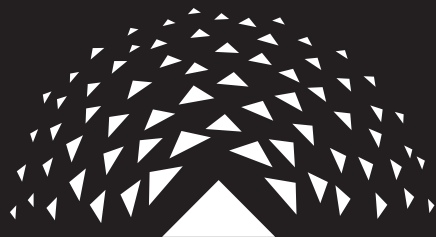




KKI

4:1



How Do You Evaluate
the Current Stage of the
Implementation of the Saudi
Vision 2030 Reform Program?

KKI 4:1

Series of the Institute for Foreign Affairs and Trade

Publisher:

© Institute for Foreign Affairs and Trade, 2020
Prince Saud Al-Faisal Institute for Diplomatic Studies, 2020

Editor:

Máté Szalai – Institute for Foreign Affairs and Trade,
Corvinus University of Budapest

Turki A. Binturki – Prince Saud Al-Faisal Institute for Diplomatic Studies

Ádám Éva – Antall József Knowledge Centre

Tamás Kozma – Antall József Knowledge Centre

Dániel Vékony – Corvinus University of Budapest,
Institute for Foreign Affairs and Trade

Typesetting:

Andrea Tevelyné Kulcsár

Photo:

Pxfuel

<https://www.pxfuel.com/en/free-photo-ouwly>

The present analysis and its conclusions reflect the author's opinion and cannot be considered the official position of the Institute for Foreign Affairs and Trade, the Ministry of Foreign Affairs and Trade, or the Government of Hungary.

Publications of the series in English

2020/6 [What Can Be Expected in the Western Balkans in 2020?](#)

2019/19 [What to Expect from the Czech Presidency of the Visegrad Group 2019/2020?](#)

2019/13 [How Do You See the Future of the Gulf Cooperation Council Integration Format?](#)

2019/10 [How Could the European Elections Reshape Central Europe's Role in the EU?](#)

2019/9 [NATO Anniversary: Will There Be Another 70 Years?](#)

For more publications, see [the homepage of the Institute](#).

In the 4:1 series of the Institute for Foreign Affairs and Trade, four researchers give a short answer to the same questions concerning international politics and economics. Our aim is to launch the scientific debates in Hungary and promote dialogue among experts. In this issue, our topic is: "How Do You Evaluate the Current Stage of the Implementation of the Saudi Vision 2030 Reform Program?"

TURKI A. BINTURKI

Saudi Arabia has been going through changes since its initiation. Prior to the unification of Saudi Arabia and the discovery of oil, Saudi society was simple and comprised mostly of Bedouins and urban people. One lived and maintained the life of nomads, the other concentrated on agriculture and crafts. It was not uncommon to find grandparents, parents, grandchildren, uncles, aunts, and sisters-in-law living under a single roof along with livestock in what was a mud house most of the time. All family members contributed to making ends meet. Men, women, and even children had some sort of responsibility.

Fast forward 70 years, King Abdullah spearheaded change, and gears were set in motion to change Saudi Arabia at its core. Among the many contributions, the most significant social changes include the establishment of the National Anti-Corruption Commission, the King Abdullah Scholarship Program, the establishment of 17 new universities, the King Abdullah bin Abdulaziz International Centre for Interreligious and Intercultural Dialogue, appointing 30 women out of the 150 members of the Shura Council, and improving the judicial system. Women started to take a new place in society. Their education in the early 1960s was a significant milestone. With the introduction of the King Abdullah program of scholarships in 2004, scores of young Saudi men and women travelled abroad to participate in higher education. There are now close to six million students in Saudi Arabia; half of them women, with 114,500 study-abroad students studying in 22 different countries. The extended family has diminished. Most families are now small and pay more attention to better-quality life goals, such as education.

Since the initiation of Vision 2030 two years ago, the Kingdom has ceased to be the same. Changes are happening very fast at all levels of life. However, there are compelling factors that demand such swift acting: the first is time, which not in favour of Saudi Arabia. The Saudis have missed decades of improvement and need to catch up fast. One example is technology. Many countries have adopted new technologies and built infrastructure to serve improvements. Second, the geopolitical situation is difficult to predict. The region needs a catalyst others can follow. Saudi Arabia has the potential to play this role. Third, oil prices fluctuate and are too volatile to rely on independently, and they cannot sustain development. Fourth, the young population is eager for change. They are tech-savvy, educated, well-informed, and they have access to social media.



Social change has been brought on by the fundamental need to diversify the economy. For instance, the three major investments in Saudi Arabia are Neom, Qiddiah, and Red Sea. These projects instigate a standard to the quality of the individual which is among the Quality of Life Vision Realization Program goals. These changes specifically target sports, culture, and entertainment. The development, change and opportunity bring the integration of the husband, wife, son and daughter. The focus of the family to work, contribute and manage expenses is slowly happening. The social impact is that the Saudi family is changing in their lifestyle and how they socialise together. Saudi Arabia has created 25 new line items for women, for example, gyms for women. Saudi Arabia now has 500 registrants on the General Sport Authority site, with 47 live operations. As a result, Saudi Arabia cannot afford to have half of its population dependent on other actors, and options to operate and conduct business must be created. The lifting of the ban on driving provides an important push, with an immediate social and economic impact. Similarly, 8,000 women have entered stadiums to attend sports venues for the first time. This is a huge number, and expectations for more participation are optimistic. Now women are also performing sports outdoors. In the past, it was uncommon and against culture to enjoy sports in public. Now there are groups of women who ride their bicycles and jog in the street. Last March more than 1,500 women participated in the first official women's race in Al-Ahsa.

The Saudi Commission for Tourism & National Heritage has started issuing tourist visas in October 2019. More than 100,000 tourists visited Saudi Arabia in one month. Tourists enjoy the opportunity to visit museums such as the National Museum, King Abdul-Aziz Museum, the Museum of the Two Holy Mosques, and others. Cultural events hosted in the King Abdulaziz Center for World Culture (Ithra) in Dhahran, which was selected for Time magazine's premier World's Greatest Places 2018, are operational. Visitors can also visit heritage sites such as Al-Ula, Diriyah, Al Ahsa, and many more UNESCO sites. Persuading more people to holiday in the country would reduce that drain on the economy. Prince Sultan has stated that the commission was also working to prepare tourist spots for foreigners. Plans were announced in August 2017 to develop resorts on about 50 islands off the Red Sea coast, with the first phase of the project to be completed in 2022. Visits to Mada'in Saleh, a 2,000-year-old Nabatean city carved into the rocks of the northern desert have already started.

Al Janadriyah is a fun and exciting occasion to explore Saudi Arabia. It is a monumental event that encapsulates Saudi Arabia's vibrant culture of regions into several weeks of events during February every year. Each year a country is celebrated as a guest of honour to showcase their heritage. Countries like France, India, Egypt, and UAE have been guests of honour. Central European arts projects: transfrontier festivals, performances, and joint exhibitions by young artists, creative camps, support for journalism focusing on Central European themes are great contributions that would be suitable for Al Janadriyah.

The Entertainment Authority, which was created in May 2016, has plans to stage more than 5,000 events this year, double the number of those in 2017. Operas, music

performances, concerts, and cultural events are among many that have made an appearance. Comedy clubs are very popular and attract scores of attendees. The Greek-born pianist and composer Yanni performed in the Kingdom in December. Cirque du Soleil is set to stage its first show this month. Local artists have performed in the capital Riyadh for the first time in years. Cultural performances from countries such as Japan and China have found their way to Saudi. Week-long events have been held to introduce other civilisations and culture to Saudis. For example, the "Treasures of China" exhibition, displaying a rare and priceless collection of historical Chinese artefacts, which marked the largest cultural relics exhibition hosted by China in the Kingdom. It includes 264 items provided by 13 museums and cultural institutions, such as the Palace Museum, of which 173 are Chinese cultural relics. They include the famous Terracotta sculptures depicting the armies of Qin Shi Huang, the first emperor of China.

Opening Saudi Arabia to the world impacts how people accept others and builds bridges to harmony and dialogue. As most Saudis regard visitors their own guests, it also promotes acceptance indirectly. These interactions reduce stereotypes towards others and gives Saudis the chance to be heard and promote their own culture. Similarly, Saudi Arabia celebrates the Saudi national day in Saudi embassies around the world, though attendance and participation could be expanded, and they can be integrated into regular events to expose each community to a side of the country that is energetic, accepting, and welcoming.

TAMÁS KOZMA

Saudi Arabia's [Vision 2030](#) enters into the fifth year of its implementation soon; therefore, it is high time to take stock of the achievements it has recorded so far. Although this analysis is not suitable for offering a fully detailed progress report, it refers to some key datasets and progress relevant to our main question.

It is without a doubt an important feature of Vision 2030 that it relies on globally used indicators, thus, the progress achieved in relation to a number of its goals can be tracked. An undeniably important indicator refers to the volume of the GDP. The country's objective to get into the top 15 largest economies in the world by 2030 will definitely require further efforts: based on the latest figures published by the World Bank, Saudi Arabia currently ranks as the [18th](#) largest economy, which means it has managed to move forward one rank since the launch of the vision. Since the country's structural goal is to shift to a less oil-driven but more diversified, balanced, and innovation-driven economy, it is crucial to what extent the non-oil GDP share can be boosted in the government's revenues. While the share of such revenues equalled [10.3%](#) in 2016, by 2019 it has reached [18.1%](#), which definitely means a significant step forward. At the same time, Saudi Arabia faces a setback in its ranking in the Global Competitiveness Index: while in the year 2015/2016 it ranked [25th](#) globally, in 2019 it ranked only [36th](#). Considering one of the key objectives of



Vision 2030, namely turning Saudi Arabia into a unique regional logistical hub, it is necessary to shed light on the latest results concerning the Logistics Performance Index: the aim to get into the top 25 countries of the world is still far away, since the Kingdom ranked only [55th](#) in 2018. When it comes to another key indicator of reforms, it is worth having a look at the country's current Government Effectiveness Index: Saudi Arabia ranks now [65th](#) globally, which is a modest, but non-negligible move towards the 20th rank, which has been set as a goal to reach from the 80th place at the time of launching the vision.

As outlined in the vision, the country's leadership also has noteworthy plans to advance the country's role as an investment powerhouse. In line with that, since 2017, Saudi Arabia has hosted the [Future Investment Initiative](#) forum, also called "*Davos in the Desert*," which is a key initiative to bring together leaders, investors, and innovators from all over the world to discuss and shape the future of global investments. In addition to that, megaprojects have also been proposed, such as the frequently quoted [Neom](#) project, which seeks to become a flagship initiative of the country's economic diversification and of unlocking the country's currently unused touristic and entertainment potential. Since the latter project assumes long-term investments and development, at present it would be premature to evaluate it, but it is undeniably a key investment opportunity also for foreign companies. Another important recent development is the [initial public offering](#) of Aramco stocks. After years of preparation, in December 2019, the stocks of the Saudi oil company were traded for the first time, and the income is aimed to be invested in the ambitious development plans under Vision 2030.

Based on the above indicators, one can inevitably see that in some areas Saudi Arabia has managed to achieve greater progress, while in other fields it faces backlogs. Beyond these indicators, one should not overlook the areas which are less quantifiable or not quantifiable with globally used indicators. Accordingly, one may highlight that Saudi Arabia has placed increasing focus on its soft power capacities in the past couple of years. The promotion of tourism by [issuing tourist visas](#) since September 2019, or the country's strengthening presence in sport diplomacy are also important tools for improving and intensifying the country's ties with the international community.

Saudi Arabia's Vision 2030 is not only an ambitious plan that consists of a comprehensive list of goal-setting aiming at the development of the country's society and economy, but it is also a significant step towards the creation of a refreshed nation brand for the Kingdom, which is as an increasingly important factor that shapes public opinion about the country, its attractiveness for foreign investments, etc. At the same time, it is a significant question for the remaining ten years until 2030 how the present regional turbulences in and around the Gulf region will impact Saudi foreign policy in the upcoming years, and how this will affect the Kingdom's capacities and opportunities for focusing on the domestic reforms and development under Vision 2030.

ÁDÁM ÉVA

When it comes to the Saudi reform plans that are highly dependent on foreign relations, the predictability of government behaviour is a key factor in the feasibility of the project. Unexpected decisions are usually punished by unfavourable [market responses](#), among others. Evaluating the progress of a very ambitious 15-year plan after a few years would be premature; however, an assessment of the progress of the [National Transformation Program 2020](#) (NTP 2020), understood as the first stage of the overall three-stage process, can surely be made. An apparent feature of the NTP 2020 document is that its many baselines and “2020 targets” had been annotated by either “calculation in progress” or “under study”. This feature clearly indicates that the first phase of the 2030 reform program leaves latitude for the government to change its targets and that it should be understood as the study phase, which might bring further understanding regarding the feasibility of the overall reform program. As such, success and failure at the current stage should be evaluated critically. What is clear at this stage of the process is that uncertainties might hinder the success of the project. Suffice it to highlight two very important factors here, the political behaviour and economic decisions of the government, to point out some of the unpredictable elements the government of the KSA should address in order to keep the reform process on track.

One of the subjective elements of uncertainty is reputational damage, which might have many kinds of results, ranging between lowering the willingness of investors to risk their assets and political and economic isolation at worst. Human rights advocates and watchdogs usually neglect the sovereign right of the state to address its domestic issues by its official means. The ongoing judicial case of the cleric Salman al-Awdah is a point in case. The details of the procedure are not transparent for the public, which creates confusion in the public debate on the case. However, even though Awdah's case is criticised by liberal NGOs, it is far from affecting the trust of investors in the Saudi economy, as it is understood that the person in question has violated the law of the country by advocating for a terrorist organisation. Recent developments, however, in Saudi diplomatic affairs might severely damage the feasibility of the reform process. The enhancement of the Kingdom's image locally and internationally should not be narrowly understood by the government as a strategic objective of the Ministry of Culture and Information, as it is found in the NTP 2020. As more and more companies are [cancelling](#) their investment deals in the country, it is reasonable to question whether the KSA can attract foreign investment in order to diversify its economy and become a financial hub in line with the vision. While some critics cry for radical changes, such as sacking the deputy crown prince, more reasonable decisions might include the acceleration of liberal domestic policies in the form of trust-building measures, such as providing more space for public opinion and freedom of speech. Contrary to the government's narrow understanding, critical thinking might also serve the country's interests.



A more objective element of uncertainty is related to the economic reforms and the privatisation process in particular. The decision to postpone Saudi Aramco's IPO is an issue that might affect investor decisions and is related to predictability. Although the IPO of the world's largest state oil company was about to happen in the middle of the NTP 2020 period, it has been [postponed](#) to the beginning of the next five-year period, with details emerging that had only brought more uncertainties. Eventually, geopolitical unrest and other [unpleasant issues](#) not only downgraded the value of Aramco's shares, but Western investors have remained largely absent. The cornerstone of the Saudi reform plan is economic diversification and limiting the role of income from the oil sector within the country's GDP. However, the pace of the reforms is contingent on the demand for oil and its market price. If the equilibrium is favourable for the KSA, the Saudi ruler has the luxury to implement reforms slowly and keep the level of public employment and subsidies high. Therefore, postponing this major strategic decision might suggest that the government is not following a plan but merely adapts to the circumstances. In other words, the government should follow the long-term strategy instead of implementing short-term tactical moves.

DÁNIEL VÉKONY

The Saudi economy is still dominated by the petro-chemical sector. This is a source of insecurity for the country for a number of reasons. Firstly, the [recent drone attacks on the Saudi oil facilities](#) was a clear demonstration of how vulnerable the economy is to any short-term disruptions in the production and refining of crude oil. This is all the more important since the government's ambitious Vision 2030 program is [financed mainly by revenues from the energy sector](#). Secondly, any fluctuations in the price of crude oil have a major effect on the government budget, as not only the trade balance but also the fiscal policy is [highly dependent on the revenues of the petro-chemical](#) sector and the state-owned Saudi Aramco. The recent [formation of the OPEC+ framework](#) involving Russia is a clear demonstration that the ability to affect global oil prices is slipping out of the hands of OPEC members. It seems likely that the Saudi government's ability to influence oil prices will further diminish in the years to come. Thirdly, the global shift towards renewable energy in various sectors of the economy, including transportation, means that we may be fast approaching the time of [peak oil demand](#). This may result in countries such as Saudi Arabia not being able to profit from the vast oil reserves they used to in the following decades, which will lead to negative outlooks for the market value of energy companies and also government revenue for countries reliant on such state-owned enterprises in the long run. This may be a reason why the Saudi government [abandoned the idea of an international IPO for the state-owned Saudi Aramco and decided for only a domestic share offering](#). Besides, the government decided to accept [a significantly lower valuation of the company](#), which is another sign of the urgency in this regard. It seems that the

government needs the revenue from the IPO to fund a number of development projects, and the diversification of the economy cannot be postponed any longer.

The Saudi government is not in a comfortable position. [Taking a look at the basic macroeconomic indicators](#), it is clear that changes are needed, provided the state wants to sustain stability in the Kingdom. Unemployment among Saudi nationals is still above 12 per cent, and the government has been running a fiscal deficit for the past few years, which has resulted in an accumulation of public debt. This debt is still manageable, but the regime knows it must not allow it to spiral out of control. [As the financial reserves of the country are declining fast](#), the regime needs to put the economy on a new track as soon as possible.

One way to deal with the economic challenge was the [introduction of a 5% value-added tax \(VAT\)](#). Even though the [IMF recommended the Kingdom to be more ambitious and have the VAT level raised to 10%](#), it does not seem to be an option, as Saudi society also needs to deal with the challenge of significantly cutting back welfare benefits to balance out the books. This is paired with the challenge of a young population, where [48% of the people are under the age of 30](#). This means that there will be a high number of young people entering the job market in the coming years. If the economy is not able to absorb these individuals, it may lead to social unrest.

Taking all these into account, the ambitious [Vision 2030 program](#) spearheaded by Prince Mohamed Bin Salman is not only a step in the right direction but also an economic and political necessity. With Vision 2030, the Saudi government decided to launch an ambitious program of the diversification and boosting of the economy. This is complemented with the unprecedented opening of the country. The government realised that in order to make their plans come true in such a short timeframe, they need to bring in foreign capital and know-how at a larger scale than ever before. One of the most ambitious parts of Vision 2030 is the [Neom city project](#), which is supposed to act as a special economic and administrative zone in the northwest of the country. The recent opening of the country to tourism is also a development worth mentioning.

This economic opening is also part of a comprehensive plan to leave behind the old image of a secluded and conservative desert Kingdom. The [Riyadh Season festival](#) is aimed at not only luring tourists from abroad to Riyadh but also to convince local people not to go abroad if they are looking for quality entertainment. As such, this festival is not only an ambitious PR stunt but also an effort to retain within the Saudi economy the money young people often spend on entertainment in neighbouring countries such as the UAE or Bahrain.

Saudi Arabia has embarked on an ambitious road of opening and modernisation. The changes are unprecedented in the history of the Kingdom. The ruling elite have realised that if they want to avoid social unrest, they need to implement far-reaching reforms when they still have the time and resources to do it. Only time will tell if they will succeed.