources, the government also developed strategies such as the National Industrial Development and Logistics Program (NIDLP), targeting industry, logistics, and mining. As for human capital accumulation, the government introduced the Human Capacity Development Program (2021), the Labor Demand Foresight Unit, and an AI Talent Strategy to align education with labor market needs and support digital transformation.

3.4.2 Technological and Structural Change

The investment agenda also moved from broad diversification toward more targeted industrial capability building. The National Industrial Strategy, launched in 2022 as an offshoot of the NIDLP, aims to increase productivity and output in key manufacturing sectors, including automotive, pharmaceuticals, and green energy. Various initiatives are also expected to provide strong institutional support, including the Industrial Development Fund,

the National Incentives Committee, updated Special Economic Zone (SEZ) frameworks, and clustering frameworks.

The strategy also incorporates fiscal and regulatory incentives, as well as local content mandates such as the In-Kingdom Total Value Add (IKTVA). However, the IMF notes that spillovers from these policies remain limited due to weak linkages between lead firms and local suppliers (IMF, 2023). The strategy's success depends on expanding these linkages and fostering firm-level learning, particularly among SMEs.

3.4.3 Markets and Resource Allocation

Saudi Arabia has implemented far-reaching reforms to improve market functioning. These include the Bankruptcy Law (2018), the Companies Law (2022), the Commercial Courts Law (2023), and reforms to the franchise system and contract enforcement. The launch of the Etimad platform (2018) has improved procurement transparency, while the financial market has been deepened through 30-year sharia-compliant debt securities (e.g. sukuk), a primary dealer system, and expanded retail bond access.

Despite these legal and market advances, structural bottlenecks persist. Capital allocation remains skewed toward real estate and low-productive construction sectors. Labor market reforms such as Nitaqat have improved national participation but may have raised hiring frictions, especially in small firms (Peck, 2017; IMF, 2019).

3.4.4 Internationalization

FDI liberalization advanced, but investment outcomes remained constrained by implementation gaps and limited domestic readiness. Since 2018, improvements have included the Foreign Investment Law, the amended negative list, and five-year licensing reforms. The Regional Headquarters Program and a WTO-compliant procurement code aim to further improve the foreign investor ecosystem.

Nonetheless, FDI inflows remain well below Vision 2030 targets, averaging only 2.1% of GDP between 2018 and 2022⁶. (IMF, 2023) Strategic reforms have improved legal access, but implementation remains uneven. Key challenges include dispute resolution, bureaucratic hurdles, and weak domestic supply chains that are not ready to absorb and diffuse foreign expertise.

3.4.5 Institutional Foundations

Saudi Arabia's governance reforms have strengthened policy coherence and performance monitoring. The Council of Economic and Development Affairs (CEDA), established in 2015,

⁶ This metric drops to 1.2% when Aramco infrastructure deals are excluded.

oversees reform delivery across ministries. A national KPI system, digital platforms like the Etimad procurement system, and judicial automation initiatives have begun to improve service delivery and accountability. The Civil Transactions Law (2024) and the expansion of commercial courts and arbitration mechanisms mark important steps toward legal modernization.

Yet, institutional capacity remained uneven, particularly at municipal and agency levels, where coordination challenges and implementation delays could undermine reform credibility. Vision delivery therefore relied on new bodies and parallel structures layered over the inherited bureaucracy, including an expanded role for the Public Investment Fund in investment and project execution. This improved top-level control and accelerated reform implementation but is leaving the underlying weakness in administrative capacity unaddressed (IMF, 2024; Hertog 2024).

3.5 Summary

Over the past five decades, Saudi Arabia’s pro-productivity agenda has evolved alongside repeated attempts to adjust a development model built on oil rents, state-led allocation, and a redistributive social bargain (Table 1). Early development (1970–1985) used oil revenues to build infrastructure, industry, and institutions, but also entrenched public employment, imported labor, and a private sector dependent on state demand. Fiscal pressure after 1985 forced a gradual retreat from direct state provision and a larger private-sector role, although reforms remained constrained by protected interests and the need to preserve the existing social bargain. From 2000 to 2015, stronger fiscal conditions enabled deeper regulatory, labor-market, and international reforms, but these largely worked around rather than displaced the underlying rentier incentives. Vision 2030 has gone further by centralizing authority and pushing reform simultaneously across investment, markets, labor, internationalization, and institutions. Yet the state remains the principal driver of transformation, while inherited labor-market distortions, weak productive linkages, and uneven administrative capacity continue to limit the diffusion of productivity gains.

Table 1: Summary Table of Pro-Productivity Policies between 1970 and 2025

	<i>Accumulation: Investment and Human Capital</i>	<i>Technological and Structural Change</i>	<i>Markets and Resource Allocation</i>	<i>Internationalization</i>	<i>Institutional Foundations</i>
1970-1985	Heavy capital accumulation; major investments in infrastructure;	Initial industrial diversification via SOEs (e.g., SABIC); limited technological	State-directed allocation; launch of development funds; early	Minimal international orientation beyond oil exports and imports for development.	Foundational public institutions created on-the-go; Central Planning Office and early

	beginnings of vocational training.	innovation, mostly imported tech.	subsidy and incentive programs.		manpower institutions.
1985-2000	Shift toward private investment; Saudization policies; fiscal retrenchment constrained public investment.	Emergence of industrial development companies; initial steps toward privatization.	Development of credit institutions; government bonds and monetary tools introduced.	Export councils and foreign investment promotion; Offset program introduced.	Private sector engagement structures; macroeconomic modeling and strategic planning initiated.
2000-2015	Human capital prioritized; expanded vocational training; expat levies and wage subsidies introduced.	Privatization roadmap launched; deregulation of sectors; updated Companies Law prepared.	Incentives and streamlined procedures to boost investment; capital market reforms initiated.	WTO accession; one-stop shops and liberalization of ownership rules.	Improved banking supervision; SME authority created; shift toward KPI-driven planning.
2015-2025	Massive PIF-led investments; National Investment Strategy; digital and AI-oriented human capital reforms.	National Industrial Strategy launched; SEZs and local content programs; limited productivity spillovers.	Legal overhauls (Companies Law, Bankruptcy); deepened bond markets; misallocation remains a challenge.	FDI liberalization; Regional HQs initiative; weak uptake and domestic supply chain constraints.	CEDA established; Etimad platform; progress on legal modernization, but subnational capacity lags.

4 Escaping the Rentier Trap

Saudi Arabia's productivity challenge reflects the dual nature of resource wealth. Oil rents created the fiscal space to accumulate capital, improve market allocation, and establish modern institutions. They also entrenched a growth model built around public employment, subsidies, transfers, and state-supported demand (Beblawi 1987; Hertog, 2024). The resulting modernization placed limited pressure on firms, workers, and institutions to generate broad-based productivity growth.

The evidence reviewed in this paper shows a persistent gap between development efforts and productivity outcomes. Across successive development periods, oil booms drove public investment and employment expansion. Downturns exposed structural fragilities through weak or negative productivity growth. Saudi Arabia invested heavily and improved capacity

in selected areas. These inputs generated limited economy-wide efficiency gains. As shown above, capital deepening accounted for most gains in labor productivity, and TFP growth remained negative.

This gap was reinforced by the form diversification took. Saudi Arabia developed what Yamada (2020), extending Luciani's (1987) distinction between allocation and production states, calls production with rentier characteristics. Activity expanded through oil-driven advantages, state demand, and imported labor, with limited reliance on transferable capabilities and the institutional discipline associated with production states. Public spending sustained demand, public employment shaped wage expectations, and low-cost foreign labor reduced the pressure on firms to upgrade (Hertog, 2024). Much of the private sector consequently remained tied to public contracts, protected markets, and non-tradable activity (Niblock & Malik, 2007). Stronger entities and strategic projects raised capacity in selected areas. Weak firm capabilities, shallow supplier linkages, and uneven administrative capacity limited the diffusion of these gains to ordinary firms, suppliers, and the wider labor market (Hertog, 2011).

The inherited rentier bargain survived repeated fiscal pressure from the early 1980s onward. For example, the collapse in oil production and revenue between 1981 and 1985 forced cuts in capital spending and weakened public and private investment. Continued oil-price volatility between 1985 and 2000 further constrained fiscal space with the growing public wage bill crowding out capital investment (IMF, 2013; Niblock & Malik, 2007; Ramady, 2010). Yet, the restructuring efforts surrounding privatization, liberalization, and capital-market development were superficial, and distributional commitments largely remained in place.

The 2014 oil-price collapse triggered a more forceful adjustment phase, driven by more determined leadership. The 2017 anti-corruption crackdown weakened parts of the old elite bargain. The uncompensated fiscal measures of 2020 also placed, for the first time, adjustment costs more directly on households (Hertog, 2024). In Yamada's (2020) terms, such moments of economic hurt can make entrenched interests more willing to accept pain-sharing and surrender some privileges to preserve the wider order. This can create space for institutional change that supports a productive state. However, durable change depends on the creation of productive gains that can replace the rents being withdrawn. In their absence, the freed rents become the object of renewed competition, increasing the risk of instability (Yamada, 2020).

The tension of this incomplete transition, from rent distribution toward institutionally led production, remains evident within Saudi Arabia's ongoing reform journey. Privatization, FDI liberalization, legal modernization, and fiscal adjustment are operating alongside state-led investment, sovereign wealth activity, national champions, and labor nationalization.

Together, these measures blur the signals firms need to invest, train, and take risks (Al-Sulayman, 2020). Moreover, uneven capacity across ministries, agencies, and local administration continues to limit execution and weaken the policy complementarity that productivity requires across investment, skills, markets, openness, and institutions (Hertog, 2024; Van Ark et al., 2024).

Therefore, the durability of the current reform effort rests on three shifts: connecting state-led investment to firms and suppliers across the economy, turning labor-market pressure into skills and firm upgrading, and converting centralized execution into durable institutional capacity.

The first shift is to turn investment into connected production. Past investments often raised output in selected entities and strategic projects. Their limited spillovers left these islands of efficiency disconnected from ordinary firms and suppliers (Hertog, 2011; IMF, 2023). Future investment therefore needs stronger supplier linkages, deeper SME participation, more effective industrial clusters, and wider technology diffusion. Emerging technologies such as artificial intelligence make this challenge more urgent. Their gains are likely to accrue first to firms with the managerial, technical, and financial capacity to adopt them (ILO, 2026). Limited absorptive capacity among smaller firms would concentrate these gains among leading firms and deepen existing productivity gaps.

The second shift is to make labor market pressure productive. A productivity-led labor market requires narrowing the cost and skills gap between nationals and expatriates. Higher labor costs encourage firms to adopt better technology and improve management when education and training systems supply the skills they need (Yamada, 2020). Specialized capability is therefore central to the next phase of reform, especially given Vision 2030's ambitions across manufacturing, logistics, tourism, digital services, and renewable energy. Experience with Nitaqat illustrates the limitations of relying on quotas. The program increased Saudi employment and also raised firm exit rates and reduced total employment at surviving firms (Peck, 2017). Targeted wage support or a negative income tax could help address the labor-cost gap directly and reduce reliance on quota-based compliance, in particular when combined with investment in skills (Durand-Lasserve, 2022; Hertog, 2024).

The third shift is institutional execution. Investment incentives and sector strategies raise productivity when institutions can coordinate reform, discipline weak performance, and sustain implementation beyond direct central pressure. Such decentralized execution capabilities provide the institutional spine a production state requires (Yamada, 2020). Saudi Arabia, unfortunately, has advanced its recent reforms by concentrating authority and using centralized delivery structures and the Public Investment Fund to push priority reforms through and weaken entrenched players. While this approach has broken older patterns of

allocation, it has concentrated implementation in central authority. Its durability now depends on spreading and embedding merit-based appointments and accountability mechanisms across other public institutions. In this form, centralization restores the political autonomy regularly associated with the allocation state. Expanding distributional commitments will gradually narrow that autonomy (Hertog, 2024). Therefore, administrative capacity remains an important political-economy constraint for Saudi Arabia. Converting the current re-centralized execution framework into a system of accountable institutions will determine how far reform pressure produces lasting productivity gains.

5 Conclusion

Saudi Arabia's development journey reveals the crutch of resource-led growth. While oil revenues enabled the Kingdom to invest heavily in infrastructure, institutions, and human capital, they also entrenched structural rigidities that persist today. The country's growth story has largely been input-driven, with productivity gains remaining elusive, intermittent, and vulnerable to external shocks. From early central planning to Vision 2030, successive reform waves advanced modernization, diversification, and international integration but did not translate investment into sustained productivity growth.

By applying the Van Ark et al. (2024) pro-productivity framework, this paper highlights that sustainable productivity requires more than capital accumulation or isolated institutional fixes. It demands coherence across policy domains and time. However, Saudi institutions developed within a rentier system organized around state demand, public employment, protected markets, and low-cost foreign labor. These arrangements weakened incentives to upgrade and enabled vested interests to resist changes that threatened established rents, limiting the wider effects of reform.

Vision 2030 reflects a growing recognition of these constraints. It represents the most comprehensive effort to coordinate reform across all five levers, with progress in regulatory modernization, human capital, industrial clustering, and digital transformation. Centralized decision-making accelerated implementation by reducing the scope for bureaucratic and commercial interests to delay change, allowing the agenda to advance further than earlier reform waves.

The next phase is to embed this implementation capacity across the public administration. Continued reliance on high-level political direction and parallel delivery structures risks confining expertise to a small set of bodies and leaving reform dependent on sustained leadership support. Delegating authority throughout government within a framework of clear accountability and performance discipline would allow productive capabilities to spread

beyond leading projects and firms, widening participation in the Kingdom's economic transformation.

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