This post is part of an AGSIW series on Saudi Vision 2030, a sweeping set of programs and reforms adopted by the Saudi government to be implemented by 2030.

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Were there surprises in the Vision 2030 announcement?

No, in fact, there was very little new information in the announcement of the Vision 2030 plan on April 25, which is in line with previous comments by Deputy Crown Prince Mohammed bin Salman (MbS) in his interviews with Bloomberg and The Economist over the last few months. This was a strategy release, not a financial document or blueprint for implementation in any exact terms. In fact, the use of media to relay the plans in a conversational style is an important departure in the Saudi tradition of governance. MbS has proved adept at creating anticipation of his announcements, especially with his recent television interview on Al Arabiya in which he defended the plan in nationalistic terms, as a reclaiming of Saudi Arabia’s independence and strength in the era before oil.

It is also important to contextualize the Vision 2030 plan in its origins as an advisory paper produced by the McKinsey Global Institute (MGI) in December 2015. The mechanics of this ambitious reform agenda have not been fully disclosed: What will be the order of priorities in investment in key sectors? Will privatization and initial public offerings be a necessary first step to fund the reform effort? In effect, the announcement of Vision 2030 has not offered many details, but it also offers little surprises or departures from previous announcements of the economic transformation planned by MbS. Markets have anticipated a reform agenda, based on plans and previous actions to reduce government subsidies and seek debt financing.

However, there is an interesting counterintuitive logic to the Vision 2030 plan and its parent MGI report. The key advice of the report was to spend *more*, not less, money – $4 trillion to be precise – to shift Saudi Arabia’s reliance on hydrocarbon resources for its fiscal revenue and domestic economic growth. The plan is more about investment than it is about savings; for all of the clamor over the fiscal deficit due to declining oil revenue, the diminishing foreign reserves, and the need to cut costs in a Thatcher-like revision of shock therapy, the advice is actually very Keynesian. It is pump priming of major industry, specifically investment in eight targeted sectors: mining, petrochemical, retail, education, health care, financial service, and construction as well as the budding manufacturing and tourism sectors.

Some of the funds for these massive state investments will derive from a limited public offering of Aramco shares in the local Saudi stock market, but the majority of the investment will need to come from joint partnerships between the government and private investors, and traditional government expenditure. While MbS has advocated and already overseen the restructuring of some government entities to create savings for this projected expenditure, there is more reason to believe Vision 2030 will have to be financed with sovereign debt and corporate debt for any spinoff or state-related entities.

Why is this plan necessary now? Is it only the decline in oil prices that necessitates economic reform?

In many ways, economic diversification is made politically feasible and palatable by the decline in oil prices since late 2014, but the need for reform in labor markets, public sector expenditure, and the expansion of financial services dates back at least two decades. What has skewed, or deferred, the impetus for major economic reform is the anomaly of economic growth of the last decade.

The oil boom of 2003-14 created unexpected wealth that allowed for a development and social transformation inside the kingdom. The wealth generated in this period was not evenly distributed among citizens, but it created greater expectations for government service delivery. Gross domestic product in Saudi Arabia doubled in this period, household income rose by 75 percent, and almost 2 million jobs were created for Saudi nationals, including some for women (most recently in the retail sector). The government was able to spend extensively (and probably inefficiently) on building hospitals (81 new hospitals in the last decade), universities (the number of government universities in Saudi Arabia increased from seven in 2007 to 28 in 2015), primary schools, and infrastructure, including new roads and power plants. This expansion, estimated at $450 billion in public capital investment, depended on the government, not industry or innovation. In fact, the main source of Saudi household income growth has been public sector wages and social transfers, including subsidies of water, electricity, and gasoline as well as generous unemployment and health benefits. Remarkably, even with this expansion of state spending, the government was able to amass an impressive amount in foreign reserve assets, close to 100 percent of GDP in 2014. The state expanded to meet the development needs of a young and growing society. The opportunity now is to evaluate the previous investment over the last 10 years as it applies to the current needs of the society. Right now Saudi society needs jobs, so increased investment in key industries that can absorb Saudi workers and generate domestic demand are the policy focus.

What are the inherent risks of Vision 2030?

There is the risk of failure, of intransigence in the Saudi state bureaucracy and vested interests, including some among the 15,000 plus members of the ruling family who may stand in the way of the redirection of state spending. Private sector interests may also be at risk, as ways of government contracting will be under increasing scrutiny. Political instability is a risk, but more at the elite level than in the streets. The concentration of decision making around MbS could create rivalries, but also put pressure on a small team of reformers to spread thinly across a very large set of state institutions and enterprises. MbS emphasizes government performance evaluations and a consultant's zeal for project management techniques with deliverable achievements within short time frames. But, what happens when government agencies cannot meet targets? If ministers and administrators are regularly sacked through the reform process, will this hinder the larger process at work, lowering morale and limiting buy-in from the relevant public sector employees and managers?

A second risk is that the model itself might be stale, and not replicable across the Gulf Cooperation Council. At the heart of the increased investment that Vision 2030 promises is a real estate play accompanied by the reconfiguration of state assets into state-related entities that can act as corporates, taking on their own debt and separating from government budget tallies. This is essentially the Dubai model. Vision 2030 closely resembles the diversification strategy that Dubai engaged over a decade ago. MbS alluded to this land-based or mixed use investment strategy in his interview with Al Arabiya. The development of "territories" or government owned land for industrial growth, specifically in mining, will require private investment, but it will also generate demand in land development, spurring housing and construction growth.

The interest in domestic tourism has myriad goals, some political and some economic. In economic terms, it is an effort to capture disposable income of Saudi nationals who currently choose to vacation abroad. MGI estimates that between 2004 and 2012 the tourism industry in Saudi Arabia suffered a 30 percent decline, which might be recaptured by encouraging citizens to explore their own country in an effort to celebrate cultural heritage and national identity. Tourism will also generate growth in construction, real estate, and new cities or sites of historical interest, directing investment toward new areas rather than overburdened urban centers.

Both tourism and mining, as key industries of the economic transformation, require government land to be transferred, leased, or sold. The development of these industries will require foreign investment and a labor force trained specifically for the jobs at hand. Many of the mining industry jobs will be very technical and investment in education and training will be required for nationals to take advantage of the targeted growth in the sector.

The last, and least mentioned, risk to the Vision 2030 plan is its environmental impact and sustainability. The eight target industries for increased state and private investment are energy intensive. Saudi Arabia currently uses petroleum to fuel the majority of its power plants, and its electricity generation needs are only increasing. Investment in renewable energy, especially applied to energy demand in heavy industry, manufacturing, and mining would create savings (allowing oil to go to export markets) and help minimize the environmental impact of economic development. There is enormous private sector experience in Saudi Arabia in solar energy production and construction. The possible synergies between the state and an expansive energy sector, including renewables, are very strong.

Vision 2030 is a first step in a radical attempt to change Saudi Arabia's dependence on oil, but also its fundamental political economy, the way that the state and the economy interact. The reaction and interaction between state, society, and business in the coming months will define Saudi Arabia's place in the region and the international system for decades to come.

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