

# Saudi Arabia's 'Vision 2030': Will It Save Or Sink the Middle East?

Written by Mohammed Nuruzzaman

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MOHAMMED NURUZZAMAN, JUL 10 2018

Saudi Arabia's mega development project 'Vision 2030' has now entered its third year. Launched in April 2016, Vision 2030 aims at fundamentally reforming the Saudi economy and society. It is primarily an economic blueprint that seeks to transform the Kingdom from a petro-state to an industrial manufacturing-based productive economy. Its overarching goals are to achieve a private sector-led self-sustaining economy, an open and vibrant society, and an ambitious nation. In short, Vision 2030, announced by the young and ambitious Saudi Crown Prince Mohammad bin Salman, is a bold initiative to change the image of historically oil-dependent and traditionally conservative Kingdom of Saudi Arabia. Lofty goals notwithstanding, 'Vision 2030' is a hard sale, both domestically and internationally. There are big question marks about its potential to succeed, with some critics predicting its slow demise and others cautiously projecting its future. Viewed realistically, 'Vision 2030' looks more hanging in the balance. Its potential to succeed is seriously undermined by a series of domestic and regional obstacles, most notably portrayed in problems to reform the Saudi social contract, lack of openness and transparency, absence of a domestic scientific and technological base to drive economic modernization on a sustained basis, and a regional environment unfavorable to a business boom in Saudi Arabia. Whether it succeeds or fails, 'Vision 2030' may prove to be a double-edged sword: its failure may unleash domestic chaos and instability with regional spillover effects; its success may further embolden ambitious Mohammad bin Salman to promote Saudi nationalist narratives to strongly push for a regional preeminent position breeding more conflicts and violence in the Middle East.

### Why 'Vision 2030'?

The original ideas for 'Vision 2030' came from a 2015 document 'Saudi Arabia Beyond Oil' developed by the business consulting firm McKinsey Global Institute (MGI). The report was about the pitfalls of Saudi Arabia's excessive dependence on oil revenues and what actions the Kingdom should take to diversify its economy away from oil dependence to build a sustainable economy. Indeed, the Saudi economy is run by oil, fed by oil and sustained by oil. Oil incomes roughly account for 42% of the kingdom's Gross Domestic Product (GDP), 90% of export earnings and 87% of budget revenues, making it seriously vulnerable to fluctuations in global oil prices. According to the MGI document, the oil price boom from 2003 to 2013 brought unprecedented prosperity to the kingdom by doubling its GDP and making it the 19<sup>th</sup> largest economy in the world. The economic prosperity was soon, however, threatened by the oil price collapse of 2014-15, forcing the Saudis to declare a deficit budget in 2016 for the first time since 2007. Financial reserves dwindled from \$732 billion to \$623 billion in 2015, and the government was forced to issue bonds in the international markets to finance spending. Furthermore, despite oil price boom, the Saudi economy achieved no structural transformation: until 2015 labor participation rate was 41% and productivity growth rate was a meagre 0.8% annually between 2003 and 2013, way behind most emerging economies.

The MGI report highlighted the dangers of a changing global energy market and the pressures of domestic demographic change. It also convincingly argued for a productivity-led growth to save Saudi Arabia. The urgent task, it underscored, was to invest \$4 trillion in high potential growth areas like mining and metals, petrochemicals, tourism and hospitality, healthcare, finance, manufacturing etc. If implemented on a sound basis, this huge investment, as predicted by MGI, would double Saudi GDP again and create six million new jobs by 2030 to absorb the kingdom's growing youth bulge (37% of Saudis are 14-year old or younger). The report created a huge appeal to Mohammad

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bin Salman, who is also serving as the Defense Minister and the President of the Council for Economic and Development Affairs of the Kingdom. He decided to give the ideas a big push, setting in motion Saudi Arabia's new trust with large-scale social and economic transformations – 'Vision 2030'.

## Potential and Obstacles

'Vision 2030' was, historically speaking, preceded by two other large-scale modernization drives undertaken in the 1960s in the Gulf neighborhood. The last Shah of Iran Mohammad Reza Khan attempted to modernize the Iranian society in the early 1960s, what came to be dubbed the 'white revolution'. The late Saudi King Faisal bin Abdulaziz Al-Saud also initiated a similar program around the same time. King Faisal's tragic assassination by one of his nephews in March 1975 clogged the wheels of his modernization efforts where limited successes were achieved in financial stabilization, bureaucratic and educational reforms. The Shah of Iran, in a sharp contrast, achieved tremendous successes in industrialization, agricultural modernization, land reforms, education and promotion of women's rights that greatly facilitated Iran's graduation from a peripheral to a semi-peripheral state in the world economy. The Iranian modernization drive came to a standstill with the Shah's ouster in 1979 by Islamic revolutionaries who resented his repressive policies and pro-US stance.

Bin Salman's 'Vision 2030' is much akin to, and also different from, the Shah's and King Faisal's authoritarian top-down modernization models, as it is primarily fueled by oil money. He is executing a massive transformation program in a tight, suffocating political environment, as was the case with Shah's Iran or King Faisal's Saudi Arabia. What is more, 'Vision 2030' looks more a continuation of a series of 5-year development plans from 1975 to 2015, particularly the ninth development plan (2010 – 2015) which the Kingdom adopted to build infrastructure, to develop human resources, to raise the skills level of Saudi workers, and to promote sustainable development. What differentiates it from the previous modernization models are its scale and intensity – its goal to transform Saudi Arabia in the context of a globalized world, its thrust on private sector-led development and its attempts to strike a balance between private sector forces, foreign investors and application of technologies to accelerate the pace of modernization.

More than years into 'Vision 2030', hardly is there any significant achievement Bin Salman has made to report, other than a few cosmetic social reforms like granting women the rights to drive and to attend events in sports stadiums. Contrary to expectations, there has been a downturn in major economic indicators: rate of economic growth declined from 1.7% in 2016 to 0.1% in 2017; industrial growth rate went into negative territory (-0.3%) in 2017 while unemployment rate of Saudi nationals stood at 12.8% last year.

The initial picture of 'Vision 2030' is rather disappointing despite some competitive edges the Kingdom has at its disposal. Available huge resources, respectable global economic standing and a large pool of cheap, if not slave, foreign labor were expected to facilitate an easy move towards realizing the goals of this mega project. Currently, the Kingdom has a positive current account balance (\$4.3222 billion, 2017 estimate), though its foreign reserves further depleted to \$509 billion (December 2017 estimate), and a zero inflation rate (in fact, -0.2% in 2017). With oil prices stabilizing at \$70 per barrel, funding for 'Vision 2030' seems to pose no big problem. Foreign investors usually feel comfortable to inject money and participate in the development projects of the Kingdom, notwithstanding a recent decline in foreign direct investments (FDI) due to worries about the future of 'Vision 2030'. At the same time, a number of respectable foreign index providers, such as MSCI and FTSE Russell have given Saudi Arabia emerging market status. This is expected to facilitate FDI inflows to the Kingdom. On top of that, the Kingdom has an abundant supply of cheap labor – a total of 10 million foreign workers who work for a minimum wage and enjoy few basic rights. The rights-less and often abused foreign laborers are working hard to modernize Saudi Arabia on the same scale the Indian plantation workers and slave African labor respectively contributed to the development of the United Kingdom and the United States in the 19<sup>th</sup> and early 20<sup>th</sup> centuries.

The real obstacles to implementing 'Vision 2030' are, however, structural. The basic nature of the Saudi state, deemed a federation of powerful tribes based on a bond between the Al-Saud royal family and the Wahhabi clerics, is hardly favorable to modernization efforts. The Wahhabi clerics represent the school of Muslim traditionalism with discernible biases for textual interpretations of the Qur'an and the *Hadiths* (sayings and deeds of Prophet Muhammad) and an anti-science posture. They are generally opposed to rationalist philosophy and scientific

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reasoning but expect the state to defend the Islamic faith. Though Mohammad bin Salman has so far managed to keep the Wahhabi clerics quiet on his transformation drive, it is uncertain how long he can keep them on board.

The clerics are known for their anti-women attitudes and their die-hard efforts to keep women out of the public sphere. Women make up half of the Saudi population and the recent recognition of their right to drive is just the tip of the ice-berg. More critical issues like achieving gender equality and the abolition of the male guardian system are likely to convulse the society in the future. In terms of gender equality, Saudi Arabia currently ranks 138 (out of a total of 144 countries), according to the World Economic Forum's 2017 Global Gender Gap Report. The male guardian system treats women as sub-humans, as they need permissions of their male guardians to visit medical facilities, travel inside or outside the country, to get married or to work. This is a big hindrance to effective labor market participation of Saudi women to modernize the society – a prerequisite for 'Vision 2030'.

A related big issue is the exclusion of political modernization from 'Vision 2030'. The Saudi political system is highly restrictive, often detrimental to citizens' basic rights, and crackdown on rights activists is a regular occurrence. So is the case with accountability and transparency – an area not well addressed by Bin Salman, though he recently arrested prominent royal family members, businessmen and high profile government employees on anti-corruption probes. Probably, he cannot afford to ensure transparency as that will deprive powerful princes of vested perks in the economy and seriously challenge his ascendance to power. Economic modernization is likely to stumble at some point in Saudi Arabia's tight political system, as demonstrated by the Shah's anti-democratic rumblings in Iran.

The education system of the Kingdom is equally ill-equipped to cater to the needs of mega development projects. Over the past years, the government has invested billions of dollars to improve the educational quality and competitiveness of Saudi students. Still, instead of emphasizing STEM (science, technology, engineering, and mathematics), there are notable biases for religious subjects and memorization while the 'know how' – the key to scientific investigations and progress is missing. According to the TIMSS (Trends in International Mathematics and Science Studies) 2015 report, Saudi elementary and secondary school students' scores in mathematics and science are one of the lowest in the world (just ahead of Morocco, South Africa and Kuwait at the elementary level and holds the lowest position at the secondary level). It clearly means that the Kingdom lacks a scientific and technological base to experiment with mega projects like 'Vision 2030' and that it entirely depends or continues to depend on imported technologies and skilled labor to support its development. That sounds dangerous since it pushes up the development costs and also edges the general Saudi graduates out of the job markets. It also hampers the government's plan to slash the public sector that absorbs 70% of Saudi employees, who receive handsome monthly salaries and have a general dislike for low-paying private sector jobs. The rapid expansion of the private sector, as planned by 'Vision 2030', to create six million jobs by 2030 to accommodate the growing army of the unemployed youth is likely to remain a far cry.

Latched onto the domestic structural problems is a series of regional issues that undercut the prospects of Bin Salman's modernization program. Two important issues are the costly foreign military adventures, and the loss of regional markets for Saudi products. Since 2015, the Kingdom has been pursuing 'guns over butter' budgets to secure a dominant position in the Middle East. After sending troops to Bahrain to protect the Sunni monarchy against Shias-led pro-democracy forces in 2011, it launched a war on Yemen in March 2015 and has openly funded the Syrian rebel groups, particularly the *Jaysh al-Islam* (Army of Islam) group to corner its regional archrival Iran and Iran-allied groups. Defense spending shot up quickly. The 2016 budget, for example, allocated \$47.76 billion to the military and security sector but it increased to \$50.9 billion in 2017 and \$56 billion in 2018 creating constraints to normal socio-economic development.

Last year, the Kingdom, supported by Bahrain, Egypt and the UAE, imposed a land, sea and air blockade on Qatar and cut off all commercial and investment relations, giving its rivals Iran and Turkey to rush in and capture the markets in Qatar. Before the blockade, Saudi Arabia was the principal supplier to the Qatari markets. Similarly, Saudi Arabia is more or less out of Iraq and Syria and is losing Yemen gradually after a three years' fight against the Houthi rebels. In short, Saudi military campaigns and hostile relations with the neighbors are taking a toll on the economy, which is putting extra pressures on the successful implementation of 'Vision 2030'.

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## Regional Implications

'Vision 2030', on the whole, looks less promising. Chances are high that it may fail. Whether it succeeds or fails, its impacts will be disastrous for the Middle East. Its failure means the inability of the Kingdom to handle the growing youth unemployment and maintain the welfare-supported social contract. A 2011 report estimated that the Kingdom would need to create some three million new jobs by 2020 to tame its young population. It may also jeopardize the government's capacity to disburse large financial hand-outs among Saudis, provided there is no more oil price boom, to buy-in their political loyalties. The Saudis are among the most pampered peoples on earth, receiving substantial government support from cradle to graveyard. A breakdown in the social contract has the potential to spark social unrest leading to two options – either a move towards democracy to involve the public in decision-making or a re-entrenchment of the authoritarian rule model in the name of fighting chaos, domestic violence and terrorism. The specter of social unrest will affect different Saudi regions and the neighboring countries.

The success of 'Vision 2030', on the other hand, will consolidate the royal family's domestic political base but negatively affect the regional order. Emboldened by domestic economic successes, ambitious Bin Salman may capitalize on Saudi nationalist narratives to forcefully pursue policies of regional dominance. The Kingdom justified its war on Yemen on the ground that the Houthis rebels were Iranian proxies and that Iran was helping the Houthis to hold sway over Yemen, and thus threatened Saudi security. This narrative was also linked to Saudi failure to dislodge the Bashar Al-Assad government in Syria and Iraq's apparent shift to the Iranian sphere of influence following the 2003 US invasion. The Saudi opposition movement, called *al-Sahwa* (awakening), also buys the nationalist narrative and supports the government's military drives to confront Iran to defend Sunni Muslims. That gives Bin Salman a free hand to embark on regional adventures. To conclude, 'Vision 2030' is a Janus-faced transformational program. It is poised to mildly or hardly shake up the Middle East, whether it fails or succeeds.

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**Mohammed Nuruzzaman** is Associate Professor of International Relations at the Gulf University for Science and Technology (GUST), Kuwait. He earned a Ph.D. in Political Science from the University of Alberta in 2003 and has taught at different universities in Canada, Bangladesh, and Kuwait. Dr. Nuruzzaman specializes in international relations theory, global political economy, human rights and human security, great powers in the global order, political Islam, and politics and international relations of the Middle East. His major publications have appeared in leading peer-reviewed international journals, including *Canadian Journal of Political Science*, *International Studies Perspectives*, *Cooperation and Conflict*, *International Studies*, *International Area Studies Review*, *Journal of Contemporary Asia*, and *Journal of Asian and African Studies*, among others. He is also a contributor to influential global news magazines and online publication outlets, including *The National Interest*, *E-International Relations*, *The Conversation*, and *Informed Comments*. Winner of some prestigious scholarships and fellowships, including Durham Senior International Research Fellowship 2016 – 17, KFAS (Kuwait Foundation for the Advancement of Sciences) research grants in 2013, the F.S. Chia Doctoral Scholarships (University of Alberta) in 1998, and the GUST – UMSL Summer Research Fellowship in 2011, his current research more focuses on contemporary Middle Eastern security issues.