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Structural Cures: How Riyadh Continues to Fight the 'Saudi Disease'



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Since late April 2016, Saudi Arabia’s transformation under Vision 2030 has become increasingly visible, often through the lens of megaprojects, non-oil growth, or headlines screaming about investments with a staggering number of zeros. A quieter, perhaps more interesting story is less visible. The Kingdom is simultaneously attracting foreign capital, deploying sovereign wealth at scale, and maintaining conservative reserve discipline. These pillars signal something far more consequential than simple diversification: Saudi Arabia’s emergence as a sophisticated actor in the global economy.

Many of the conversations concerning the Kingdom center on the observable—a rising skyline in Riyadh, The Line, or a megacity such as NEOM. Despite the size of these projects, they only tell a small part of the story. The consequential shift is found in Saudi Arabia’s positioning within global capital markets as a destination for long-term investment, and as an increasingly influential allocator of capital abroad. A telling sign of a maturing economic model: balancing ambition with discipline, especially in a time of global uncertainty.

A clear indicator of this shift is the Saudis’ performance in attracting Foreign Direct Investment (FDI). According to recent data from the latter half of 2025, net FDI inflows increased by 34.5% in a single quarter; a

defiant trend in the midst of broader global cooling of investment activity. FDI, unlike volatile portfolio flows, reflects a sort of “sticky” capital; factories built, regional headquarters established, and integrated supply chains. 600 global companies now call Riyadh their regional home, international firms do not see Saudi as a sales market, but a tangible, long-term operational HQ.

Simultaneously, the Public Investment Fund (PIF) has become the fifth-largest sovereign wealth fund in the world, with assets under management totaling \$1.15 trillion—a \$226 billion increase from December 2024. Most believe that the PIF exists for purely external investments. In reality, the fund is majorly allocated within the Kingdom, up to 80%, according to the Sovereign Wealth Fund Institute. This contrasts starkly with their sovereign wealth fund counterparts, like Norges Bank Investment Management (NBIM), who manages the Government Pension Fund of Norway. In contrast to the PIF, NBIM maintains no domestic exposure and significantly lower allocations to alternative investments.

What makes the Kingdom’s initiative particularly resistant is the understanding of reserve discipline. While capital is deployed aggressively through the PIF, the exercising of reserve management remains deliberately conservative. Saudi Arabia continues to hold a significant portfolio of U.S. Treasury securities—134.4 billion as of October 2025—primarily composed of long-term U.S. government bonds, signaling a preference for stability and liquidity. The purpose of this composition allows for immediate access to dollar liquidity, support the riyal’s peg to the dollar, and to hedge against oil price volatility. This allows the continued pursuit of investment goals without undermining economic credibility or integrity.

The divergence in fund management illustrates a broader effort to immunize the Kingdom against the “Dutch Disease”—an economic consequence of an increase in the valuation of local currency due to a resource boom in a specific sector, rendering other domestic industries less competitive. Despite the ailment’s name, Venezuela serves as the true cautionary tale for this phenomenon. During peak oil years, Venezuela opted for utilizing petrodollars to subsidize imports instead of investing in domestic industry, resulting in hindered consumption. When oil prices collapsed in 2014 due to the increase in global supply, the lack of a non-viable oil base or aforementioned “sticky” capital triggered a catastrophic meltdown the country has yet to escape.

However, as a 2020 Al-Arabiya analysis from Mazen Al-Sudairi argued, the challenge for Saudi Arabia was not only the Dutch Disease. Al-Sudairi diagnoses in his article a more complex and internal “Saudi Disease”. Al-Sudairi distinguishes the two by noting that the Dutch Disease is often a decline in existing industries, whereas the “Saudi Disease” was a structural inequality where oil wealth was used to build an economic base that then proved “difficult to break free from.” He identifies the symptoms of this economic ailment: a “shadow economy,” a lack of societal data, and spending inefficiency where every riyal spent by the government had a 0.6 riyal domestic output.

The cure Al-Sudairi describes is a fundamental structural overhaul rather than arbitrary high growth rates. This explains why the 80% domestic allocation of the PIF is critical to the mediation effort. It is not a subsidy, it is a clinical operation designed to build viable, tradable sectors—mining, logistics, and digital services—that are independent of oil price shifts. By exposing the domestic market to “real-world” pricing, the Kingdom has

seeded a rigorous and transparent market. VAT and subsidy reforms effectively created a subsidy-independent environment, departing from the subsidized firms of old and creating a new class of enterprise that must compete on innovation and efficiency rather than government benefaction.

The success in this strategy is illustrated in the new composition of the labor market where women find themselves approaching 40% labor participation, exceeding the Vision 2030 target by far. This demographic surge is matched by a recently stabilized 7.5% unemployment rate for Saudi nationals; slightly higher from a 6.3% historic low in early 2025. Non-oil activities grew by 4.6% in the second quarter of 2025, bolstered by a digital economy that contributes 16% to the national GDP.

Since Al-Sudairi's article, approximately 2.5 million Saudis have entered the private sector alongside surging recruitment in specialized fields such as engineering, technology, and finance. This is undoubtedly a massive logistical success, but the next challenge is no longer participation, but productivity. Output per worker, and the capacity to generate globally competitive value, will determine whether this transformation endures. Encouragingly, Saudi Arabia's approach suggests this reality is well understood; Vision 2030 has become less about building momentum than sustaining it. What Saudi Arabia is building today is not just scale, but the institutional capacity to govern it.

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