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Implementing Saudi Arabia's Vision 2030: An Interim Balance Sheet

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In April 2016, Saudi Arabia's then Deputy Crown Prince, Mohammed bin Salman, announced Saudi Vision 2030, an ambitious set of initiatives whose stated aim is to diversify the country's economy while also implementing significant social and cultural reforms. If fully actualized, Vision 2030 would lead to a major transformation of the Kingdom. Since the plan's rollout, however, international voices and human rights groups have protested a lengthy series of policies and actions linked to Mohammed bin Salman, most notably Saudi Arabia's involvement in the ongoing war in Yemen and the assassination of Saudi journalist Jamal Khashoggi. The conventional wisdom among journalists and analysts is that these crises, and the international outcry they evoked, have had a negative impact on the realization of Vision 2030.

This Brief assesses the progress that the Kingdom has achieved in implementing Vision 2030 in the three years since it was announced, amounting to more than a fifth of the plan's fourteen-year timespan. Saudi Arabia has achieved notable successes with respect to governance reforms and improvements in public sector efficiency, and it has aggressively carried out many of the plan's social and cultural reforms. But international opprobrium has deterred foreign investment and partnerships, thereby negatively impacting economic diversification and transformation efforts. This Brief argues that this might actually be a blessing in disguise, however, because its primary effect has been to delay some of Vision 2030's costly "giga projects" that are of questionable value in light of the plan's overall aims.

The Rise of MBS and Saudi Vision 2030

The main ideological and political force behind Vision 2030 was and is Saudi Arabia's Crown Prince, Mohammed bin Salman (widely referred to as "MBS"). Soon after assuming his duties as the Kingdom's new ruler in January 2015, King Salman launched a major restructuring of the government, appointing his then 29-year-old son Mohammed as minister of defense and chairman of two high-ranking new councils that were established to coordinate the Kingdom's domestic and foreign policies. The Council of Economic and Development Affairs was given supervisory and monitoring responsibility over all government ministries dealing with domestic social, economic, and development matters. The Council of Political and Security Affairs is responsible for coordination of all government organizations dealing with defense, foreign policy, and security. As chairman of both organizations, MBS had near-total control over the domestic and foreign affairs of the Kingdom on behalf of his father.

Mohammed's political power grew even more in April 2015, when King Salman appointed him deputy prime minister, which is the highest-ranking political position in Saudi Arabia after the King. (The King is the Kingdom's prime minister.) Finally, in January 2017, the King appointed him Crown Prince. This unprecedented concentration of power in the hands of MBS gave him considerable power to implement Vision 2030—but it also has been a mixed blessing for its successful implementation.

Vision 2030 is not the Kingdom's first attempt at long-term economic planning. Since 1970, when a sharp rise in the price of crude oil led to an increase in the Kingdom's oil revenues and fiscal resources, the government of Saudi Arabia has outlined its long-term economic development strategy in successive five-year economic plans. Saudi Arabia launched nine consecutive development plans from 1970 to 2014, and a common objective of all of them was to reduce the economy's dependence on oil export revenues. This objective was pursued primarily through focusing on government-led policies to strengthen non-oil sectors of the economy.

One of the main motivations behind Vision 2030 was the poor performance of these economic plans. They were successful in building a modern infrastructure and developing modern industrial units, but they did not generate a significant amount of non-oil fiscal revenue and so reduce the country's dependence on oil. As of 2014, the Kingdom was still highly dependent on crude oil exports as the main source of fiscal revenues, and many non-oil economic activities were dependent on government spending, which was itself primarily funded by oil revenues (Fig. 1). So even the non-oil sectors of the Saudi economy remained indirectly dependent on oil export revenues.

The sudden sharp decline in the price of crude oil between 2014 and 2015 brought this vulnerability home, and the government was forced to make some difficult cuts in expenditures. Furthermore, this revenue decline came at a time when the costs of Saudi Arabia's military campaign in Yemen were rising, and the government was forced to tap its sovereign wealth fund to cover the large fiscal deficits.

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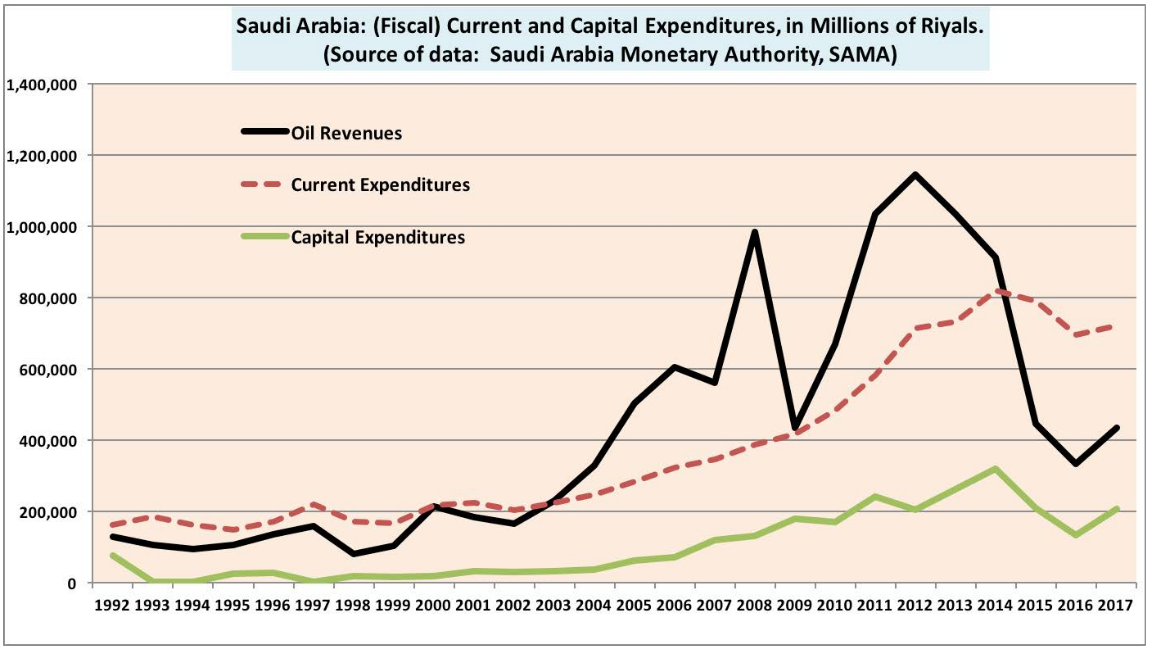

Fig. 1

The tenth development plan began in 2015, but a year later it was scrapped in favor of Vision 2030. Vision 2030 shares the same objective of economic diversification with the ten five-year plans, but it also includes a package of social and cultural reforms. The Saudi government hired several international consulting firms to develop Vision 2030; the lead contractor was McKinsey Consultants, which has a long history of consulting work in the Kingdom. Some aspects of Vision 2030 are similar to the long-term urban development plan for Riyadh. This similarity is not coincidental: Before becoming the Kingdom's ruler in 2015, King Salman served as the governor of Riyadh (where he employed and mentored MBS) for fifty years, and supervised its long-term development strategy, the Metropolitan Development Strategy for Ar-Riyadh (MEDSTAR). The similarities between Vision 2030 and MEDSTAR reflect the common development priorities of King Salman and MBS.[1]

What Is Vision 2030?

Vision 2030 is a comprehensive long-term plan for transforming the economy, culture, and social institutions of Saudi Arabia. Ultimately, Vision 2030 aspires to transform Saudi Arabia into a) "a vibrant society," b) "a thriving economy," and c) "an ambitious nation." Under each of these aspirational themes or "pillars," the plan puts forth detailed and specific objectives for cultural, economic, and governance reforms, respectively.[2]

In order to develop "a vibrant society," Vision 2030 will invest substantially in cultural and entertainment facilities. New cultural centers will be built, cultural events sponsored, and arts such as music and cinema promoted. Also included under this theme is a strong commitment to both domestic and international tourism—which, it is assumed, will be enhanced by the development of attractive cultural and entertainment offerings.

The "thriving economy" theme embraces a long list of economic reforms and quantitative targets; most of the latter are not new and have appeared repeatedly in previous five-year plans. There is a strong emphasis on privatization, with the goal of expanding the private sector from the current 40 percent of the economy to 60 percent by 2030. Other objectives include a sharp increase in non-oil fiscal revenues through tax reform, the creation of a business-friendly economic and legal environment, and an increase in foreign investment and foreign talent. This theme also includes educational reform to prepare Saudi students for skilled jobs and entrepreneurial activities in the private sector—so that a large number of foreign workers will be replaced by Saudi citizens—and the promotion of small- and medium-sized enterprises, with the aim of increasing their contribution to the country's GDP from 20 percent to 35 percent by 2030.

The "ambitious nation" theme focuses primarily on improving the governance of the country. An important objective under this theme is transparency and reducing corruption; another related objective is to reduce waste and overspending in the fiscal budget. This pillar of Vision 2030 also calls for corporate social responsibility and the improvement of corporate governance—and for expanding non-profit organizations and civil society institutions.

In order to achieve the reform targets of these development themes, the vision relies on four main programs,[3] along with an additional set of secondary programs. The fourteen-year vision will be implemented through interim programs with shorter time horizons.

National Transformation

The first set of interim objectives and associated government policies constitutes the first core program: The National Transformation Program (NTP).[4] The NTP enumerates in detail, under eight themes, specific objectives and initiatives that must be adopted and undertaken by various government agencies in order to realize a set of interim targets. In line with Vision 2030's objectives, NTP calls for the creation of 450,000 jobs for Saudi nationals in the non-government sector by 2020. Non-oil exports are to increase from 185 billion ($49 billion) Saudi Riyals (SR) in 2015 to 300 billion ($80 billion) in 2020. The duties and responsibilities of all government organizations with respect to Vision 2030 are defined in the NTP.

Strategic Transformation

The second core program of Vision 2030 is the Saudi Aramco Strategic Transformation Program. The national oil company, the Saudi Arabian Oil Company (or Saudi Aramco), manages the Kingdom's energy assets and oil production. The Strategic Transformation Program calls for the partial privatization of Aramco by offering 5 percent of its shares, with a projected value of $100 billion, to the private sector and allocating the proceeds of this sale to financing the large-scale investment projects needed to boost the country's non-oil sector.

Public Investment Fund and "giga projects"

The third core program of Vision 2030 is the Public Investment Fund (PIF) Restructuring Program.[5] The PIF was established in 1971 as a sovereign wealth fund with a diverse portfolio of domestic and foreign assets, but the PIF's role and mission have expanded significantly since 2016 to include procuring financing and qualified foreign partners for Vision 2030 projects. It is designated to play an important role in funding and managing the Vision's large-scale investment projects and global investments. Assets under PIF control have increased from $154 billion in 2015 to $228 billion in 2017 and are projected to reach $450 billion by 2020. Yet these amounts are only a fraction of the financial resources needed for the ambitious projects outlined in the Vision; the rest will come from private sector and foreign investments that the PIF will be trying to attract. The Fund is also making selective strategic investments in high-tech firms in Western countries so as to facilitate their investments in the Kingdom. This strong interest in partnerships with U.S.-based firms was the main motive for MBS's visit to Silicon Valley during his formal tour of the United States in April 2018.[6]

The Public Investment Fund is expected to finance many Vision 2030 projects, and the three largest projects in its portfolio are labeled "giga projects" on account of their unprecedentedly large scale. The largest one is the NEOM Project for constructing an economic city in the northwest corner of the Kingdom's Red Sea coast, near the Gulf of Aqaba. It will comprise large residential areas, space for commercial activities, and industrial units. Plans are for it to adopt state-of-the-art technology in urban design, automation, and sustainable technology. Once developed, it will have cross-border linkages to related projects in nearby areas of Jordan and Egypt, and it will be linked to Egypt by a bridge.[7] At a projected cost of $500 billion dollars, the NEOM futuristic city is the most expensive component of Vision 2030 and its crown jewel.[8]

The second "giga project" is also located on the Red Sea coast and is appropriately called the Red Sea Project. This is a large-scale tourism resort located on an area of approximately 34,000 square kilometers centered around the Al-Hawra Archipelago. It is situated approximately 500 kilometers north of the Kingdom's commercial capital, Jeddah.[9] If successfully implemented, the NEOM and Red Sea projects will result in a transformation of Saudi Arabia's Red Sea coastal region and encourage a significant relocation of population and economic activity to this area.

Vision 2030's third "giga project" is a large multifunctional cultural and entertainment zone known as the Qiddiya Project, covering a 340-square-kilometer area southwest of Riyadh. Plans call for this large area to include theme parks, shopping malls, sports centers, facilities for cultural events such as music festivals and conventions, and up to 11,000 vacation homes. One of the stated objectives of this project is to create an appealing domestic destination for Saudi nationals who currently spend billions of dollars annually on foreign travel because of the shortage of attractive domestic destinations. If successfully implemented, the Qiddiya is projected to generate 57,000 jobs by 2030.

Entertainment and Culture

Qiddiya will serve as the primary construction project for the fourth core program of Vision 2030: the "*da'im*" Entertainment and Culture Program. This program aims to significantly enhance the quality and range of entertainment and cultural activities available to Saudi citizens. For this purpose, the government has created two new government organizations: the General Entertainment Authority (GEA) and the General Culture Authority (GCA). The GCA is responsible for promoting all types of art and cultural activities and for safeguarding the Kingdom's cultural heritage.

As with its other initiatives, the Saudi government is trying to attract private investment to entertainment projects like movie theaters and amusement parks. The Saudi government lifted a thirty-five-year ban on movie theaters in December 2017,[10] and the GEA director, Ahmad bin Aqeel al-Khatib, has claimed that $64 billion will be invested in entertainment facilities and related projects in the Kingdom between 2018 and 2028.[11] The Crown Prince (MBS) demonstrated his commitment to the country's entertainment sector after consolidating his hold over the interior ministry by reducing the ministry's regional development budget and redirecting the savings to the GEA.[12]

Evaluation and Progress Report

As the main political force behind Vision 2030, Mohammed bin Salman has aggressively pushed to implement its programs. He has served as the director of the Council of Economic and Development Affairs since its establishment in 2016 and exerts full control over all economic reforms and development plans associated with Vision 2030. Three years into its implementation, however, progress in achieving its goals has been uneven: Targets with respect to some projects have been achieved, but other initiatives are behind schedule. Delays in some cases have been due to shortages of financial resources and investment funds. The high cost of the war in Yemen and weak oil prices have reduced available fiscal resources. Other delays were caused by unexpected political and geopolitical factors.

Governance and Fiscal Reforms

Some of the most visible progress has been in improved governance, including the increased efficiency of government agencies. These advances have come about not only because of bureaucratic reforms but also as a result of the concentration and consolidation of power in the hands of Mohammed bin Salman. He has replaced many government officials with his loyal supporters and a generation of younger public sector managers. Key government positions in Saudi Arabia were traditionally distributed among leading members of the extended Saudi royal family, so as to ensure internal harmony. This tradition, however, was often vulnerable to excessive interference and nepotism on the part of royal princes, resulting in diminished cooperation and coordination among government agencies. The late King Abdullah (r. 2005–15) initiated some reforms to address these issues, with only partial success.

Since the launch of Vision 2030, annual comparative governance indicators issued by various international organizations show that the level of discipline and accountability in Saudi government institutions has increased since 2016.[13] The World Economic Forum's 2018 Global Competitiveness Report, for example, shows an improvement in the Kingdom's scores in all indicators of governance during 2017.[14]

In implementing Vision 2030's fiscal reforms, there has been both progress and setbacks. In order to reduce the fiscal deficit (which reached a record $98 billion in 2015), in September 2016 King Salman announced a series of cutbacks in public sector wages and benefits.[15] Since the salaries and benefits of public sector workers account, on average, for 40 to 50 percent of the Saudi government's annual budget, this could have resulted in sizable fiscal savings. Nearly two-thirds of Saudi nationals work for the public sector, however, and they were very upset about these cutbacks. After a growing social media protest campaign on Twitter, called the #April 21 Movement, most of the wage and benefit cuts were restored in April of 2017.[16] As this failed initiative showed, public salaries cannot be reduced without significant political risk; but the government was able to raise some additional revenue by increasing the heavily subsidized prices of fuel and a few other basic goods and services.[17]

The subsidy cuts and price increases that went into effect in 2017 caused considerable resentment, however, and the Saudi public complained about the unfairness and injustice of these policies. To address these grievances, the government offered income support to targeted low-income and poor families. In addition, a major anti-corruption campaign against high-wealth family businesses began soon after these austerity measures. In November 2017, the King ordered several hundred wealthy Saudi businessmen, including several Saudi royal princes, to be rounded up and brought to the Ritz Carlton hotel and, later, the nearby Courtyard by Marriott in Riyadh.[18] They were detained and interrogated, many for weeks or months, about their business practices; according to media reports, some were subjected to considerable physical pressure. Most of these high-wealth individuals were released after agreeing to turn over large amounts of cash and physical assets to the government. Saudi officials claimed that $35 billion had been collected and that eventually a total of $100 billion worth of cash and property would be obtained from these individuals.[19] The Saudi finance minister pledged that a portion of the revenues from the campaign would be used to pay bonuses and income supports to government employees.[20]

In order to increase non-oil revenues, the government also introduced a 5% value added tax, effective January 2018. This was accompanied by a per capita tax on expatriate workers, with an initial monthly rate of $81 per person in 2018 that is scheduled to increase over time to $216 per person by 2020. In addition to raising revenue, this levy was also intended to encourage employers to hire more Saudi nationals.[21]

Attractiveness to Foreign Investment

The Ritz Carlton detentions came as the business community and international investors were simultaneously being courted by the Public Investment Fund to invest in the Kingdom, and they not surprisingly raised alarms. Contrary to the expectations of Saudi officials, the volume of direct foreign investment suffered a sharp decline in 2017.[22] And the appeal of Vision 2030 projects vis-à-vis foreign investment and foreign partners became even more problematic after the considerable international backlash to the murder of Saudi journalist Jamal Khashoggi in the Saudi consulate in Istanbul in October 2018. Many international firms that had been considering becoming involved in implementing Vision 2030 projects suspended or canceled their plans as it became evident that Saudi government officials were responsible for Khashoggi's disappearance and murder.

The negative reaction on the part of international investors with respect to Saudi investment opportunities after the Khashoggi crisis is likely to affect many Vision 2030 projects in the short run. The adverse impact of this crisis was evident at the second Future Investment Initiative (FII)—an annual gathering sponsored by the PIF to attract foreign investment—which took place in Riyadh on October 23–25, 2018, three weeks after Khashoggi's murder. Many Western financial and industrial firms that had attended the first FII in 2017 were absent or sent low-ranking representatives. Even some members of the advisory board of the Vision's most prominent project, NEOM, did not participate and formally suspended their cooperation with the project.[23]

As a result, NEOM is likely to fall behind schedule. Based on a report in the *Financial Times*, in a mid-December 2018 meeting with a group of Western businesspersons, Mohammed bin Salman admitted that foreign interest in NEOM had dropped sharply and that the project was likely to be postponed for several years.[24] This postponement, however, is not necessarily a bad thing. At a projected cost of $500 billion dollars, the NEOM futuristic city is Saudi Arabia's ninth such economic city initiative put forth in the past two decades, and many of the previous ones remain unfinished. Critics of NEOM have pointed out that King Abdullah initiated a plan to construct six economic cities by 2020. That massive project, known as the Economic Cities program, is behind schedule, with only one project—the King Abdullah Economic City (KAEC), located on the Red Sea coast near Jeddah—having made even partial progress.[25]

The lack of progress in completing previous economic cities poses a question about the need for another, much larger, project such as NEOM. There are also many questions about the projected economic benefits of NEOM, which according to its current master plan will be fully automated. For a country like Saudi Arabia, which has faced high rates of youth unemployment, it is not clear how this high-tech, capital-intensive economic city will contribute to creating adequate job opportunities for the Kingdom's young population. The increased skepticism of international investors in the aftermath of the Khashoggi murder might encourage Saudi officials to pay more attention to the costs and benefits of NEOM before committing any funds to it. In the course of such a reassessment, they may conclude that it makes more sense to first complete the KAEC project, which is extremely underutilized, rather than proceed with NEOM.

Aramco Privatization Postponed

The Aramco partial privatization program has also fallen behind schedule. While MBS remains fully committed, several other politicians and members of the royal family had reservations about the wisdom of this project because a successful sale will require full disclosure of the assets and finances of the corporation that is the main source of revenue for the government. There was also skepticism as to whether the sale of Aramco shares would generate the projected $100 billion in proceeds, given investors' uncertainty about the value of Aramco's reserves and low level of confidence with respect to Saudi Arabia's business climate. In response to these concerns, King Salman canceled the privatization plan, although some Saudi officials claim that it has merely been postponed.[26]

In a surprise twist, the Saudi government also proposed a partial sale of the country's giant petrochemical company SABIC to Aramco in mid-2018, while the internal debate about the latter's privatization was underway.[27] The Public Investment Fund currently owns SABIC, and it is estimated that such a sale would generate $70 billion worth of revenues that could be used for Vision 2030 projects. There are two arguments in favor of this internal sale. First, it would transfer liquid resources from Aramco, including new funds from a proposed international sale of corporate bonds (Aramco's first ever), to the Public Investment Fund which could then use them to fund Vision 2030 projects. Second, Saudi officials hope that Aramco, after purchasing SABIC and its petrochemical assets, would be able to diversify its sources of revenue by reducing its reliance on the sale of crude oil and transport fuel, which in turn would make it more attractive to international investors in any future privatization scenario.[28] The success of Aramco's bond sale and the potential privatization of Aramco, however, will both be affected in the short run by the aftermath of the Khashoggi crisis.

Investments in International Markets

The Khashoggi crisis will also affect Saudi Arabia's investment opportunities in international markets. The Public Investment Fund, for example, invested $45 billion in Softbank Corporation's Vision One Fund in 2017. Softbank is a Japanese holding corporation that invests aggressively in high-tech and online industries and regularly funds start-up firms in Silicon Valley. But the Khashoggi crisis gave Saudi Arabia such disrepute that many large corporations, including Softbank, turned down Saudi investment offers. Thus, after Softbank's stock price suffered a decline as a result of Saudi Arabia's large investment in its Vision One Fund, it cancelled a plan for the PIF to invest another $45 billion in Softbank's Vision Two Fund.

The adverse impact of the Khashoggi crisis on the Kingdom's international investment prospects is likely to diminish over time as media attention fades away, as long as the Saudi government can avoid any similar crises in the coming years.

Social and Cultural Reforms

Conservative norms and religious restrictions on Saudi social life have been traditionally enforced by the Kingdom's "religious police." In a first step toward cultural change, King Salman in April 2016—almost at the same time that Vision 2030 was formally inaugurated—reduced the authority of the Committee for the Promotion of Virtue and the Prevention of Vice (called simply "*al-hey'a*"—The Committee—by Saudis) to report individuals to the police for violating Islamic lifestyle restrictions.[29] Reducing the authority of *al-hey'a* came as a major relief for more liberal Saudis unhappy with such restrictions. The King also has had the Council of Senior Islamic Scholars, which is the highest official religious authority in the Kingdom, condone the social and cultural changes that MBS has introduced.

In a significant social reform, the Saudi government issued a decree in September 2017 that permitted women to drive, effective June 2018.[30] Other steps taken in the past two years to reduce gender discrimination include an informal relaxation in enforcing bans on women traveling without the consent of a male guardian (although the formal ban is still in effect), allowing men and women to participate in mixed-gender events, and permitting women to enter stadiums for sports events. The male guardianship laws, which restrict women's social and economic rights, have not been reformed yet.

The Saudi government is aware of a wide range of opposition to their social and cultural reforms and has tried to control dissent from both the conservative and liberal sides. A number of conservative Islamic activists have been arrested,[31] as have a number of feminist activists who supported their liberalizing reforms (particularly the right to drive for women) on social media.[32] With these arrests, the Saudi government is sending a message to its citizens that the reforms are being managed from above and citizens' expressions of opposition or demands for acceleration will not be tolerated. While the Islamic opposition to these cultural reforms has been suppressed so far, it has not been eliminated. As detailed in an earlier *Middle East Brief*, the Islamic movements are still present in Saudi Arabia.[33] They might engage in political or radical activist campaigns against these changes in the future.

Closing Remarks

Like China and several other authoritarian regimes, the Saudi government, in the context of their Vision 2030 development plan, has initiated a comprehensive package of economic and social reforms without accompanying political liberalization. Vision 2030 is more ambitious than Saudi Arabia's previous development plans, and Mohammed bin Salman has played a dominant role in its design and implementation. Since its launch in April 2016, however, the execution of this plan has had a mixed record. After consolidating his political power, the Crown Prince has been able to launch some of the agenda, particularly the cultural and social reforms, without delay or significant resistance. There has been some success in achieving governance reforms and public sector efficiency improvements. But some other initiatives, such as the partial privatization of Saudi Aramco, have enjoyed less success. Foreign investment in the Vision's numerous industrial and real estate projects has fallen below intended targets. These failures are partly a result of MBS's policies that have damaged Saudi Arabia's reputation as a stable and hospitable environment for long-term investment.

There is now some indication that after the crisis sparked by Jamal Khashoggi's murder, King Salman is imposing some limits on MBS's authority by bringing seasoned politicians into the cabinet. To the extent that the new appointments bring more stability and moderation to the Kingdom's domestic and foreign policies—in particular, with regard to whether Saudi Arabia ends its costly involvement in the war in Yemen—they may improve the country's image and attract more foreign investment, as well as partners for the Vision's ambitious investment projects.

It is not clear, however, how reassuring this cabinet reshuffle will be for the international community in the long run. The long-term trajectory of Vision 2030 will depend, to a greater extent, on how Saudi Arabia's political system evolves after the 83-year-old King Salman passes away and Mohammed bin Salman presumably becomes the Kingdom's new ruler.

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