

Saudi Arabia's Vision 2030, One Year On

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Brief Analysis

Royal rivalries, oil uncertainties, and premature optimism about reform initiatives could jeopardize the kingdom's hopes for transformative economic change.

On April 25, 2016, Saudi Arabia announced [Vision 2030 \(http://vision2030.gov.sa/en\)](http://vision2030.gov.sa/en), an ambitious economic plan intended to confirm the kingdom's status as "the heart of the Arab and Islamic worlds, the investment power house, and the hub connecting three continents." The accompanying vision statement was long on rhetoric and short on detail, making it difficult to judge the progress achieved one year later. But its grand goals have captured the imagination of international business figures seeking deals and investments, especially the proposed initial public offering (IPO) for part of the state-owned oil company Saudi Aramco, expected in 2018. Anecdotal evidence also suggests that the program is popular with Saudi youths, who are tantalized by the prospect of a more liberal society. Yet several obstacles loom:

- The persistent slump in oil prices, which is curtailing revenues badly needed to implement the proposed changes.
- The costly financial and political distraction of the war in Yemen, where efforts to reinstate the internationally recognized government have so far failed.
- The kingdom's basic resistance to change, epitomized by the deep conservatism of the Ulama, the clerical leadership that remains a significant political force.
- Uncertainty about whether the current crown prince will actually become king and, if so, whether he will endorse the project.

MIXED MESSAGES ON OIL?

The kingdom has the largest easily recoverable oil reserves in the world. But the architect of Vision 2030 -- Muhammad bin Salman (MbS), the thirty-one-year-old deputy crown prince who is widely regarded as the king's favorite son and true heir apparent -- prefaced the plan with a disclaimer about relying on those reserves. "We are not dependent solely on oil for our energy needs," he wrote. "We are determined to diversify the capabilities of our economy...As such, we will transform Saudi Aramco from an oil producing company into a global industrial conglomerate."

Indeed, the key to Vision 2030 is the release of funds made possible by a partial Aramco sell-off, raising a fundamental contradiction: foreign investors are being asked to put their money into the Saudi hydrocarbon sector, but the kingdom appears eager to move away from oil. This incongruity is particularly striking at a time when headlines like "Oil dives below \$50 as confidence in OPEC wavers" have been splashing across the pages of leading newspapers.

Riyadh has valued the IPO at \$2 trillion, leaving hordes of investment bankers and lawyers salivating at the potential slew of contracts. The announcement also prompted British prime minister Theresa May to visit the kingdom earlier this month in a bid to win some of the business for the London Stock Exchange. Yet the *Financial Times* recently called the \$2 trillion figure "hard to believe," noting that Aramco discloses very few financial details and explaining how the paper's own analysis "points to a valuation roughly half that size." The well-regarded business section of the London *Sunday Times* offered a similarly incredulous headline: "\$2 trillion for Saudi oil? Forget it."

The need for an IPO is partly a consequence of stagnant oil prices (themselves the result of growing U.S. shale production and other factors). In 2016 the kingdom ran an enormous budget deficit of \$75 billion, more than 10 percent of its GDP. This followed a five-year period in which the government exceeded its budgeted expenditures by nearly a quarter. And last September, it cut subsidies on a range of goods and services (e.g., gas, electricity) while trimming public salaries, potentially undermining the social contract with Saudi citizens. On April 22, however, the government announced that it was restoring public-sector benefits and awarding an extra two months' pay to troops stationed on the border with Yemen.

YEMEN TAKING A TOLL

Besides steering Vision 2030, MbS is also leading the troubled war effort next door in his capacity as defense minister. Two years ago, Saudi Arabia put together an Arab coalition to fight the Iranian-backed Houthi rebels and their allies, with the goal of restoring President Abdu Rabu Mansour Hadi in Sana. Yet the campaign has become stalemated, with the rebels controlling the northwestern region that holds the bulk of the country's population. A potential advance on the Houthi-controlled port of Hodeida could change the coalition's fortunes, but it also risks a humanitarian crisis if food supplies through the port are disrupted. The Saudi military is already having to fend off accusations of attacks on civilian targets, which spurred Washington to cut off the supply of some munitions. Meanwhile, the war is costing tens of millions of dollars per day, and the kingdom's underreported casualties include twelve soldiers who died last week when their helicopter was downed by friendly fire attributed to allied Emirati forces.

POTENTIAL CONSERVATIVE BACKLASH

Previous reform attempts in Saudi Arabia have been cautiously framed in terms of reverting to Islamic norms, but Vision 2030 breaks this mold. Although certain hardline measures remain in place, including the notorious ban on women driving, the government has relaxed other restrictions over the past year (e.g., by allowing mixed audiences at music and drama performances). In an April 20 *Washington Post* story, the head of the new Saudi entertainment authority declared, "We want to change the culture," noting that the program's larger goal is "spreading happiness." Similarly, the government needs to boost economic efficiency by allowing men and women to

mix in the workplace as well.

According to the same *Post* story, "a recent Saudi poll found that 85 percent of the public, if forced to choose, would support the government rather than religious authorities on policy matters." Although the caveat "if forced to choose" suggested some hesitation, the general nature of the response was telling. Thus far, the Ulama have been muted in their criticism of the recent changes, apparently not wanting to challenge MbS because it could be seen as an insult to the king. Yet the government's upcoming Las Vegas-style entertainment park (sans drinking and gambling) may be too much for them to ignore, especially if it is accompanied by accusations of crony capitalism in the awarding of contracts.

THE SUCCESSION QUESTION MARK

Vision 2030 is widely seen as a vehicle for the personal ambition of MbS, whose elevation to the throne seems increasingly likely. Yet the exact means by which he would leapfrog the current crown prince -- his older cousin Muhammad bin Nayef (MbN), the kingdom's interior minister and key counterterrorism interlocutor with Washington -- perplexes students of Saudi succession. As the system currently operates, MbN is supposed to become monarch when King Salman dies. Whether he would then elevate MbS to crown prince is an open question. At the moment, a significant portion of the royal family is upset with the younger prince's indifference toward the tradition of respecting seniority, and their desire for at least the appearance of consensus could spur them to back MbN come succession time. If so, that could spell trouble for Vision 2030 -- MbN seems standoffish toward the plan and might alter it significantly if he becomes king.

As for the reported awkwardness in MbN's relationship with MbS, last week's *Post* article noted that there is less apparent political tension between the two men than a year ago, but that MbS "appears to be firmly in control of Saudi military strategy, foreign policy, and economic planning." The latter point was seemingly confirmed Saturday when Riyadh announced new cabinet appointments that build up the younger prince's powerbase at the expense of MbN's. The biggest headline concerned Prince Khaled bin Salman, the twenty-eight-year-old brother of MbS who was named ambassador to Washington. Moreover, MbN's days as president of the Council of Political and Security Affairs -- supposedly the kingdom's main decisionmaking body on defense and foreign policy -- appear numbered. Any such sidelining would likely further antagonize those royals who are already troubled by what MbS has done so far.

CLOSING U.S. POLICY GAPS

When MbS met with President Trump at the White House last month, the prince gave a briefing on the progress of Vision 2030 and highlighted how expanded economic cooperation could create as many as a million American jobs in the next four years. The latter notion seemed to catch the president's imagination and may be a crucial factor in whether he decides to visit Saudi Arabia during next month's foreign tour. Despite the importance of burnishing bilateral relations and encouraging Vision 2030's more promising proposals, however, Washington still has policy differences to resolve with Riyadh, especially on oil and Yemen. The administration would also be well advised to steer clear of taking sides if tensions mount within the royal family. The U.S. role should be to offer public support for Vision 2030 while quietly working to steer the kingdom away from overambitious targets that could undermine the plan's potential.

Simon Henderson is the Baker Fellow and director of the Gulf and Energy Policy Program at The Washington Institute, and coauthor of its 2017 Transition Paper 'Rebuilding Alliances and Countering Threats in the Gulf' (<http://www.washingtoninstitute.org/policy-analysis/view/rebuilding-alliances-and-countering-threats-in-the-gulf>). " ❖

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