



THE POLITICS OF ECONOMIC REFORM IN ARAB GULF STATES

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June 2016

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Abstract

Saudi Arabia's Deputy Crown Prince Mohammed bin Salman Al Saud laid out an expansive long-term plan, labeled the "Saudi Vision 2030," on April 25, 2016, intended to transform the Saudi economy and accelerate the transition toward a post-oil era. "Saudi Vision 2030" built upon a series of lengthy and in-depth interviews Prince Mohammed bin Salman gave to *The Economist* and *Bloomberg* that revealed plans to partially privatize Saudi Aramco and transform it into a global industrial conglomerate that would act both as the spearhead and focal point for the reforms. The dizzying pace and ambition of "Saudi Vision 2030" and associated developments—such as the restructuring of key government ministries and the appointment of former Saudi Aramco CEO Khalid al-Falih to head a new "super-ministry" of energy, industry, and mineral resources—have been uncharacteristic for a kingdom more used to periods of incremental change unfolding slowly over time.

This policy report goes beyond the headline initiatives of "Saudi Vision 2030" and the various measures unveiled in other Gulf States in response to the fall in oil prices to examine whether the attempts to shift toward genuinely post-oil economies are likely to succeed or not. It has two main parts each divided into multiple sections. Part I focuses on the political economy implications of the decline in oil prices and government revenues for the Gulf States, while Part II suggests incentives and recommendations for sustainable reform that can translate policymakers' *aspirations* into successful policy *implementation*.

Part I commences with an overview of the economic volatility that has buffeted the Gulf States since oil prices began to fall in July 2014 and assesses the implications for the so-called "ruling bargains" based on the redistribution of oil wealth from state to society. The final two sections analyze two of the initial policy responses to fiscal pressures—the issuing of debt and the scaling back of energy subsidies—and argue that while these policies have enabled governments to put off more politically sensitive measures, they are by themselves unlikely to resolve the underlying challenges facing Gulf economies.

Part II of this paper starts by placing "Saudi Vision 2030" in the context of the poor record of achievement of other long-term comprehensive economic "visions" unveiled elsewhere in the Gulf over the past decade. For the Saudi plan to succeed where most others fell short it is imperative that it be underpinned by a set of plans that spell out the detail and the mechanics of the policy changes, but the National Transformation Plan intended to accompany Vision 2030 has been repeatedly delayed. The following sections analyze in depth the need for policy planning as well as the importance of securing strong local buy-in and dislodging vested economic and political interests that otherwise can obstruct and even defeat policy reforms. The paper ends with concluding observations that underscore the point that while low oil prices have created a window of opportunity for "visionary" leaders to think outside of the box and push through reforms, this window is not open-ended and must produce results sooner rather than later.

Political economy implications of low oil prices

The speed with which budget surpluses have turned into deficits since 2014 illustrates the scale of the economic volatility in Gulf Cooperation Council (GCC) economies and their continued vulnerability to oil price swings, notwithstanding the heavy emphasis on economic diversification since the early 2000s. The International Monetary Fund (IMF) has projected that lower oil prices cost Arab oil exporters some US\$360 billion in lost revenues in 2015 and predicted that the six GCC states will face a cumulative fiscal deficit of as much as US\$1 trillion over the next five years.¹ The situation is most acute in comparatively resource poorer Bahrain, which was stripped of its investment grade credit rating by S&P in February 2016, and Oman, where GDP is estimated to have contracted by between 14 and 17 percent in 2015.² However, even in wealthier Abu Dhabi, nominal GDP is set to be 24 percent lower in 2016 than the peak year of 2014, while Saudi Arabia ran a budget deficit of US\$98 billion and burned through more than US\$100 billion in reserves in 2015.³

Economic volatility

Although all six of the Gulf states have made significant attempts to diversify their economies over the past two decades with varying degrees of success, they remain heavily reliant, both directly and indirectly, upon revenues from oil and, in Qatar's case, gas. In most GCC states oil revenues account for between 80 and 90 percent of total government revenues, and from 24 percent of total GDP in Bahrain and the United Arab Emirates to 36 and 38 percent in Qatar and Oman, 46 percent in Saudi Arabia, and 56.6 percent in Kuwait in 2014.⁴ In the one exception, Dubai, where oil accounts for about 5 percent of GDP, the emirate suffered the indignity of being "bailed out" by its oil-rich neighboring emirate, Abu Dhabi, with US\$20 billion in 2009 after the bursting of the speculative real estate bubble and the drying up of easy credit precipitated a short but very sharp debt crisis.⁵

As a result, total government revenues still correlate closely with oil revenues, leaving GCC economies highly vulnerable to external shocks and sources of volatility in international oil markets over which they have little control. Government revenues in Oman thus fell by 35.9 percent in the first nine months of 2015 on the back of a 45.5 percent decline in oil revenues (although spending itself only contracted by 1.8 percent),⁶ while in Qatar the value of hydrocarbon exports plunged 40.5 percent year-on-year between July 2014 and

¹ Simeon Kerr, "IMF Warns on Gulf States Growth amid Oil Price Fall and Conflict," *Financial Times*, October 21 2015.

² Archane Narayanan, "Bahrain Cancels \$750 Mln Bond Sale after S&P Downgrade," *Reuters*, February 18, 2016; "Oman's Nominal GDP Falls by 14.2% in First Half of 2015," *Oman Times*, January 13, 2016.

³ "Abu Dhabi: Low Oil Prices Take their Toll on Economy," *Gulf States News*, Volume 40, Issue 1010, February 18, 2016; Vivian Nereim and Glen Carey, "Saudi 2015 Budget Deficit is \$98 Billion as Revenue Drops," *Bloomberg Business*, December 28, 2015.

⁴ "Oil and the Gulf States: After the Party," *The Economist*, March 26, 2016; "Total Natural Resource Rents (% of GDP)," *The World Bank*, <http://data.worldbank.org/indicator/NY.GDP.TOTL.RT.ZS>.

⁵ Christopher Davidson, "Dubai and Abu Dhabi: Implosion and Opportunity," *Open Democracy*, December 4, 2009.

⁶ Fahad Al Mukrashi, "Oman's Revenues from Oil Dropped by 45.5%," *Gulf News*, November 30, 2015.

July 2015.⁷ Kuwait, meanwhile, recorded a 45.2 percent year-on-year fall in government revenues for the first eight months of the 2015–16 fiscal year and a near-identical 46.1 percent drop in oil revenues over the same period.⁸ Saudi oil income fell by 23 percent in 2015 just as government spending rose at the start of the year after King Salman took the throne and major combat operations commenced in Yemen, contributing to the record US\$98 billion budget deficit for the year.⁹

One method of tracking (even if inexactly) the relationship between government revenue and spending and oil and gas “rents” is the calculation of the fiscal break-even price of oil needed to balance the budget of oil-producing states. Estimations of fiscal break-even prices vary widely across different organizations and according to the precise variables being measured. In 2015, the fiscal break-even estimates for the Gulf states ranged between US\$49.40 and US\$78.40 for Kuwait; US\$60 and US\$76.80 for Qatar; US\$73.80 and US\$80.80 for the UAE; US\$87.20 and US\$104.40 for Saudi Arabia; US\$102.60 and US\$110 for Oman; and US\$127.10 and US\$138.10 for Bahrain.¹⁰

Yet, regardless of the exact figure, fiscal break-even prices have consistently—and, with the exception of Kuwait, significantly—outpaced actual oil prices since early 2015. Furthermore, fiscal break-even levels rose rapidly during the prolonged oil-price boom of 2002–2014 as current spending on items such as wages and subsidies tracked the windfalls entering Gulf economies during the long years of budget surplus. In Saudi Arabia, the break-even price was US\$20 in 2002, while in the UAE the breakeven price has soared from US\$23 as recently as 2008.¹¹ Further, these trends look set to continue and even to accelerate if policymakers are unable to bring spending under control; even before the post-2014 oil price slump, warnings abounded over the fiscal future of Gulf economies. Kuwait’s acting finance minister in March 2012 claimed that if the then-current spending patterns were to continue unchanged, by 2030 Kuwait would need an oil price of US\$213.50 to meet fiscal requirements.¹² Even more pessimistically, Jadwa Investment, a Riyadh-based investment bank created by Prince Faisal bin Salman Al Saud, an older half-brother of Prince Mohammed bin Salman, drew up a worst-case scenario in 2011 that warned the Saudi government that it faced an especially difficult future if spending and oil trends did not change. The Jadwa report raised the prospect of substantial budget deficits by the 2020s and predicted that by 2030, Saudi Arabia would be facing a reduction in foreign assets to minimal levels, rapidly rising debt, and a break-even price of more than US\$320 per barrel.¹³

⁷ Sarah Townsend, “Qatar Exports Drop by Over 40% In a Year,” *ArabianBusiness.com*, August 30, 2015.

⁸ “Kuwait Sees a Record Budget Deficit on Falling Oil Income,” *Kuwait Times*, January 28, 2016.

⁹ “Saudi Arabia Moves In on First Foreign Loan in 25 Years as Oil Revenues Fall,” *BBC News*, April 20, 2016.

¹⁰ M.R. Raghu, “How GCC States’ Break-even Oil Prices Stack Up,” *The National*, August 24, 2015.

¹¹ “IMF Urges Kingdom to Rein in State Spending,” *Arab News*, September 26, 2014; “Strong Trade, Services Support the UAE’s Economic Recovery,” *IMF Survey Online*, May 18, 2012.

¹² “Oil Must Hit \$109.5 to Meet State Expenditure,” *Kuwait Times*, March 24, 2012.

¹³ “Jadwa Forecasts Long-Term Fiscal Problems,” *Gulf States Newsletter*, Volume 35, Issue 906, August 5, 2011, 12.

The steady rise in public spending and fiscal break-even prices during the “years of plenty” leave the Gulf states acutely vulnerable to any prolonged period of lower oil prices and government revenues. As early as 2012, the IMF warned Kuwait—where budgeted spending had trebled in the seven years between 2004 and 2011¹⁴—that if spending rates continued unchanged, “government expenditures will exhaust oil revenues by 2017, which means that the government will not be able to save any portion of these revenues for future generations.”¹⁵ In Saudi Arabia, during the Bloomberg account in April 2016 of a lengthy meeting with Prince Mohammed bin Salman, the prince’s financial advisor, Mohammed al-Sheikh, estimated that during the final years of the oil price boom (2010–14), “there was roughly between 80 to 100 billion dollars of inefficient spending” each year. This occurred as “prior requirements that the king approve all contracts over 100 million riyals (US\$26.7 million) got looser and looser—first to 200 million, then to 300 million, then to 500 million, and then, al-Sheikh says, the government suspended the rule altogether.”¹⁶

Ruling “bargains”

The challenge for Gulf officials is how to reformulate a ruling “bargain” that has broadly underpinned sociopolitical stability for decades but no longer appears economically sustainable. Until 2014, the prevailing hope in the region was that this “moment of truth” was more of a medium-range issue rather than an urgent short-term one, and that politically sensitive reductions in current spending could be avoided or minimized by cutbacks in capital expenditures instead. Moreover, the regional political upheaval of the past five years illustrated how the instinctive response of many GCC governments was to intensify populist short-term measures intended to blunt or preempt the social and economic roots of potential or actual political tension. Total state spending in the six GCC states rose by 20 percent in 2011 as governments responded to the outbreak of the Arab Spring with welfare packages and other benefits.¹⁷ In Saudi Arabia, the additional US\$130 billion in two packages announced in 2011 exceeded all national budgets up until 2007 and added an estimated US\$16 onto the country’s fiscal break-even oil price.¹⁸

Such policies succeeded in preserving political structures and domestic stability (for the most part) in 2011, but had the unintended consequence of, as political economist Steffen Hertog has noted, creating “a ratchet effect that demands ever larger outlays during every political crisis” because “expectations are easy to raise but difficult to curb.”¹⁹ The measures taken in 2011 to blunt the impact of the wider political unrest were overwhelmingly short-term in nature and encompassed cash handouts (Bahrain and Kuwait), creating thousands

¹⁴ Kristian Coates Ulrichsen, “Kuwait and the Politics of Unsustainable Development,” *Hurst Publishers’ Blog*, April 1, 2012.

¹⁵ Tom Arnold, “IMF Tells Kuwait to Cut Spending or Risk Running Out of Oil Money,” *The National*, May 17, 2012.

¹⁶ Peter Waldman, “The \$2 Trillion Project to Get Saudi Arabia’s Economy off Oil,” *Bloomberg*, April 21, 2016.

¹⁷ Martin Dokoupil, “Gulf Arab States Should Cut State Spending Growth: IMF,” *Reuters*, October 29, 2012.

¹⁸ Steffen Hertog, “The Costs of Counter-Revolution in the Gulf,” *Foreign Policy*, May 31, 2011.

¹⁹ *Ibid.*

of additional new jobs in already saturated public sectors (Bahrain, Saudi Arabia, and Oman), and raising workers' wages and benefits (Oman, Qatar, Saudi Arabia, and the UAE). And yet, the packages also created a contagious expectation from many citizens in GCC states of additional government largesse, as demonstrated in January 2011 when, shortly after Kuwait's emir announced the Gulf's first hand-out worth US\$4 billion, Qatari nationals demanded that their own government follow suit. Despite the fact that Qatar has the highest per capita GDP in the world, a local English-language newspaper in Doha, *The Peninsula*, reported that the announcement "has led to huge excitement in the Qatari community," with many Qataris suggesting publicly that their government "should announce a similar or even more attractive 'gift package' for its people."²⁰

However, the policy responses to the Arab Spring in 2011 delivered damaging blows to the attempts in the strategic visions and long-term development plans drawn up in the 2000s to scale back the role of the state in the economy and boost the role of the private sector. Instead of strengthening the private sector and weaning citizens off public sector employment, the new packages expanded government spending and widened the already large discrepancy between the public and private sectors. Furthermore, they created hostages to fortune by locking in government spending at very high levels that depend on the price of oil remaining high, as it is much easier to give handouts than to take them away in nondemocratic, redistributive political economy settings. These are the issues that officials in GCC states have had to grapple with over the past two years after oil prices halved between June and December 2014 and remained at comparatively low levels throughout 2015. Saudi Arabia, for example, succeeded in slashing government spending by 14 percent through the various austerity measures imposed in the second half of 2015, but these savings represented the "low-hanging fruit" of trimming excess spending rather than making potentially sensitive alterations to the welfare state itself.²¹

Debt financing

With the above in mind, it is unsurprising that officials in GCC states initially responded to the drops in oil prices and government revenues (which are closely linked) with measures that avoided politically sensitive actions that would target or hit the citizen population. Policymakers in Saudi Arabia turned to a combination of drawing down foreign reserves and tapping capital markets through sovereign bond issues. Net foreign assets held by the Saudi Arabian Monetary Agency (SAMA, effectively the country's central bank) fell by more than 9 percent from an August 2014 peak of \$737 billion to \$664 billion in June 2015. The rate of drawdown prompted alarm in government circles and led to a policy shift in July 2015 when the government returned to the bond markets for the first time since 2007. In mid-July, the kingdom raised US\$4 billion from seven- and 10-year conventional bond issues that were purchased by "quasi-sovereign" state-owned entities, while a second bond

²⁰ "Citizens Want Kuwait-like Government Bounty," *The Peninsula*, January 18, 2011.

²¹ Sarah Ladislow, Frank Verrastro, and Zachary Cuyler, "Energy Fact and Opinion: Saudi Arabia on the Move," *Center for Strategic and International Studies*, May 13, 2016.

issue in August 2015 that raised a further US\$5.3 billion was opened up to local cash-rich commercial banks, which easily absorbed the issue.²²

In April 2016, Saudi officials launched their first international debt issuance since 1991—when the country raised US\$1 billion from international banks in the immediate aftermath of the Gulf War—acquiring a five-year, US\$10 billion loan from a consortium of global banks that attracted particularly strong interest from Asian lenders. The significance of this move was noted by the chief investment manager at BlackRock, the world’s largest asset manager, who stated that “The loan is a way for Saudi Arabia to test the waters and set up an international borrowing profile” and that “This is paving the way for the kingdom to transform from a creditor nation to a debtor nation.”²³ Other Gulf governments followed suit with new debt issues to finance budget deficits and take the strain off Saudi-style drawdowns in foreign reserves and politically unpalatable austerity measures. Bahrain issued two bonds worth US\$1.5 billion in November 2015 and US\$600 million in February 2016, but it may struggle to issue further debt after the country was stripped of its investment grade rating by Moody’s Investors Service in March 2016.²⁴ Qatar raised a US\$5.5 billion syndicated loan in January 2016, the same month that Oman issued a US\$1 billion loan, while Abu Dhabi returned to the debt market in April 2016 for the first time since 2008 with a US\$5 billion loan split into five- and 10-year maturities.²⁵

All GCC states have come to rely upon debt financing to cover budget deficits to a greater or lesser extent. *Gulf States News*, an industry newsletter, has predicted that the entirety of Bahrain’s deficit will be covered by debt. Debt is estimated to cover between 80 and 90 percent of the deficits in Qatar and Kuwait, between 60 and 65 percent in Oman, and about 50 percent of deficits in Saudi Arabia and the UAE. As a result, total government debt issued by GCC states is expected to rise significantly, although debt-to-GDP ratios will remain at relatively low and manageable levels, at least in the short-term.²⁶ Yet, while issuing debt is more sustainable than the rapid drawdown of foreign reserves—which, in Saudi Arabia’s case, was set to be exhausted within five years if the 2014–15 withdrawal rate continued—the successive rounds of downgrades of most Gulf economies by international rating agencies has increased the costs of borrowing and made it harder for the most badly affected states such as Bahrain to tap bond markets in the future. A negative cycle risks developing if continuing fiscal pressures simultaneously lead to an accelerated rate of borrowing and cause international rating agencies to further call into question the long-

²² Marwa Rashad and Angus McDowall, “Saudi Arabia Issues First Sovereign Bonds Since 2007, More to Come,” *Reuters*, July 10, 2015; Dania Saadi, “Saudi Arabia in a Strong Position to Tap Debt Market,” *The National*, December 29, 2015.

²³ Simeon Kerr and Elaine Moore, “Saudi Arabia Takes Out US\$10bn in Bank Loans,” *Financial Times*, April 19, 2016.

²⁴ Andrew Torchia, “Moody’s Cuts Outlooks for Four Gulf States, Lowers Bahrain to Junk,” *Reuters*, March 5, 2016.

²⁵ Mahmood Kassem, “Abu Dhabi Raises \$5bn from First Bond Sale in Seven Years,” *The National*, April 26, 2016.

²⁶ “Accelerating Number of Bond Issues Point to the GCC’s Growing Addiction to Debt,” *Gulf States News*, Volume 40 Issue 1014, May 5, 2016, 7–8.

term sustainability of GCC economies. Typical in this regard was a statement from Moody's justifying a fresh downgrade of Saudi Arabia's credit rating in May 2016:

"Lower oil prices have led to a material deterioration in Saudi Arabia's credit profile. A combination of lower growth, higher debt levels, and smaller domestic and external buffers leave the kingdom less well positioned to weather future shocks."²⁷

The scale and severity of the budgetary shortfalls caused by the continuing low price of oil throughout 2015 eventually left Gulf officials with little choice but to introduce various forms of austerity measures intended to bring spending down from surplus-fueled highs. Once again, the subsequent cuts were aimed primarily at capital expenditures and expatriate communities in a bid to minimize their sensitivity and impact upon nationals. Two major petrochemical joint ventures planned by Qatar Petroleum with Royal Dutch Shell and Qatar Petrochemical Company, respectively, were scrapped in 2014 due to escalating cost concerns, while plans to roll out a countrywide health care scheme in Qatar were put on hold indefinitely in December 2015.²⁸ By early 2016, the value of new construction contracts awarded in Qatar during the first quarter (January-March) was down 92 percent year-on-year from the same period in 2015.²⁹

In Saudi Arabia, the government delayed payments to construction firms in late-2015 in a bid to reduce the country's deficit for the year, a move that caused a rare political intervention by Saudi business leaders in February 2016.³⁰ The Saudi Binladin Group was among the worst affected as a combination of delayed payments and government sanctions placed on the company following the collapse of one of its cranes in Mecca in September 2015 led it to lay off 50,000 foreign employees in May 2016, but others were also (though less badly) hit.³¹ Other high profile casualties of the reassessment of spending priorities in the Gulf included the closure of the Al Jazeera America television network and the delay of a long-planned GCC Rail network that had been slated to open in 2018.³²

While the demographic imbalance in Gulf labor markets, where up to 80 percent of the workforce consists of migrant laborers, has long been a topic of controversy in public and political discussion within GCC societies, it nevertheless has enabled firms to lay off considerable numbers of foreigners in initial rounds of cost-cutting, as the Saudi Binladin example illustrated. In Qatar, significant cutbacks were made at state-owned entities, including Qatar Petroleum, which laid off about 1,000 employees in 2015 and folded its international investment branch, Qatar Petroleum International, back into the parent

²⁷ Sharon Cho, "Saudi Arabia and Bahrain See Low Oil Price Prompt Ratings Cut," *Bloomberg*, May 13, 2016.

²⁸ Kristian Coates Ulrichsen, "Qatar: Reshuffling toward Austerity," Arab Gulf States Institute in Washington, February 16, 2016.

²⁹ Lesley Walker, "Spending on New Construction Projects in Qatar Plunges," *Doha News*, April 19, 2016.

³⁰ "Saudi Business Leader Appeals to King to Aid Building Firms," *Arab News*, February 16, 2016.

³¹ Nicholas Parasie, "Saudi Binladin Group Lays Off 50,000 as Low Oil Prices Bite," *Wall Street Journal*, May 2, 2016.

³² Deena Kamel, "Persian Gulf Rail Deadline to be Re-Set amid Oil Price Plunge," *Bloomberg*, February 24, 2016.

organization, while the Qatar Foundation's budget was slashed by up to 40 percent as all of the Western (primarily American) universities based in Education City faced significant cuts of their own.³³ Expatriates also constituted the majority of the 1,500 jobs lost in the financial sector in the UAE during the winter of 2015-16, as the country's similar demographic profile to Qatar ensured the pain of spending cuts fell on non-nationals; expatriates accounted for all of the 250 jobs cut at RAK Bank in January 2016, for example.³⁴

Subsidy reform

One of the few direct and, as a result, most contentious policy responses to target all Gulf residents, whether national or expatriate, has been the launching of long overdue reform of subsidy programs that—in energy alone—were estimated to have cost Saudi Arabia \$107 billion in 2015.³⁵ At the time of writing, all of the GCC states have taken action to scale back fuel subsidies, with the UAE being the first to do so in August 2015. Prices for gasoline have risen by as much as 100 percent in Saudi Arabia, 57 percent in Bahrain, 33 percent in Qatar, and 20 percent in Oman since 2015 while those for diesel have gone up by 200 percent in Saudi Arabia, 106 percent in Kuwait, 52 percent in Qatar, and 31 percent in Bahrain, albeit from very low starting points.³⁶ Bahrain also removed subsidies on meat prices, expressed its intent to phase out power and water subsidies, and raised industrial gas use prices, as has Oman.³⁷ Elsewhere, water bills in Saudi Arabia surged by up to 2,000 percent in some cases following the introduction of new rates in December 2015, prompting a parallel surge in complaints to the country's consultative Shura Council and the sacking of the minister of electricity and water in April 2016 for the “unsatisfactory” implementation of the tariffs.³⁸

And yet, Moody's has forecast that the spate of fuel price rises will only lead to savings equivalent to about 1 percent of GDP and, as such, does little more than dent the overall size of the fiscal deficits facing the GCC states.³⁹ The broader political sensitivity of tampering with one of the key mechanisms of wealth redistribution from the state to its citizenry has been evident most strongly in Kuwait and Bahrain, the two Gulf states with the most vocal and activist parliamentary bodies. Bahrain softened the blow of the meat price increases by compensating citizens for the additional costs, while in Kuwait, lawmakers amended a government proposal that would have included Kuwaiti citizens in

³³ Lesley Walker, “Expats Braced for Job Losses after Qatar Rail, others Cut Staff,” *Doha News*, January 28, 2016.

³⁴ Stefania Bianchi, “Cheap Oil Means 1,500 Middle East Bankers Looking for Jobs,” *Bloomberg*, January 20, 2016; “RAKBank Says 250 Job Losses Will Be Expatriates,” *The National*, January 20, 2016.

³⁵ Simeon Kerr, “Saudi Arabia Looks to Reform Energy Subsidy Program,” *Financial Times*, November 12, 2015.

³⁶ Jim Krane and Shih Yu Hung, “Energy Subsidy Reform in the Persian Gulf: The End of the Big Oil Giveaway,” Issue brief, Rice University's Baker Institute for Public Policy, 2016, 1.

³⁷ Tim Boersma and Steve Griffiths, “Reforming Energy Subsidies: Initial Lessons from the United Arab Emirates,” Research paper, Energy, Security and Climate Initiative at Brookings, 2016, 6.

³⁸ Shahd al-Hamdan, “Surge of Complaints over High Tariffs,” *Saudi Gazette*, April 3, 2016; Glen Carey and Zaid Sabah, “Saudi King Fires Water Minister after Complaints over Tariffs,” *Bloomberg*, April 24, 2016.

³⁹ “Fuel Subsidy Reforms to Make Only a Modest Dent in GCC Deficits,” *Gulf States News*, Volume 40, Issue 1010, February 18, 2010.

planned increases to water and electricity charges so that it would apply only to residents of apartment buildings (which are overwhelmingly populated by expatriates) as well as corporate users.⁴⁰

It will not be easy for officials to make further and deeper cuts that really begin to impact on Gulf nationals rather than expatriates or corporations, but sooner or later, nationals will inevitably start to feel the pain if governments are to make credible inroads into economic reform. The sacking of the Saudi minister of electricity and water was thus a warning of the political pitfalls that lie ahead for the policymakers entrusted with pushing through unpopular decisions. What evidence that does exist suggests that subsidy reform remains a highly sensitive issue that could rapidly become politicized if it is mishandled or if it is seen to progress too far too fast. In its annual survey of youth opinion across the Arab world, Dubai-based ASDA'A Burson-Marsteller found that 93 percent of respondents in Bahrain, 92 percent in Oman and Qatar, and 86 percent in Saudi Arabia were in favor of continuing subsidies.⁴¹ That same month (April 2016), a survey in Kuwait illustrated the strength of attachment to the notion of the government as provider of both welfare and employment for its citizenry, as government statistics showed that fully 58 percent of unemployed Kuwaitis preferred to remain jobless and wait for a government position to open up rather than take a job in the private sector.⁴²

Officials in the Gulf additionally remain mindful that previous attempts in other regional states to scale back subsidies and raise prices of basic utilities and foodstuffs have provoked violent backlashes in numerous instances. In July 2005, dozens were killed and hundreds injured in disturbances across Yemen that mobilized more than 100,000 people against government plans to reduce fuel subsidies and increase the price of benzene by 86 percent and diesel by 165 percent.⁴³ Seven years later, an increase in gasoline prices in Jordan sparked days of rioting and labor strikes throughout the country, notwithstanding even the addition of a compensation package that would have provided poorer households with a US\$100 credit per person per year.⁴⁴ Going farther back in time, reductions in food subsidies caused widespread unrest in Egypt in 1977 (when protestors mocked President Anwar Sadat with slogans such as "*Wain al-futur, ya batal al-'ubur?*" ["Hero of the crossing, where's our breakfast?"]), Morocco in 1981, Tunisia in 1984, and Algeria in 1988.⁴⁵

⁴⁰ "Bahrain Planning More Subsidy Cuts, New Charges to Boost Revenues," *Khaleej Times*, November 17, 2015; Zalnab Fattah, "Untouched for Half a Century, Kuwait Utility Bills to Rise," *Bloomberg*, April 14, 2016.

⁴¹ Viviam Nereim, "Young Arabs Wedded to State Largesse Poses Test for Gulf Leaders," *Bloomberg*, April 12, 2016.

⁴² Ahmad Jabr, "58 Percent Unemployed Kuwaitis Unwilling to Work in Private Sector – Efforts to Kuwaitize Private Sector Largely Failed," *Kuwait Times*, April 18, 2016.

⁴³ Nadia al-Sakkaf, "Poor Must Be Cushioned from Fuel Subsidy Cuts," *Yemen Times*, March 27, 2014.

⁴⁴ Jodi Rudoren and Ranya Kadri, "Protests over Gas Prices in Jordan Turn Deadly," *New York Times*, November 14, 2012.

⁴⁵ Charles Tripp, *The Power and the People: Paths of Resistance in the Middle East* (Cambridge: Cambridge University Press, 2013), 134. "Hero of the Crossing" refers to Sadat's initial yet short-lived military achievement in crossing the Suez Canal to conduct operations in the Sinai Peninsula during the October 1973 war with Israel.

Incentives and recommendations for sustainable policy reform

This paper has so far laid out the political implications of economic reform and illustrated how Gulf state governments have sought to minimize such sensitivities either by cutting back on capital (rather than current) spending or by focusing on expatriate communities or corporate users. And yet, the measures enacted since early 2015 are but the first steps in a much longer and rockier road toward putting Gulf economies onto firmer footing. Any effective transition toward a genuinely post-oil future will require deeper reforms that amount to reformulating the very pillars of welfare spending and wealth redistribution that have underpinned the political economies of GCC states since at least the 1970s. The policy dilemma that has long confronted policymakers in the Gulf, but which has now become acute, is how to ensure that the pathway of inherently “radical” reform is consensual rather than contested and politically as well as economically robust.

The second half of this paper consists therefore of a series of observations about the kinds of policy incentives and recommendations that might smooth the looming reformulation of economic structures and the welfare state that have proven so resilient over decades. Periods of profound transition historically have left states and societies vulnerable to outbreaks of political violence and social conflict, and this is the worst-case scenario policymakers and their publics wish to avoid. Much will depend on the attitude of ruling circles as agents of change, as the nature of reform processes in the Gulf are typically top-down and state-controlled, at least in their early stages. Their actions will go far toward determining whether fledgling reforms develop gradually into a substantive commitment to long-term change that encompasses and reaches all segments of society. However, the experience of a previous era of (political) reform projects that got underway in the 1990s suggests that a likely outcome may be a stalled “halfway house” whereby initial measures and bursts of activity stagnate and do not expand into substantive changes to policies or patterns of behavior.⁴⁶

The major takeaway from what follows is that there is a window of opportunity to redesign aspects of Gulf economic and political structures that many observers and analysts had deemed sacrosanct, but this window is not open-ended and “success” will be hard to measure. It is certainly the case that policymakers and publics across the Gulf states acknowledge and understand that far-reaching measures need to be taken and that the status quo simply is not sustainable. It is also the case that the prolonged fall in oil prices and government revenues has prompted a generation of leaders such as Prince Mohammed bin Salman and the sheikhs of Abu Dhabi and Dubai to “think big” and outside of the box. Furthermore, the policies of capital accumulation and debt repayment during the decade of healthy budget surpluses prior to 2014 could not be more different from the earlier oil price boom of the 1970s, when surging revenues entered into societies with comparatively low absorptive and human capacity to manage the sudden wealth and ruled by elites prone to commissioning extravagant and wasteful “white elephant” prestige

⁴⁶ Kristian Coates Ulrichsen, *Insecure Gulf: The End of Certainty and the Transition to the Post Oil Era* (London: Hurst & Co, 2015), 171.

projects. During the 1970s, almost all of the additional income generated by the oil price increases was spent immediately, rather than being saved for future generations.⁴⁷

Economic “visions” must be supported by rigorous and realistic plans

The launching of “Saudi Vision 2030” is an ambitious and even compelling attempt to map out a post-oil strategy for Saudi Arabia. It has been accompanied by expansive statements, such as one by Saudi Aramco Chairman (and, since May 2016, Minister of Energy, Industry, and Natural Resources) Khalid al-Falih that “Saudi Aramco will be a bridge for a transition away from itself.”⁴⁸ The intent to transform Saudi Arabia clearly is there, but it has to be matched and underpinned by capability; however, the country’s “National Transformation Plan,” which was to provide the economic details on how “Saudi Vision 2030” would be realized, was initially set for publication in January 2016 and has been postponed repeatedly. Crucially, the “National Transformation Plan” is expected to outline the specific budgetary process, legal and regulatory changes, and policy initiatives through 2020 that will constitute the building blocks of the broader vision.⁴⁹

Unless and until the “National Transformation Plan” is released, it will not be possible to undertake a proper assessment of the viability and feasibility of “Saudi Vision 2030.” Indeed, the recent history of economic diversification and development in the Gulf is replete with similar strategic plans and long-term visions that, almost without exception, over-promised and under-delivered, and that all contained key “buzzwords” about the development of social and human capital designed to appeal to a global audience of potential investors and business partners. The use of such plans has, in a sense, come full circle, as Western consultants had been commissioned by the first generation of Gulf policymakers to develop the “master plans” that guided the initial phase of oil-fueled socioeconomic development. As early as 1950, officials in Kuwait commissioned a British town-planning firm, Minoprio and Spencely, along with an English planner, P.W. Macfarlane, to draw up a plan to remodel Kuwait City; working without any local knowledge, the result was a blueprint for urban development based heavily on the English model of “garden cities” (with regular flower arranging competitions) then in fashion but wholly unsuited architecturally or socially to Kuwait.⁵⁰

The majority of the post-2000 long-term plans were drawn up by teams of international consultants, including McKinsey, which played a key role in “Saudi Vision 2030” (to the extent that the Ministry of Economy and Planning was nicknamed the “Ministry of McKinsey” by many Saudi and other observers).⁵¹ McKinsey had, in 2004, been commissioned by Bahraini Crown Prince Salman bin Hamad Al Khalifa to draft a comprehensive long-term economic program for Bahrain (“Bahrain Economic Vision 2030”). Like its later Saudi counterpart, the economic transition that lay at the heart of

⁴⁷ Steffen Hertog, “The Current Crisis and Lessons of the 1980s,” *Arab Reform Bulletin*, July 2009.

⁴⁸ Andrew Torchia, “Saudi Aramco Sets Financing Plans for Industrial Push,” *Reuters*, April 27, 2016.

⁴⁹ Marwa Rashad, “Saudis Await Prince’s Vision of Future with Hope and Concern,” *Reuters*, April 24, 2016.

⁵⁰ Farah al-Nakib, “Kuwait’s Modern Spectacle: Oil Wealth and the Making of a New Capital City, 1950-90,” *Comparative Studies of South Asia, Africa and the Middle East*, 33(2013): 10.

⁵¹ Salem Saif, “When Consultants Rein,” *Jacobin*, May 9, 2016.

“Bahrain 2030” was intended to be buttressed by social and political programs that together would develop a “productive, globally competitive economy, shaped by the government and driven by a pioneering private sector.”⁵² “Bahrain 2030” relied heavily on international management and strategy consultants only to later be undermined by the upheaval generated by the Arab Spring in 2011 and by the political marginalization of its prime supporter, the reform-minded Crown Prince.⁵³

“Oman 2020: Vision for Oman’s Economy” provides an instructive opportunity to assess the interim results of Gulf development visions as the timeframe of the Omani plan is (as of 2016) four-fifths complete. “Vision 2020 was the first of the modern multi-decade developmental programs to be launched, in June 1996, and it was designed to run in conjunction with an ongoing series of five-year development plans that directly focused on economic diversification and expansion of the private and non-oil sectors. The vision aimed to reduce the oil sector’s share of Omani GDP from 41 percent in 1996 to 9 percent in 2020 while raising the share of gas and non-oil industry from under 1 percent to 10 percent and from 7.5 percent to 29 percent, respectively. The plan also sought to improve the human development of Omani citizens, particularly women, and to equip them with the skills and qualifications to compete in the private sector against cheaper expatriate workers.”⁵⁴

The challenge for policymakers has been that the results of the plan have been decidedly mixed as it nears its end. Oil as a share of GDP actually rose to 42.6 percent in 2012, due more to surging prices rather than production, which fell marginally from 0.972 million barrels per day in 2000 to 0.92 million in 2012.⁵⁵ The figures illustrated the extent of the Omani economy’s continuing dependence on oil in spite of the attempt to broaden the economic base. Similarly, slow progress marked the effort to “Omanize” the private-sector labor force by replacing expatriate workers with Omani nationals, and the implementation of several initiatives had to be postponed. Moreover, while the number of Omani employees in private sector jobs rose by 138 percent between 2003 and 2010, much of the progress was reversed by the policy responses to the Arab Spring in 2011. The announcement of 35,000 new public sector jobs in the spring of 2011 reportedly led 30,000 Omanis to resign from private sector employment that year. The issuing of work permits to hire foreign workers also surged in a bid to placate major business and economic elites looking to keep labor costs low, meaning that the overall number of non-

⁵² Marc Valeri, “Oligarchy vs. Oligarchy: Business and Politics of Reform in Bahrain and Oman,” in *Business Politics in the Middle East*, ed. Steffen Hertog, Giacomo Luciani and Marc Valeri (London: Hurst & Co, 2013), 26.

⁵³ Martin Hvidt, “Economic Diversification in GCC Countries: Past Record and Future Trends,” Working paper no. 27, London School of Economics Kuwait Program, 2013, 18.

⁵⁴ Coates Ulrichsen, *Insecure Gulf*, 101.

⁵⁵ “Oman – 2013 Article IV Consultation Concluding Statement of the IMF Mission,” May 14, 2013, Table 1: “Oman: Selected Economic Indicators, 2010-18.” Retrieved from <https://www.imf.org/external/np/ms/2013/051413.htm>.

nationals working in Oman in 2012 was 1.3 million—more than three times the 2003 figure of 400,000.⁵⁶

Qatar adopted an approach that has broad similarities to the Saudi strategy of aligning the long-term vision with a series of shorter-term plans. The General Secretariat for Development Planning unveiled its own ambitious “Qatar National Vision 2030” in 2008. This outlined five major policy challenges facing Qatar as the state embarked upon a period of gas-driven breakneck growth. The challenges included meeting the needs both of current and future generations and aligning economic growth with social development and environmental management. To meet these overarching goals, the vision recommended four interdependent pillars that focused on human, social, environmental, and economic development. Also central to the vision was the creation of a knowledge economy that would create a regional hub for research and development, services, and value-added technologies.⁵⁷

Publication of Qatar’s longer-term vision was accompanied by a more immediate “Qatar National Development Strategy 2011-2016” to align the reforms at macroeconomic and institutional levels with specific short-term projects. The winning the hosting rights to the 2022 FIFA World Cup injected a third element into Qatari planning considerations, owing to the scale of infrastructural construction associated with the bid. However, progress on all three levels—immediate (2011–16), medium (2022), and long-term (2030)—was complicated by the sheer speed of Qatari population and economic growth, which meant that the data in each plan rapidly became outdated.⁵⁸ A senior figure in the (since disbanded) Supreme Council of Health told a group of visiting Rice University students in 2015 that in the seven-year timespan it took to plan and construct a new hospital in Qatar, the population more than doubled, which meant the facility was already too small to meet demand when it opened.⁵⁹

Local buy-in and dislodging vested interests are critical

The experience of Kuwait’s attempts at economic diversification illustrates the pitfalls of over-relying on external consultants and failing to secure sufficient domestic support for the proposed reforms. This reflects in part the greater level of contentious political debate in Kuwait that has made it harder to achieve consensus on political and economic reform. The long-term plan, “Kuwait Vision 2035,” was prepared at controversial public expense by Tony Blair Associates, the former British prime minister’s firm, and presented to the emir in March 2010. “Kuwait 2035” aimed to transform Kuwait into a regional financial, trading, and logistics hub for the Northern Gulf, and set out a list of ambitions and desired outcomes linked to greater accountability, more professionalization in the civil service, and

⁵⁶ Steffen Hertog, “Arab Gulf States: An Assessment of Nationalisation Policies,” Research Paper, No.1, Gulf Labour Markets and Migration (GLMM), 2014, 8-9.

⁵⁷ Coates Ulrichsen, *Insecure Gulf*, 101.

⁵⁸ Hvidt, *Economic Diversification*, 26.

⁵⁹ Presentation to the Baker Institute’s *Public Diplomacy and Global Policymaking* study tour, Doha, March 2015.

substantial educational reforms.⁶⁰ A unit was subsequently established in the office of Kuwait's then-prime minister, Sheikh Nasser Al-Mohammed Al Sabah, to engage with the recommendations of "Kuwait 2035." However, the unit was closed following Nasser Mohammed's resignation as prime minister in December 2011, and as of 2016, the report lies fallow and is unlikely to be revived.⁶¹

Alongside "Kuwait Vision 2035," the National Assembly belatedly approved the government's "Four-Year Development Plan for 2010-2014" (initially envisaged as a five-year plan beginning in 2009 but parliamentary ratification was delayed until February 2010). The four-year plan aimed to stimulate GDP growth and enlarge the role of the private sector in the economy, with an emphasis on involving the private sector in the implementation of national projects through greater use of public-private partnerships (PPP). However, persistent political gridlock led to a succession of delayed spending decisions and meant that capital spending barely exceeded KD1 billion (US\$3 billion) in the plan's last fiscal year (2013-14) against a target of KD8 billion (US\$28.4 billion) per year. Moreover, the non-oil sector remained tiny in comparison to the oil sector, which continued to represent 94 percent of GDP, while major goals concerning the role of the private sector in the economy also fell far short of their targets.⁶²

The challenge in any "top-down" system of governance where the circle of decision-makers is relatively small and closed is how to secure sufficient levels of buy-in from key segments of the political and economic class and wider society at large. The magnitude of the changes envisaged in "Saudi Vision 2030," as the other Gulf States implement further measures of austerity, will affect the nature of the relationship between the state and its citizens regardless of whether ruling circles wish it or not. Relying too heavily on teams of external consultants to lay out the "visions" can instead undermine the process of organically creating the domestic "coalitions" of political and economic interests whose support will be crucial to any successful rollout. Failure to involve local stakeholders in the consultation and planning stage of the policymaking process risks generating a culture of apathy that actively undermines the subsequent implementation phase. As a senior Qatari public sector official noted to the author, "If a law or a vision or a plan was issued 'from the top,' it does not concern me and I am not interested, and it is not binding to me because I don't know about it and I was not consulted."⁶³

One example of a stalled policy in Qatar—that of the creation of the Doha Center for Media Freedom—illustrates how an initiative can fall short if local support structures are too weak or lacking altogether. The center was established in October 2008 as a partnership between the Qatar Foundation and an international non-governmental organization, Reporters without Borders, with the personal support of Qatar's First Lady,

⁶⁰ "Blair's 'Kuwait Vision 2035' Report Proposes Solutions to Key Issues – Min," *Kuwait News Agency*, March 15, 2010.

⁶¹ Author interviews, Kuwait City, February 2012.

⁶² Amer Thiab al-Tamimi, "Kuwait Development Plan Fails to Achieve Goals," *Al Monitor*, April 24, 2014.

⁶³ Author correspondence, May 2016.

Sheikha Mozah bint Nasser. The new organization's credibility was boosted when Robert Menard, himself one of the founders of Reporters without Borders in 1985, left his position in Paris to become the first director-general of the Doha Center.⁶⁴ However, tensions quickly developed between Menard and Qatari officials, and the escalating mutual acrimony culminated in Menard's resignation in May 2009. In the public dispute that followed, Menard claimed that his work had been "suffocated" by mid-level bureaucrats in the ministerial institutions, as opposed to any opposition within the Qatar Foundation itself.⁶⁵

The attempt to identify with international best practices became entangled in domestic contestation between different factions and levels of bureaucracy and illustrated the difficulties involved in translating high-profile branding initiatives into practical implementation. Another example—also from Qatar, as it happens—offers a similarly cautionary tale about the challenge of grafting domestic support onto ideas and initiatives largely "imported" from external sources. This was the decision in 2014 to reverse the educational reforms that had been initiated in 2001 that redesigned the Qatari schooling system around a system of independent schools. The K-12 project was undertaken by the RAND Corporation at the invitation of the Qatari government but, in the words of Qatari policy analyst Lolwa Alkhater, "All of the initial reform policies have been completely reversed after causing unprecedented social controversy and after years of policy instability." Their fate exemplified the challenges facing initiatives that are perceived by local technocrats and government ministries to be externally imposed in a top-down manner with minimal regard for local knowledge or stakeholder participation.⁶⁶

Dislodging powerful vested economic and political interests who may resent or even oppose the status quo from which they derive material benefit is another factor that will determine how far policy reforms can be pushed through and implemented. Attempts in Bahrain and Saudi Arabia to nationalize the workforce and encourage more citizens to enter the private sector both ran into concerted opposition from business elites, whose control of a cheap imported labor force came under threat. The fate of these reforms, in particular, highlight the difficulty of making meaningful and sustained policy changes that are able to confront powerful layers of vested "political-economic" interests and can survive any resulting pushback by these influential actors.

In Saudi Arabia, the imposition of quotas in economic sectors (*nitaqat*) for the employment of Saudi nationals sparked a wave of anger among the business community directed toward policymakers in the Shura Council and government officials.⁶⁷ Furthermore, five years after the reforms began, the number of Saudis employed in the private sector actually fell by 43,000 in 2015, suggesting that the initiative had failed to create incentives

⁶⁴ "The Limits to Liberalisation: A Press Row in Qatar," *The Economist*, May 14, 2009.

⁶⁵ Kristian Coates Ulrichsen, *Qatar and the Arab Spring* (Oxford: Oxford University Press, 2014), 54.

⁶⁶ Lolwah Alkhater, "Qatar's Borrowed K-12 Education Reform in Context," in *Policy-Making in a Transformative State: The Case of Qatar*, ed. Mohammed Evren Tok, Lolwah Alkhater, and Leslie Pal (New York: Palgrave Macmillan, 2016), 102.

⁶⁷ "Saudi's Shoura Council Criticises Nitaqat System," *Gulf Business*, January 29, 2014.

for Saudis to follow through and seek private sector employment.⁶⁸ Meanwhile, flagship reforms of labor markets in Bahrain as part of “Bahrain 2030” imposed fees on business owners for every foreign worker hired in an attempt to transition Bahrainis into private sector employment. However, the reforms were all but reversed after the 2011 Arab Spring uprising as the Bahraini government sought to buttress its political support among the business community, which had not supported the reforms. Thus, the flat fee of 200 Bahraini dinars for every expatriate hired on a two-year visa was suspended in April 2011 and only partially reintroduced (at a lower level) in August 2013. As a result, Bahraini scholar Hasan Tariq Alhasan commented in July 2012 that the government had “driven the last nail into the coffin of the economic and labor market reforms...in an attempt to secure political support from the business community.”⁶⁹

The window of opportunity for reform will not be open-ended

Above all, policymakers must (and in fact do) acknowledge that the moment for reform has arrived. The long interviews given by Prince Mohammed bin Salman to *Bloomberg* indicate that “MbS” is prepared to critically re-examine core tenets of Saudi economic (if not political) development. The crown prince of Abu Dhabi and de facto leader of the UAE, Sheikh Mohammed bin Zayed, is doing the same with robust “war-gaming” of various economic scenarios at different prices of oil down to US\$20/barrel.⁷⁰ In addition, the fact that oil prices have fallen so far, and have remained low for so long, opens up a window of opportunity for policymakers to announce measures—such as subsidy reform—that would have been almost impossible to push through while oil was over US\$100/barrel.

Young “millennial” leaders such as the 30-year-old Mohammed bin Salman and Sheikh Tamim bin Hamad Al Thani, the 35-year-old emir of Qatar, additionally have the benefit of being far closer in age and better able to capture the aspirations and frustrations of the overwhelmingly youthful societies in the Gulf. Particularly in Saudi Arabia, the rise of MbS has injected an air of youth into decision-making structures that has made him extremely popular among many young Saudis, including those who have returned from graduate study abroad and who see the deputy crown prince as someone willing to shake up the hierarchies of Saudi economic and business life.⁷¹ One young Saudi appeared to sum up the feelings of many, telling *Al Arabiya*:

“We like Mohammed bin Salman. He is our age, he is more open minded and he is easy to communicate with. For 60 years, all of our leaders were over 50, now we have someone like us. We Saudis don’t like to sit in the back, we like to sit in the front. Now we are sitting in the front again.”⁷²

⁶⁸ “Saudis Shy Away from the Jobs Market,” *Gulf States News*, Volume 40, Issue 1011, March 3, 2016, 8.

⁶⁹ Hasan Tariq Alhasan, “Bahrain Bids its Economic Reform Farewell,” *Open Democracy*, July 8, 2012.

⁷⁰ Author interviews, Washington, D.C., February 2016.

⁷¹ Author correspondence, April 2016.

⁷² “What Saudis Expect from the Kingdom’s Future Vision,” *Al Arabiya English*, May 4, 2016.

Indeed, the sight of the energetic young prince openly discussing his plan for “Saudi Vision 2030” on national television and upbraiding his more senior interviewer, the veteran journalist Turki Al-Dakhil, for his caution, made a deep impression on many young Saudis.

It is vital that Saudi and other Gulf leaders harvest this sense of goodwill as they seek to take the next sets of measures that will involve far more politically sensitive trade-offs than those taken so far, and the corollary of heightened expectations is the risk of greater perceptions of failure should the anticipated levels of change not take root. Setting and managing expectations will be especially critical in policy initiatives to restructure Gulf economies and resolve the imbalances that hitherto have held back economic diversification and the creation of genuinely autonomous private sectors that can one day replace the public sector as the engine of long-term economic growth and job creation. For this to happen, officials in GCC states must strip away the layers and legacies of decades of rent-seeking behavior and what one former Kuwaiti member of parliament has labelled deep-seated “cultures of entitlement,” and put in place a comprehensive “enabling environment” that can support and nurture the shift toward a productive, value-added new economic model.⁷³

Yet such changes continue to face hurdles in the context of the redistributive mechanisms of governance and the durability of the imbalances between the public and private sector and citizen and expatriate labor markets. The fact that Saudi Arabia created 417,000 new jobs in 2015 but wholly 88 percent (368,000) went to non-nationals testifies to the continuing resilience of such deep-rooted challenges to successful reform.⁷⁴ Shifting expectations and entitlements—at all levels of society—will be vital social (and political) components of reform that cannot merely be wished into place by technocratic measures alone. To have a real chance of succeeding, the economic and political aspects of reform will likely need to be more closely linked as the introduction of taxes and fees, however incremental, inevitably will change the relationship between citizen and state. The moves toward “e” (electronic) and “m” (mobile) governments in GCC states, especially Saudi Arabia and the UAE, represent in this regard a partial attempt to open up government services and make them more interactive and responsive to citizen demands.

Above all, the measures announced in recent months and promised in “Saudi Vision 2030” must be viewed as one step in a journey rather than in relation to any fixed start or endpoint. This paper has raised some of the critical enabling factors that may increase the likelihood of this process of change continuing, and highlighted some of the obstacles and challenges that may hold it back. The urgency of some of the fiscal pressures outlined in this paper also means that policymakers no longer have the “luxury” of the slow pace of incremental change that has characterized previous episodes of reform in the Gulf. Sustained and transformative outcomes of reform processes will have to unfold in a period of accelerated change and heightened regional uncertainty, but they are necessary if GCC economies are to become more sustainable and less vulnerable to external sources of

⁷³ Author interview with Rola Dashti, Kuwait, March 2010.

⁷⁴ “Saudis Shy Away from the Jobs Market,” *Gulf States News*, Volume 40, Issue 1011, March 3, 2016, 8.

volatility. Moreover, they have a far greater chance of success if they are able to develop organically and undertaken in a spirit of partnership and consensus with local stakeholders and society. If successful, they would be consistent with Gulf leaders' long record as the great "survivors" of Middle East politics, defying periodic forecasts of their seemingly inevitable demise and pursuing pragmatic strategies not only of regime survival but also of renewal.