# Give and take

## Nasser Saidi says Saudi Arabia's journey towards diversification risks simply being a long wish list if the gulf state can't marry reforms with freedoms

**With oil prices nose-diving since June 2014, Saudi Arabia (and the other GCC nations) has experienced a sharp drop in economic growth, along with rising budget and current account deficits.**

Faced with higher borrowing costs (and CDS spreads), lower liquidity, and dampened credit growth, Saudi has to undertake major policy reforms for both fiscal consolidation and greater economic diversification.

### Long march forward

The release of its ambitious National Transformation Plan (NTP) on 6 June 2016 confirms the Gulf state has chosen the path of shock therapy as opposed to a gradual adjustment policy. The NTP aims to diversify the economy from its dependence on oil and broaden the sources of government revenue. The plan, estimated to cost around SAR270bn, includes a 110-page list of policies and targets for ministries and governmental bodies for 2016–2020.

Financing will rely on efficiency savings, privatisation and public-private partnerships, taxation and spending cuts on existing projects, according to the minister of finance. From cuts in energy, electricity and water subsidies, to reducing the public sector wage bill; the reform plan is wide ranging and represents an unannounced new social contract.

The NTP is Saudi's own "long march forward" that will require mass mobilisation, public-private cooperation, public buy-in guided by a clear and shared vision, and an explicit communication strategy, as well as deep structural reforms supported by macro-fiscal policy reforms. The NTP documents the fact that the leadership is aware of and not afraid to tackle the many challenges facing the country.

The crux of the Saudi reforms is to create a greater role for the private sector, leading to a more diversified economy and better job creation, moving away from the current dominance of the state and its agencies. While details of the private sector shift programme remain vague, the plan outlines the aim to increase the number of private-sector jobs by 450,000 by 2020, in addition to lowering public-sector salaries as a proportion of the budget to 40%, down from 45%.

### Nothing but a wish list?

The NTP aims to address many of the challenges facing Saudi Arabia (and other GCC oil-exporters) and offers specific solutions, though the "how" is not always well-defined:

- High youth unemployment rates of around 30% – the plan targets a 2.6% fall in unemployment among Saudis from 11.6% to 9% in the next five years.
- Women and their low labour force participation rates – the goal is to bring a further 1.3m women into the workforce by 2030, increasing female labour participation to 28% from 23% at present, as well as raising the number of women in the civil service to 42% from 39.8%. However, the NTP is silent on the empowerment of women and their wider role in economic and social development.
- Moving away from subsidised, high energy-intensive activities is necessary for greater diversification – specific targets are set to raise the contributions of real estate, IT, tourism and the defence and pharmaceutical industries to non-oil GDP.
- In a bid to innovate, the NTP hopes to deliver a revolutionary 15% uplift in mathematics and English attainment levels within five years (but to be modern-day relevant, the focus should be on science, technology, and engineering and mathematics).

For the NTP, the path to greater diversification winds through export-led growth (via improvements in "doing business" and increased local production) and eventually, regional and international integration. But it is also necessary for macroeconomic stability that the stance of monetary and fiscal policy be reversed from pro to counter-cyclical.

More fundamentally, Saudi Arabia should use this reform opportunity to liberalise the foreign direct investment (FDI) regime, allow (selective) 100% foreign ownership, introduce an open skies policy, develop domestic financial markets for government deficit financing, and develop infrastructure finance and facilitate access to finance for growth-SMEs through fintech.

### The problem with politics is…

Some oil-dependent countries have successfully diversified in the past. Norway, Malaysia, Indonesia and Mexico all come to mind. But the external context was different; the shift away from oil was aided by growing globalisation in the 1990s and early 2000s, and it took up to 20 years to sustainably achieve the structural goal of diversification. The current global environment is significantly more challenging amidst slow global and trade growth, global financial crises hysteresis, the Fed's rate hike cycle, and threatening geopolitical risks (think Trump).

Will the NTP achieve its stated goals by 2020? Do the Saudi government and its agencies have the institutional capacity to effect a deep economic transformation? Can the private sector adjust to the removal of subsidies, new taxes and other policy reforms, while innovating and creating jobs? Can a new social contract be imposed without corresponding political and social adjustments? The road on the Saudi's long march forward will be tortuous and bristles with unknowns. Indeed, there's many a slip 'twixt the cup and the lip.

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