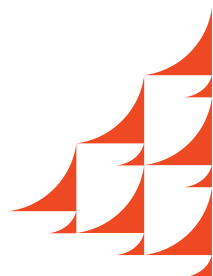




The Arab Gulf States
Institute in Washington
Building bridges of understanding



Saudi Arabia Transforming Conference Report



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June 12, 2017

Saudi Arabia Transforming

Conference Report

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2017

The Arab Gulf States Institute in Washington (AGSIW), launched in 2015, is an independent, nonprofit institution dedicated to increasing the understanding and appreciation of the social, economic, and political diversity of the Gulf Arab states. Through expert research, analysis, exchanges, and public discussion, the institute seeks to encourage thoughtful debate and inform decision makers shaping U.S. policy regarding this critical geostrategic region.

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Arab Gulf States Institute in Washington
1050 Connecticut Avenue, NW
Suite 1060
Washington, DC 20036

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About This Report

This report was compiled by Omar H. Rahman, a New York-based journalist and commentator, following the AGSIW conference “Saudi Arabia Transforming” held on May 10, 2017.

Saudi Arabia has embarked on an ambitious program of national transformation aiming to diversify the economy away from oil dependence, expand the private sector, and transform government practice. Yet difficult challenges remain. AGSIW’s conference, “Saudi Arabia Transforming,” focused on the key drivers reshaping Saudi Arabia, a year after the release of Saudi Vision 2030.

Videos from the conference are available online at:

www.agsiw.org/saudi-arabia-transforming/

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Welcome Letter

Dear Colleagues,

On behalf of the Arab Gulf States Institute in Washington's board of directors and staff, it is my pleasure to share with you the report of our conference: "Saudi Arabia Transforming."



Ambassador Marcelle M. Wahba, President, AGSIW

Hosted on May 10, 2017, the conference brought together a distinguished group of experts and officials to take a close look at the opportunities and challenges of Vision 2030, one year after its unveiling by Saudi Deputy Crown Prince Mohammed bin Salman.

The Kingdom of Saudi Arabia has embarked on a very ambitious program of national transformation with all the opportunities and challenges that it entails. Vision 2030 goes well beyond a reform or restructuring plan to diversify the economy away from dependence on oil. What is outlined in Vision 2030 and the National Transformation Program will have a much broader impact on the economic, social, and political life of Saudi Arabia – both in the short and long term.

It is easy to be skeptical of such ambitious visions that will require dramatic social change, threaten vested economic interests, and inevitably challenge established ways of doing things. This kind of deep structural change is all the more difficult in a conservative, traditional society and culture. For all these reasons, this transformation will not be easy or smooth, but it is absolutely necessary if Saudi Arabia hopes to secure a stable and prosperous future.

I hope you find this conference report informative and useful, and I look forward to engaging with you in the months and years to come.

Sincerely,

A handwritten signature in black ink, appearing to read "Marcelle Wahba".

Ambassador Marcelle M. Wahba
President, Arab Gulf States Institute in Washington

Executive Summary

“Vision 2030 is not just a program for economic reform, it is a true effort at national transformation.” - H.H. Faisal Bin Farhan Al Saud

On May 10, 2017, the Arab Gulf States Institute in Washington brought together thought leaders from the Gulf Arab states, Europe, and the United States to discuss Saudi Arabia at a transformational moment in its history, as the country advances its ambitious reform program – Vision 2030. With a clarity of purpose crystalized by the oil shock of 2014, a year ago the Saudi government initiated wide scale economic and public sector reforms aimed at diversifying its economy, rationalizing its public sector, reducing subsidies, stimulating the private sector, and restructuring its legal and regulatory framework. It also began taking steps to promote a stronger sense of Saudi national identity based on the country's place as the center of the Muslim world, its unique historical and religious sites and heritage, and multiple other social and cultural initiatives. All of this has been framed by immense regional challenges, a strategic rivalry with Iran, and a military engagement in Yemen that has sapped resources and required the ultimate sacrifice from the kingdom's citizenry.

In the process, Saudi Arabia has created unavoidable social tensions that it will have to navigate in the years ahead. The government has remained conspicuously silent on much of the social and cultural impact of Vision 2030, and the plan lacks clarity on how the government will tackle these issues. The state must find ways to communicate effectively with its citizenry, incorporate more women into its workforce, and provide a space for open expression and a platform for dialogue with the government and an entrenched, conservative establishment. Finally, Saudi Arabia will also need to increase its capacity to engage with a region in turmoil by strengthening both its military and diplomatic core, as well as developing and enhancing foreign relations and alliances.

Key Findings and Recommendations

- The Saudi government must remain flexible in its implementation of Vision 2030. If it is too rigid it will not be able to properly respond to the changing landscape – domestically, regionally, and globally. Success will require effective coordination, the managing of expectations, and developing rules that can allow policymakers to shift course depending on the changing environment.
- Saudi Arabia must continue to increase its level of transparency and openness with the markets, building up statistical capacity so data can be analyzed and disseminated. This will allow the government to understand and respond to domestic progress and setbacks, promote foreign direct investment, and continue to raise debt on favorable terms.
- Rigid austerity measures are not the answer. Saudi Arabia is suffering from revenue constraints from the low price of oil, but cutting government expenditures will only hurt the private sector at a time when the government is trying to encourage the private sector's rapid growth.

- Change the relationship dynamic between the government and private sector, putting both on an equal playing field. Maintain dialogue with the beneficiaries of private sector reform to continue to receive feedback that can be addressed through policy adjustments.
- Take proper advantage of the massive changes occurring in automation and new technology. Don't pursue industries with limited shelf lives; look to the future. Equip young people with the skills to survive in the future economy.
- When establishing industrial zones, thought must be given to overcoming constraints and enabling backward linkages. Make sure these zones can employ Saudi nationals, and not just cheap labor from abroad.
- Keep reforming the areas that have contributed heavily to building the deficit, especially subsidies.
- Establish a clear approach to the social and cultural impact of reforms. Empower civil society to act as a counterweight to conservative elements in society that have an entrenched and dominant voice.
- Empowering women and bringing them into the workforce will be vital to the success of this project. Create a space for workers to voice their grievances.
- Saudi Arabia needs to continue to develop its capacity to respond to the challenges of the region because the country has an important role to play.
- Enthusiasm and expectations for the administration of President Donald J. Trump in Washington must be managed carefully. Don't overload the cart.
- Find an effective means to respond to Iranian aggression while also pursuing a positive coexistence.

Introduction

The downturn in global oil prices, which began in June 2014, has taken a tremendous toll on the economies of oil exporting countries. While Saudi Arabia has been largely sheltered by the vast fiscal reserves built during the preceding period of high oil prices, costly government expenditures continue to erode those buffers and put enormous pressure on the finances of the kingdom. Moreover, Saudi Arabia's ability to manage prices as a swing producer has been significantly compromised by a revolution in shale oil production in the United States, making its long-term reliance on crude oil sales unsustainable.

In response, King Salman bin Abdulaziz launched a sweeping economic reform program in April 2016 aimed at liberating the Saudi economy from the volatility of oil markets. Spearheaded by Deputy Crown Prince Mohammed bin Salman, the Vision 2030 program has broad economic, social, and political implications that will move the country into a new era. But reforms are not taking place in a vacuum. Saudi Arabia must also navigate an increasingly dangerous neighborhood, a regional rivalry with Iran, and a more volatile and competitive energy landscape that has diminished its resource base.

A Conversation with Abdulaziz Al Sager

"You cannot bring about an economic change without a political and social change." – Abdulaziz Al Sager

The "Saudi Arabia Transforming" conference began with a conversation between AGSIW Senior Resident Scholar Hussein Ibish and Abdulaziz Al Sager, chairman of the Gulf Research Center. The two discussed a number of themes that set the stage for the conference, including the overall goal of Vision 2030, along with the economic, social, and political implications of the plan; prospects for restored relations with the United States during the presidency of Donald J. Trump; and Saudi Arabia's stances on combating terrorism in the Middle East and the kingdom's confrontation with Iran.

Sager identified economic diversification as one of the key pillars of Vision 2030, as the government attempts to break Saudi Arabia's reliance on hydrocarbon revenue by expanding the private sector, encouraging foreign direct investment, and increasing the role of state-run agencies that invest domestically and abroad.

The hallmark initiative of Vision 2030 is the partial public offering of Saudi Aramco, the national oil company and engine of the Saudi economy. Through an initial public offering expected in 2018 that Aramco projects could be worth \$2 trillion, Saudi Arabia hopes to pivot Aramco into an international conglomerate, while turning the state-owned Public Investment Fund into one of the largest sovereign wealth funds in the world. The Saudi government also announced the National Transformation Program in 2016, setting an interim target of 2020 for several public sector initiatives aimed at restructuring the government. Through these reforms, and the use of public-private partnerships, the Saudi government is hoping to stimulate foreign direct investment in a number of promising sectors of the Saudi economy, including health care, telecommunications, infrastructure, power generation, and water desalination.

Sager acknowledged that such economic reforms are not possible without inducing social and political change. “No changes will happen without difficulties, and no changes will happen without real challenges,” he said. “But once those challenges have been identified, we are willing to deal with it.” While pointing to the increasing visibility of women in the political and economic life of the kingdom, Sager cautioned that social change should be allowed to occur gradually and without interference or imposition of foreign values.

A New Partnership

Since Trump won the U.S. presidential election in November 2016, the Saudi leadership has been very optimistic for the relationship between Saudi Arabia and the United States. The Saudi leadership sees an affinity with the Trump administration on a number of key issues, including combating terrorism and containment of Iranian expansion, as well as cooperation on Yemen, Syria, and Iraq. The Saudi government feels it has suffered from 16 years of U.S. policies in the Middle East under Presidents George W. Bush and Barack Obama, including the destabilizing impact of the 2003 U.S. invasion of Iraq and then a “policy of reluctance” embodied by Obama in the region. According to Sager, these diametrically opposed foreign policies – interventionism and retrenchment – have resulted in the birth of the Islamic State in Iraq and the Levant, encouraged Iran’s imperial inclinations, and returned Russia to a central role in the region’s affairs. Sager believes that, based on Trump’s statements before and after the election, it can be inferred that Trump will try to reverse the policies of his predecessors and commit resources to guaranteeing the “vested and vital interests of the U.S. in the region,” as well as those of its Gulf Cooperation Council partners. Trump delivered an important signal to the region in Syria when he responded to a chemical weapons attack against civilians by the regime of President Bashar al-Assad with a cruise missile attack on a strategic airbase. Saudi Arabia hopes this move will be expanded upon and that the United States will even be able to pressure Russia into bringing the Syrian civil war to an acceptable settlement.



Abdulaziz Al Sager, Chairman, Gulf Research Center

Looking to the broader region, Saudi Arabia views political instability and the proliferation of terrorism as a major threat to the kingdom and its allies. Sager pointed to Iraq, Syria, Libya, and Somalia as incubators of terrorism with which Saudi Arabia is forced to contend. In December 2015, Saudi Arabia, under the auspices of Minister of Defense Deputy Crown Prince Mohammed bin Salman, announced the formation of the 34-country Islamic Military Alliance to Fight Terrorism, which notably did not include Iran, Iraq, or Syria. While details of the alliance’s mission and directives have been thin, Sager said the initial purpose will be for sharing intelligence. There will be a cyber component to monitor social media and identify and share pertinent information among governments, as well as a military unit, led by the ex-head of Pakistan’s military, Gen. Raheel Sharif. Finally, the alliance will be tasked with encouraging

moderate Islam and opposing extremism within the practice of the religion.

Session 1 – Saudi Vision 2030: One Year Later

“The biggest opportunity here is that there is a real demand that’s coming up with this change, which is effected by this real unparalleled political will.”

– Khlood Aldukheil

During the opening panel session, Khlood Aldukheil, executive vice president of Aldukheil Financial Group; Elena Ianchovichina, lead economist for the Middle East and North Africa at the World Bank; and Alia Moubayed, director of geo-economics and strategy at the International Institute for Strategic Studies, explored the progress made by the Saudi government during the first full year of implementation of Vision 2030. Facing extraordinary economic pressure as a result of sustained, low oil prices, Saudi Arabia has introduced far-reaching reform policies, raised debt, and enacted austerity measures that may not have been possible previously.

In the process, some of these austerity measures – such as cutting public sector benefits and freezing infrastructure projects – hurt the consumer economy and damaged parts of the private sector at a time when the government was also trying to stimulate its growth. The government has been responsive, however, and has left itself room for flexibility, which was considered by the panelists as one of the greatest strengths of the Vision 2030 program.

While Vision 2030 is broad in scope, including policies aimed at strengthening national identity, increasing health care benefits, and providing a greater space for nongovernmental organizations, the plan remains predominately economic in nature. This economic component hinges on expanding and diversifying the private sector, raising non-oil sector revenue, and increasing employment levels for Saudi nationals. In a headline-grabbing gesture, the government announced plans to offer partial-ownership of the crown jewel of the Saudi economy, Saudi Aramco. The government also introduced the National Transformation Program aimed at restructuring the public sector and achieving fiscal balance by the interim date of 2020.¹

The panelists saw this latter effort as the greatest milestone of the past year in reducing the budget deficit through subsidy reform. The government has already raised the price of gasoline substantially and was expected to eliminate fuel and water subsidies, while providing cash transfers to vulnerable citizens. Panelists also pointed to changes to the regulatory and legal framework to encourage public-private partnerships and foreign direct investment as a positive step.

Vision 2030 is not without obstacles. The sheer magnitude of the reforms and the limited time frame set to achieve them will likely keep some targets out of reach. Many of the obstacles are structural and will take a generation of work to fix. Across the board, the panelists pointed to the human factor – having a citizenry both ready and capable of significant change – as the biggest challenge facing the implementation of Vision 2030. According to Aldukheil, the

¹ [“Fiscal Balance Program,”](#) Vision 2030: Kingdom of Saudi Arabia, accessed June 1, 2017.

central obstacle is “a lack of qualified human resources who have the knowledge and skill to actually effect the change of the vision.”

Success will require private sector growth and an improved education system to move simultaneously and complement each other by providing both the job opportunities as well as the skilled labor force to fill them. “If private sector growth picks up and the quality of education improves to equip the young entrants into the labor market needed by the companies, then we will have a very positive spiral of growth, which would enable the realization of the vision,” said Ianchovichina. As the government decides to rationalize the public sector to create a more efficient government, it will, in so doing, limit the amount of jobs available. If it is not able to simultaneously stimulate growth in the private sector that will provide enough jobs, this will create a pool of unemployed workers and create problems. “It is a very gentle balancing act, where it will involve focus on youth to address managing expectations, timing of reforms, coordination of reforms, but also collecting data of a different nature to monitor progress,” Ianchovichina added.

In addition to youth, the Saudi government must also strive to empower women by including them in the workforce. Current unemployment rates for women in Saudi Arabia are around 36 percent, with Saudi women having one of the lowest workforce participation rates in the world, according to a panelist. Propelling the economy forward to meet the goals of Vision 2030 will be impossible without greater inclusion of women. Saudi Arabia will also have to manage



Khlood Aldukheil, Executive Vice President, Aldukheil Financial Group

the potential creation of new social inequalities, something to which it is already sensitive. Panelists said the government can manage this by regularly surveying the population and adjusting policies accordingly. Indeed, a well-crafted communication strategy with the Saudi population will be essential to getting the people on board and mitigating social and economic tensions. All the panelists stressed the importance of compiling, analyzing, and distributing data in order to maintain transparency for the sake of the government and investors.

Relations between the private sector and the government are undergoing a transition and it will be important to find a proper level of parity and communication, where the private sector is not simply viewed as a customer of the government. For example, when the government instituted austerity measures during the rollout of Vision 2030, steps were taken that hurt the private sector at a time when private enterprise was supposed to be growing. Slashing government expenditures, for example, damaged the contracting industry. The government cancelled future projects to reassess what was a priority, and in so doing, accelerated the slowdown in the economy. The private sector was able to effectively voice its concerns to the government, however, and actions were taken to resolve the situation.

Through expanding the private sector, the government has also set about trying to limit currency outflows in sectors such as defense and health care through an industrial policy of

import substitution. The panelists, however, warned of the pitfalls of “picking winners” among industries. They stressed that careful consideration must be given to competitive advantages and overcoming key constraints, especially in the redevelopment of economic zones. While the obstacles are numerous, Saudi Arabia also has several advantages. First and foremost is the coherence of purpose and the evident will of the leadership to implement these changes. The country also does not have entrenched industries

Through expanding the private sector, the government has also set about trying to limit currency outflows in sectors such as defense and health care through an industrial policy of import substitution.

and a labor force that will suffer from the major shifts occurring globally with automation and new technology. The government also has substantial financial resources to invest and a stable political environment that is safe for foreign investment. While other countries must “remodel an old home,” in the words of Ianchovichina, Saudi Arabia can build “a new structure.”

Session 2 – Culture Shock: Saudi Vision 2030 and Social Change

“... in the lack of clarity for social and cultural change in this plan, there is an opening for a lot of tension and possible conflict between how different groups in society see where should this cultural and social change go.” – Ahmed Al Omran

While Saudi Vision 2030 is predominately an economic reform plan, it also has social components that include promoting the arts, entertainment, sports, and nongovernmental organizations, as well as reinforcing Saudi national identity. Moreover, the ambitious economic reforms outlined in the program cannot come to fruition without creating new social, cultural, and political tensions in Saudi society that must be addressed.

During the second panel session, AGSIW Visiting Scholar Hala Aldosari, Saudi Shura Council Member Lina K. Almaeena, and journalist Ahmed Al Omran established that many of the social changes underway in Saudi Arabia preceded Vision 2030, but noted that the framework for national transformation can still provide an important vehicle for advancing social and cultural change. The panelists agreed that more important than introducing any single social reform policy is having an overall vision of where to take the country. While this is still lacking, the simple desire and intent to pursue change and transform Saudi society is welcome.

When it comes to the implications of the program, however, Vision 2030 is ultimately silent on how the government and society will manage the frictions and sticking points that are both obvious and unforeseen. For example, Vision 2030 is clear in the intention to incorporate more women in the workforce, increasing participation from 22 to 30 percent. At present, women often lack the autonomy to be full-fledged participants in the workforce, according to Aldosari. All the impediments to a more active role for women in the economy, including the availability of day care and the ability to drive cars, mix publicly with the opposite sex, and make decisions without the permission of a male guardian, are not discussed in the program and the government has not communicated to the people how it intends to square this circle.

Another clear example of setting reform goals while leaving questions unanswered is the promotion of Saudi Arabia's contemporary art scene. "It is more pressing there, because you have a society where there is a very conservative culture that is common, and for artists to challenge that culture and try to break out of it, that will definitely lead to conflict and a reaction," Omran said. "It will be very interesting to see how the government decides to react to it." While the government has not faced much opposition thus far, as it continues to grow and develop, Omran asked where the government will stand on conflicts over artistic expression. How far will artists be able to push cultural boundaries? And will there be restrictions on the type of art produced or where it can be displayed? Once again, all of these questions remain a mystery in regard to government policy and the scope of reform envisioned by the Saudi leadership.

This discrepancy between clarity on the economic front and silence on the social front may demonstrate a tendency by the government to want to avoid confrontation, or prioritize social peace over social change. It may also presuppose an inclination to back down if any social or cultural outcome of Vision 2030 generates some form of public opposition. Panelists felt that reformers in the government have done little to challenge hard-liners and moderate the more reactionary segments of society and government. In this regard, establishing a strong civil society will be fundamental to reform, acting as a vocal counterweight to the conservative, religious establishment that dominates the social space. A strong civil society will also ensure that the government is not the sole initiator, executor, and arbiter of reform in the country.

While it is easy to calculate how much money can be saved from reducing subsidies, it is far more difficult to determine the impact on the relationship between the government and the people.

Some panelists pointed to economic policies that also have important social components, such as subsidy reform. While it is easy to calculate how much money can be saved from reducing subsidies, it is far more difficult to determine the impact on the relationship between the government and the people. More importantly, as the welfare state is scaled back and the economy becomes more reliant on the production of private citizens, will a new social contract develop? One point of contention between the panelists was over how much influence the young generation will have in pushing reform. Saudi youth – who make up two-thirds of the population² – are overwhelmingly present online, exposed to the world in a way previous generations were not, and increasingly taking ministerial level positions in the government.

Among the changes generated from this is the growing presence of government officials on social media platforms. While the government's first instinct had been to censor social media, it now sees engaging in the conversations online as a better option. But panelists also noted the entrenchment of older generations in government and the economy, stating that advancing progressive reforms will not be straightforward simply because young people make up a majority of the country or that the older generation is part of the digital landscape.

Certainly, the government has made some important accomplishments, including limiting the

² Luay Al-Khatteeb, "Saudi Arabia's Economic Time Bomb," *Brookings Institution*, December 30, 2015.

power of religious police to harass citizens in public. When it comes to women's participation in society, Almaeena pointed to a gradual increase over several years and across sectors, saying it is important to consider that until 2001 women could not access a national ID card, while today they are members of the Shura Council, the highest advisory council to the king.

While pushback on reform is inevitable, the government has shown some perseverance in its social reform goals. One example that has received conservative opposition is the introduction of more entertainment options for the public, including cinema and live music. In 2016, an entertainment authority was established with the support of the deputy crown prince to help improve quality of life in Saudi Arabia. But certain segments of society have responded negatively, including the grand mufti, who came out against the introduction of such entertainment options. In response, the government treaded the line delicately, but it appears to be moving forward nevertheless. While some panelists felt that conservative elements might be hesitant to oppose every instance of social reform, especially with the weight of the royal family behind it, they could present a more significant challenge over entrenched interests and power structures in other segments of society. The legal and judiciary sector, in particular, has been the most resistant to change, according to the panelists. Judges enjoy very wide discretion and the government has found itself in an awkward position as it tries to reform the judiciary. There is also some resistance from within the government to try and force change too quickly to an institution that needs stability.



Lina K. Almaeena, Shura Council, Kingdom of Saudi Arabia

The panelists concluded their discussion with the role and influence of religion in shaping policy and framing Saudi identity. The participants felt that the prominence of Wahhabism is receding and that the religious establishment, while still central, was playing a less proactive role in shaping policy. The panelists questioned whether the religious establishment in Saudi Arabia was moving in the direction of Al-Azhar in Egypt, as a passive institution more focused on social issues than public policy.

Ultimately, the government needs economic reform. And without some corresponding social changes, economic progress will be constrained. This may force the government's hand in pushing the social and cultural progression forward. Therefore, while Vision 2030 can be most clearly defined by its economic proposals, it can certainly be a vehicle for change on all fronts.

Session 3 – Economic Transformation and Saudi Arabia's Global Posture

"The Middle East is falling apart everywhere and Saudi Arabia is facing an increasingly difficult situation. So from that point of view, I think there is a realization in the kingdom that action is needed, and that inaction is much more detrimental at the end of the day." – Christian Koch

During the third panel session, Christian Koch, director of the Gulf Research Center Foundation; Tim Lenderking, U.S. deputy assistant secretary of state for Arabian Gulf Affairs; and Mohammad Alsulami, head of the Arabian Gulf Centre for Iranian Studies deliberated on Saudi Arabia's position in the region and its relations with its neighbors and allies, especially Iran and the United States. All three panelists felt the ongoing turmoil in the Middle East required a muscular foreign policy from Saudi Arabia and that it must continue to build the capacity to engage effectively with the region. They expressed concern that the Arab Spring had created failed states that were breeding grounds for terrorists and that traditional allies, like Egypt, had been weakened and were less able to support stability in the region.

While Saudi Arabia has certainly increased its military and diplomatic resources over the past several years, it remains limited in what it can accomplish in the region and faces restrictions in its ability to tackle issues beyond its close geographic vicinity. Ultimately Saudi Arabia and the GCC states require a more engaged partner in the United States that can buttress regional efforts to resolve conflicts.

The panelists acknowledged the negative effects of the wide swing in Middle East foreign policies between Bush and Obama. Saudi Arabia felt abandoned after its counseling on how to approach the region was ignored, first with the invasion of Iraq in 2003, and later in the aftermath of the Arab Spring. Moreover, Saudi leaders believe that over the past eight years, Obama hurt U.S. and Saudi interests in the region through a policy of retrenchment. When Obama failed to enforce his red line against the use of chemical weapons in Syria, it tarnished the United States' image in the region and, in turn, weakened its Gulf Arab allies. Finally, the seeming rapprochement with Iran through the nuclear agreement solidified Saudi Arabia's belief that Obama had turned away from the interests and concerns of the Gulf Arab countries.

With the election of Trump, there is optimism among GCC countries that his administration is aligned on the most important security issues facing the region: containing Iran and fighting terrorism. All three panelists felt that some of the enthusiasm for the Trump administration by Saudi Arabia was exaggerated and that the GCC states should be careful not to set impossible expectations in the immediate term. Nonetheless, the Trump administration has sent important signals to the Gulf, including choosing Saudi Arabia for Trump's first trip abroad, holding meetings with Saudi officials at all levels of government, launching cruise missiles against Assad's air force in Syria, and increasing support for the Saudi-led coalition in Yemen. Lenderking characterized Trump's reorientation toward the Gulf as the most significant foreign policy shift thus far for the administration.

Certainly, Trump sees increased burden sharing on the part of Saudi Arabia as essential reciprocity for his support. While all the panelists agreed that Saudi Arabia already contributes significantly to the relationship with the United States, there is still room for the kingdom to do more in conflict areas like Iraq, especially through diplomatic engagement. The new White House has taken a more supportive stance in Yemen; however, it is clear the Pentagon and others favor a political solution over victory “on the battlefield.” The panelists tended to side with Saudi Arabia in the belief that the war in Yemen was not one of choice but of necessity. They also felt that much of the world does not fully comprehend the threat Saudi Arabia faces directly to its south. Two years on, the Saudis are very conscious of the costs of the war, both in human life and resources. As the government pushes forward on economic reforms outlined in Vision 2030, the war is a liability that is adding immense pressure on the Saudi budget. Current U.S. policy is to support the Saudi-led coalition, push toward a political solution by keeping the United Nations at the forefront, and eventually limiting Iran’s presence in Yemen as much as possible.



Tim Lenderking, Deputy Assistant Secretary of State for Arabian Gulf Affairs, U.S. Department of State (left); Ambassador Stephen A. Seche, Executive Vice President, Arab Gulf States Institute in Washington

The panelists agreed that Iran’s aggressive posture in the region is destabilizing. The United States and Saudi Arabia need proper contingency responses for acts of Iranian aggression in the region that include fueling the war effort in Yemen, providing weapons to hard-liners in Bahrain, and harassing the U.S. Navy in Gulf waters, Lenderking said. Panelists expressed concern that Iran is using sectarianism as a wedge to export its Islamic Revolution and spread its influence in the region. Saudi Arabia believes that Iran’s political institutions, even with the re-election of Hassan Rouhani as president, are inconsequential as long as the supreme leader is in charge of the most significant affairs of state. Ultimately, Saudi Arabia and Iran must find a way to coexist peacefully in the region, although the panelists did not provide any suggestions on how this might be accomplished.

Finally, the participants discussed the Justice Against Sponsors of Terrorism Act, put into law by the U.S. Congress in September 2016. JASTA makes the government of Saudi Arabia vulnerable to legal action in U.S. courts based on the claim that it is culpable for the attacks of September 11, 2001. This could put Saudi financial investments in the United States at risk. The panelists felt the law was regrettable and must be addressed at a later date, but first there were issues of higher priority on the agenda. JASTA will remain a “sore spot and irritant” until, and if, it can be reversed.

Conclusion

Vision 2030 promises Saudi Arabia bright prospects for its future, if the government carries out its announced intentions to implement necessary reforms. The challenges are many

and include transforming an entire economy, restructuring the government, and galvanizing a society to meet the task, all within 14 years. While the government may not accomplish everything it sets out to do by 2030, it will likely have made important strides that could serve to put the country on a sustainable path for its future.

At the same time, the economic and political reforms being implemented today will almost certainly come with social changes and tensions that cannot be ignored. Saudi Arabia is a conservative, religious society that must adapt in order to thrive in the modern, global economy. Any ambition of driving economic change must also incorporate the half of the potential work force that currently remains largely excluded. Moreover, expanding the private sector and creating a more open civil society may create new demands from the public on the government and alter the nature of a long-standing social contract.

Outside its borders, Saudi Arabia's challenges have only grown amid regional turmoil and instability. In the political vacuums that have ensued in Syria, Yemen, the Horn of Africa, and perhaps Iraq, Saudi Arabia sees itself locked in a mortal struggle with Iran, and the Shia Islamic Republic's ambitions for dominance in the region. In an effort to reinforce its position regarding Iran, Saudi Arabia will try to strengthen its relations with the United States under its new, unpredictable president. Saudi leaders are optimistic that the Trump administration is favorable to their interests and that their policy goals in the region are aligned. Time will tell if their calculations are correct.

Keynote Remarks by H.H. Faisal Bin Farhan Al Saud

Advisor to the Ministry of Foreign Affairs, Kingdom of Saudi Arabia

Introduction by the Honorable George R. Salem:

Our keynote speaker today is His Highness Faisal Bin Farhan Al Saud, advisor to the Ministry of Foreign Affairs of the Kingdom of Saudi Arabia. Now normally, I would tell everyone to review the written materials for more detail and that I would summarize. However, our keynote speaker is so low key and so humble, that there is very little written on him or about him. So, I had to poke around a little bit and talk with him a little bit and do a little due diligence.

After studying business administration at King Saud University, he became chairman of Al-Salam Air Company in 2000, and he founded Shamal Investment Company in 2004. Until his appointment last month, to serve as advisor to the Ministry of Foreign Affairs, he had been chairman of Shamal, a holding company where he established and oversaw five successful companies in the defense sector. In addition to his success as an entrepreneur and business leader, Prince Faisal is a respected leader in the kingdom on foreign policy issues. His voice is one of the most respected in the royal court on U.S.-Saudi relations and his following on Twitter for commentary on foreign policy issues affecting the kingdom is among the most substantial; in fact many have referred to him as a “Twitter star.” Last month, His Majesty King Salman appointed Prince Faisal as advisor to the Ministry of Foreign Affairs.



The Honorable George R. Salem, Strategic Advisor, DLA Piper

In that capacity, I am sure we will all be seeing and hearing much more from him here in Washington over the coming months and years. Please join me in welcoming our keynote luncheon speaker Prince Faisal Bin Farhan Al Saud.

H.H. Faisal Bin Farhan Al Saud:

I would like to thank the Arab Gulf States Institute in Washington for hosting this event and inviting me to present this keynote address. And, I'm happy to see such a large audience and I understand the event was well oversubscribed. I believe the Kingdom of Saudi Arabia has an excellent story to tell, even if we have often been ineffective at telling it. We are trying to adjust that and hopefully this event and others will contribute to a better understanding.

About one year ago, King Salman approved a far-reaching set of strategic goals for the future of the kingdom. Vision 2030, led by His Royal Highness the Deputy Crown Prince Mohammed bin Salman, established a direction of travel for the kingdom toward a path of sustained prosperity for the people of Saudi Arabia. Today, one year into our journey, we have a better grasp of the challenges and opportunities we face.

After the vision was announced, the first 12 months have been focused on developing detailed programs and initiatives necessary to achieve the vision's broader objectives. We have had five year plans before with many ambitious goals, similar to those outlined in Vision 2030. What's exciting this time is the vision's commitment to a set of measurable and clearly defined goals. Specific accountability mechanisms and relevant stakeholders for each objective have been identified and they will be judged constantly to ensure success.

As we diversify the economy, we intend to triple non-oil revenue to \$141 billion by 2020, and create 450,000 new nongovernmental jobs. And, as we introduce policies to empower the private sector, our goal is to increase its contribution to gross domestic product from 40 to 65 percent. We also intend to empower women to play a more prominent role by increasing women's participation in the workforce from 22 to 30 percent among other goals. Ten years ago, seeing women participate in government meetings was uncommon. Today, when I go to meetings at government agencies, I am more likely than not to see several women participating in the decision-making process.



H.H. Faisal Bin Farhan Al Saud, Advisor, Ministry of Foreign Affairs,
Kingdom of Saudi Arabia

The IPO of Saudi Aramco has taken a lion's share of the focus of observers, but we also have plans to privatize significant state-owned enterprises valued at close to \$200 billion. This effort aims to promote efficiency and generate revenue to be reinvested in new industries. We also have plans to develop the \$1.5 trillion of untapped mineral reserves. This will not only provide jobs, it will also create significant opportunities for new industries.

More than 1.5 million Muslims make the hajj pilgrimage every year. Beyond the two holy sites, the kingdom also is blessed with diverse natural beauty and a cultural and archaeological heritage spanning six thousand years. This fertile ground for a vibrant tourism industry will provide significant economic opportunities within the framework of the vision. Tourism and hospitality are only two of our economy's emerging and expanding sectors. In industry after industry, we are growing businesses and generating jobs. Another focus of our transformation is the development of opportunities for the arts and entertainment. This will provide economic as well as social benefits.

Foreign investors have a formidable partner – the Saudi Public Investment Fund – one of the largest sovereign wealth funds in the world. It finances projects to diversify the economy at home and to generate returns abroad. The fund will seek investments in new technologies as well as investments with strategic value to the kingdom – strategic value to the kingdom's economic transformation.

There are 755 initiatives in the National Transformation Program for the first five years. We won't succeed at everything on the first try, but we are learning. One of the key elements of the vision and one of the things that has given me personally the most, I come from the private

sector, and one of the things that encouraged me is the willingness to constantly review and to understand when we've made mistakes, when the government has made mistakes, and adjust in the middle of the program. There is no pride involved. It is really all focused on achieving the end goals. We are asking policymakers and opinion leaders to support these initiatives, and American businesses and investors, as well as those from China, Japan, and other potential economic partners, to participate in them. Vision 2030 is not just a program for economic reform; it is a true effort at national transformation. We aim to create a more vibrant society, thriving economy, and an ambitious nation.

I'll talk a little about U.S.-Saudi relations. Saudi Arabia and the United States have had a strategic relationship for more than 70 years. This relationship has paid strong dividends for both, and based on the strong shared interests we have worked together for stability in the Middle East and beyond. We are keen to see this continue. The

We aim to create a more vibrant society, thriving economy, and an ambitious nation.

2030 plan includes provisions for strategic partnerships into the 21st century. And one of our main strategic partners will be the United States, and in that regard we are keen to see the cooperation both on the investment side and the foreign power side taken to new levels of an institutional nature.

We are focused on the strategic partnership while still understanding the need to do more ourselves. And that is part of the dialogue that we are having with the United States and we understand that as a growing nation, as a nation with importance in the region, we have the responsibility to carry our burden and we will do so, but we want to do so in partnership with the United States. And I think it has proven resilient and will continue to do so. Thank you.

Q&A Session:

Q: What kind of help would you like to see the United States give you in Yemen, now, today?

A: In Yemen, I think we have started an important dialogue with the U.S. right now and the primary resource we're asking for is better intelligence sharing. Obviously, we are also seeking the continued provision of precision munitions, which are very important to reducing the risk of collateral damage in that conflict. And, obviously, we are also keen to see more support in interdicting the flow of Iranian-supplied weapons to the Houthis. Those are the three main issues.

Q: Thank you very much for your remarks, I have a question on the 2030 strategy. Does it include anything that has to do with promoting a moderate Islam around the world?

A: Not around the world. 2030 is primarily focused on the domestic scene but it does contain an element of building a national character and that includes emphasizing the moderate Islamic principles that we feel we are adherent to and to bring those to the fore and make sure that any extremist voices are marginalized and pushed out of the scene. So, that's for the domestic side, not the international.

Q: Do you have any idea of what this threshold is the United States is looking for from Saudi Arabia to "pay their fair share"?

A: You'd have to ask the Trump administration specifically, but I think, you know, our opinion

is that we are paying our fair share and we are, as I mentioned, in a constant dialogue with this administration, as we have been in the past, to make sure we are doing what is necessary to maintain the stability in the region. I think these are shared interests; the United States has an interest there as well. But we are, you know, we are playing our role, and we are open to playing a bigger role as well.

Q: The deputy crown prince said a few days ago that no dialogue was possible with Iran. Obviously, the Iranian-Saudi tension is a tremendous concern, not only in the region but here in Washington and all over the world. Wouldn't dialogue be a good idea? After all, Iran is a huge country of 85 million people, comparatively, Saudi Arabia is a small country, and to reach some kind of détente, a way of living with each other, is a dialogue going to be essential?

A: Iran is an important country; it's a big country, for sure, but the current regime has left very little room for dialogue. Saudi Arabia and Iran had a very strong relation, a good relationship before 1979. After 1979, there have been several attempts at dialogue between the kingdom and Iran. Some of them worked temporarily, but in the end, they always fail because of Iran's tendency to want to export the revolution, want to impose its will on the region, and that makes it very difficult. You know, are there prospects for dialogue in the future, is Iran going to change, are they going to change their constitution where they no longer make export of the revolution a part of their national principles? I don't know. I would hope that Iran would moderate and then be a worthy partner for dialogue, but at the current time, it doesn't seem so.



An audience member asks a question during the Q&A session.

Agenda

May 10, 2017

Welcome and Introduction

Welcome Remarks:

Ambassador Marcelle M. Wahba, President, Arab Gulf States Institute in Washington

A Conversation with Abdulaziz Al Sager

Moderator:

Hussein Ibish, Senior Resident Scholar, Arab Gulf States Institute in Washington

Speaker:

Abdulaziz Al Sager, Chairman, Gulf Research Center

Session 1 – Saudi Vision 2030: One Year Later

Moderator:

Karen E. Young, Senior Resident Scholar, Arab Gulf States Institute in Washington

Speakers:

Khlood Aldukheil, Executive Vice President, Aldukheil Financial Group

Elena Ianchovichina, Lead Economist, Chief Economist Office, Middle East and North Africa, The World Bank

Alia Moubayed, Director of Geo-economics and Strategy, International Institute for Strategic Studies

Saudi Arabia has embarked on an ambitious program of national transformation aiming to diversify the economy away from oil dependence, as well as to create growth in the private sector and jobs for young people. Yet difficult challenges remain, particularly in creating new sources of government revenue and reductions in government expenditure. What, precisely, do the National Transformation Program and Vision 2030 plan entail? How do we assess progress on these reform initiatives? What are limits to these aspirations?

Session 2 – Culture Shock: Saudi Vision 2030 and Social Change

Moderator:

Kristin Smith Diwan, Senior Resident Scholar, AGSIW

Speakers:

Hala Aldosari, Visiting Scholar, Arab Gulf States Institute in Washington

Lina K. Almaeena, Shura Council, Kingdom of Saudi Arabia

Ahmed Al Omran, Journalist

Saudi Vision 2030's drive for economic diversification promotes opportunities in new fields such as visual media and entertainment, sports, and tourism. How will these economic changes challenge the conservative culture of the kingdom? Will it transform gender relations, or conversely, will the absence of women's empowerment inhibit its success? What roles do youth and technology play in encouraging entrepreneurship and improving quality of life?

Lunch Keynote

Introduction:

The Honorable George R. Salem, Strategic Advisor, DLA Piper

Keynote Address:

H.H. Faisal Bin Farhan Al Saud, Advisor, Ministry of Foreign Affairs, Kingdom of Saudi Arabia

His Highness Faisal Bin Farhan Al Saud was appointed in April as an advisor to the Saudi Ministry of Foreign Affairs. He studied business administration at King Saud University, but left in 1994 before completing his studies to run the family business after the death of his father. In 2000, he became chairman of Al-Salam Aircraft, a Saudi offset project. In 2004, he founded Shamal Investments, where he established several companies mainly focused on the defense sector.

Session 3 – Economic Transformation and Saudi Arabia’s Global Posture

Moderator:

Ambassador Stephen A. Seche, Executive Vice President, Arab Gulf States Institute in Washington

Speakers:

Christian Koch, Director, Gulf Research Center Foundation

Tim Lenderking, Deputy Assistant Secretary of State for Arabian Gulf Affairs, U.S. Department of State

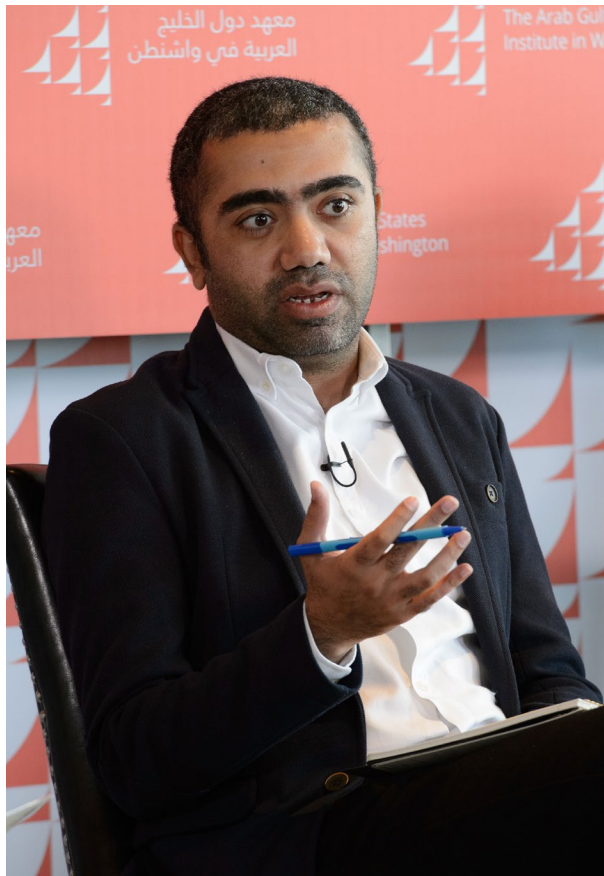
Mohammad Alsulami, Head, Arabian Gulf Centre for Iranian Studies

Saudi Arabia’s economy has been closely linked to its foreign policy and national security strategy since the founding of the modern Saudi kingdom. How might this national transformation impact Riyadh’s strategic relations and thinking? Will foreign interventions (in Yemen) and foreign actions (such as JASTA legislation) constrain Saudi Arabia’s ambitious plans for socioeconomic change?

Saudi Arabia Transforming in Pictures



(Clockwise from top) Session 1 – “Saudi Vision 2030: One Year Later” with Karen E. Young, Khlood Aldukheil, Alia Moubayed, and Elena Ianchovichina (from left); “Saudi Arabia Transforming” audience; Session 2 – “Culture Shock: Saudi Vision 2030 and Social Change” with Kristin Smith Diwan, Ahmed Al Omran, Lina K. Almaeena, and Hala Aldosari (from left); AGSIW President Ambassador Marcelle M. Wahba and Gulf Research Center Chairman Abdulaziz Al Sager



(Clockwise from top left) Ahmed Al Omran speaks during Session 2; H.H. Faisal Bin Farhan Al Saud (left) speaks with Ambassador Susan Ziadeh (far right), George R. Salem (second right), and Alia Moubayed (second left); Hala Aldosari speaks during Session 2; Session 3 – “Economic Transformation and Saudi Arabia’s Global Posture” with Christian Koch, Mohammad Alsulami, Tim Lenderking, and Ambassador Stephen A. Seche (from left)

