

Aasim M. Husain, Ford M. Fraker, Edward Burton, Karen E. Young, Ausamah Abdulla Al Absi

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ECONOMIC REFORM AND POLITICAL RISK IN THE GCC: IMPLICATIONS FOR U.S. GOVERNMENT AND BUSINESS

Aasim M. Husain, Ford M. Fraker, Edward Burton, Karen E. Young, Ausamah Abdulla Al Absi

The following is a transcript of the eighty-fifth in a series of Capitol Hill conferences convened by the Middle East Policy Council. The meeting was held at the Russell Senate Office Building in Washington, DC, on July 12, 2016, with Richard J. Schmierer, chairman of the board of directors of the Middle East Policy Council moderating, and Thomas R. Mattair, executive director of the Middle East Policy Council, serving as discussant. The video can be accessed at www.mepc.org.

AASIM M. HUSAIN, Deputy Director of the Middle East and Central Asia Department, International Monetary Fund

What I thought I'd do today in the time that was allotted to me is talk a bit, first, about what the impact of low oil prices on the GCC economies has been, what policy responses the countries have taken, and what the macroeconomic implications of low oil prices are. Then I will turn quickly to the long-term policy agenda in each of the six countries.

I'm sure almost everyone has heard about the Saudi Vision 2030. That is the one that has gotten the most attention. It's also perhaps the most recent one to be announced. Saudi Arabia is by far the largest economy in the GCC, and in many respects this purports to be a truly transformative set of reforms. But every other country in the GCC also has the analogue of such a vision, so I thought I'd cover that in a very brief pass and talk about the implementation or the related challenges that I see in each case.

First, let me talk a little bit about what was happening before the oil-price shock that started in the middle of 2014. The Gulf countries, as you know, were flush with oil revenue. In response to that increase in oil revenue, they had all ramped up their spending—mostly an increase in capital spending. There is a very high rate of such investment in every country. But they had also increased social spending, in particular, subsidies. The most important are energy subsidies, but

there are also subsidies on other types of goods and services. They had also increased public employment and wages. This was, of course, a way of transferring the oil wealth to the population at large. In most countries, a large proportion — in many cases, the majority — of the national population continues to be employed by the public sector.

As a result of this increase in spending, all six countries were enjoying very rapid growth, an average of 7 percent a year for the non-oil sector over the period 2000 to 2013. That's pretty high and for a pretty long run. All the countries except Bahrain actually had surpluses going into the oil-price shock. So not only were they spending more, but they were still managing to save a bit of it.

Along with high non-oil-sector growth, there was also rather good job growth. But most of it, as I mentioned, was in the public sector. In the private sector, the job growth was mostly going to foreigners or to expatriates who were being hired to take those jobs. So, the overall high growth rate was not particularly job-rich when it came to nationals' employment, although nationals were being employed.

As you know, the oil-price shock hit in the middle of 2014. Oil prices started to decline pretty rapidly, going from about \$110 a barrel at that time to today's high 40s. And not only have spot oil prices declined; oil futures have also declined. In fact, even five years out, oil futures are not expected to rise much, but to stay around \$50-60 a barrel, much lower than what people had thought would be the case as early as mid-2014.

Oil export revenues for the six countries as a whole was \$1.1 trillion to \$1.2 trillion in 2013. That will fall to \$720 billion this year, a decrease of over \$400 billion in oil revenue. Total fiscal revenue of all the countries—mostly oil, but other stuff too — was about 45 percent of GDP in 2013 on average. This year, we're expecting 28 percent, a rather steep fall. As a result, fiscal

balances have gone into a pretty big deficit, on average going from 10 percent surplus in 2013 to a deficit on average of 9 percent of GDP, in some countries quite a bit more.

How are countries dealing with the oil shock? As Chart X indicates, they're cutting spending. And as Chart Y indicates, they're also running down buffers. Let me elaborate.

In Chart X, you see real spending growth by the public sector. In the years up to 2013, spending had averaged 10 percent growth a year. Already in 2014, since the shock hit in mid-year, spending growth had started to come down to about 7 or 8 percent. But, as you see in 2015 and going on into 2016, spending is actually projected to contract pretty sharply, by more than 10 percent each year.

At the same time, reserves are being used up. So you see that, in the years before the oil-price shock, foreign-exchange reserves were building at a rate of about 9 percent of GDP a year, on average, for the six countries. By 2014, that has almost come to a standstill. Last year and this year, reserves are going to be run down substantially, by about 8 percent of GDP.

What sorts of countermeasures are being taken? Here I'm going to focus mostly on the fiscal side, since that is by far the largest element of the reform program.

On the fiscal side, what many countries are doing for 2016 is cutting back capital spending sharply. This is being done not only by not proceeding with new projects, but also in some cases by actually canceling projects that are underway; in other cases, slowing projects down.

In addition to capital spending, another big change has been in energy-price reform. I'll exaggerate a little bit and say that in many countries oil or gasoline products were virtually free before 2014. Since then, very substantial price increases have taken place in all countries for various types of petroleum products, though in most cases they're still much lower than international levels, certainly much lower even than what we pay here and much, much lower

than what consumers in Europe pay. Nevertheless, this has marked a very big change. Access to very cheap energy has virtually been viewed as an entitlement until now. That has changed, and prices have increased.

A big move happened around the end of 2015 or beginning of 2016 in Saudi Arabia, and at almost the same time, both Oman and Bahrain also increased prices. I think moving together or one right after another was probably helpful. The fact that one country was doing it probably made it easier for the other countries to do it.

Interestingly, there doesn't appear to have been much by way of social fallout from these energy-price reforms, at least so far. Most countries have said that this is only the start of a longer-term reform program in which energy prices are going to be raised further. In some cases, energy prices are now already being adjusted on a regular basis. I think in the UAE and Oman they are following movements in international prices.

As Chart Z shows, in almost every country the actual fiscal adjustment, if you will, is quite large: several percentage points of GDP. It is especially large in Saudi Arabia and in Oman. I should clarify that this is in percentage of non-oil GDP. In any case, in those two countries it's especially large. This partly represents a very sharp compression in capital spending, but also the impact of energy-price reforms in those countries.

Even with the large fiscal adjustment that's already taken place — or, for that matter, what's already in the pipeline for future years — the fiscal challenge is still daunting. So what we've done in this chart is to take the measures that have already been implemented but also that have been announced for the future. For example, the Gulf countries have all said that they will adopt a value-added tax, most likely at the beginning of 2018. Many have said they will introduce or increase excise taxes. Many have announced further energy reforms. Many have indicated that

capital spending will be compressed further as projects are completed. So all that is built into this so-called baseline.

And with that baseline, and all these additional measures being taken, we still will have a deficit on average of about 7 percent of GDP five years from now. And as a result, if the baseline actually materializes, public debt will still be rising five years from now, on average getting up to 45 percent of GDP.

Of course, a public debt of 45 percent of GDP is not large. But that is an average. In some cases, it will be quite a bit more.

One other thing is that, even though public debt will be that size, many countries also have sizeable assets in sovereign wealth funds, in reserves, et cetera. So maybe we should think of it in net terms. I think that is absolutely right. But in some cases, even net debt will still be rather high and something to keep an eye on.

In other words, in order to balance the fiscal books, more adjustment will be needed. Staying at a deficit of 7 percent, on average, five years from now is not going to be enough, and more measures will need to be taken beyond what's already been announced.

What will that mean for growth prospects for the countries? Very clearly, weaker government spending will mean slower overall growth. In fairness, public spending in the recent past, though it has boosted growth, has probably been a somewhat low multiplier, the reason being that many of the materials used for investment are imported. Similarly, when you don't have that spending, imports will be lower. So it doesn't necessarily translate into one-for-one growth, but it will translate into weaker growth. We reckon that this year growth on average in the non-oil sector will go from something like 7 percent to about 3 percent this year, picking up a

little bit over the next few years to, say, 4 percent on average, a lot lower than what we have seen.

This is based on the baseline consolidation that we have in mind. If more consolidation takes place, as I argue is needed, then you could have even slower growth. Similarly, if multipliers are higher than what we expect, the impact on growth could be larger.

What does that mean for jobs? Over the next five to six years, about 2 million youth will enter the workforce in the six countries combined. In Chart ZZ, the part shaded in red, based on current assumptions, represents the ones who will actually find employment, about two-thirds of them. A good one-third might not.

How do we come up with this estimate? We take what we project to be non-oil-sector growth and use the elasticity of growth with jobs of the past to project that forward. If growth is lower than what we project, or that elasticity changes, this picture will be different. In particular, if growth is lower than what we project, because more fiscal consolidation takes place or multipliers are higher than we expect, the employment challenge could be even more than this.

What does this mean? It means that the historical elasticity of growth to jobs has to change. Growth — even the lower growth that the Gulf countries are going to have — has to be much more job-rich than in the past. In order to have that job-rich growth, structural reforms will be needed; the economies will need to diversify; and the fiscal adjustment will need to be undertaken in a way that is as job-friendly as possible.

Let me just quickly talk about the visions that each of the countries has. Let me start with Oman, currently in its ninth development plan. The focus of policies is sort of guided. The Umbrella is the ninth development plan, the last leg of a 25-year Vision 2020. This vision and the ninth development plan very much emphasize the need for the private sector to drive growth

and job creation. The plan and the vision are underpinned by reforms to the business climate, to developing the small- and medium-enterprise sectors, to fostering private investment, and so on.

What do I see as the main challenges in Oman? I think the amount of fiscal adjustment that's already being undertaken is very large, but they need pretty significant additional fiscal adjustment to get back to budget balance. Getting that done is going to be a challenge. There is also a challenge with respect to the political commitment to reform. In some cases in the foreign-investment law, in the new labor law, in electricity reform — the actual technical work to guide these reforms and new legislation was completed and is ready to go, but to actually pass it hasn't happened or is taking a while. That goes to the political-implementation challenge that they may face.

Let me turn very quickly to Qatar, a country that has a National Vision 2030, revealed or approved back in 2008. It includes a \$200 billion public-investment program to support economic diversification. As a result of low oil prices, they have adopted very welcome reforms to increase spending efficiency, restrain current spending, raise fuel prices, and start developing a medium-term fiscal framework. All these things are good.

On the challenge side—implementation—the areas of focus in Qatar will need to be the fact that already in the high-oil-price environment, and certainly since then, projects have seen quite a few delays. The Doha Airport, which some of you might have had the pleasure of visiting, is very impressive, but it opened five years behind the initial schedule. Implementation delays have plagued Qatar. In addition, Qatar has also received some awkward publicity with respect to foreign-labor rights. Also, one thing many are familiar with is their bid for the 2022 World Cup. Negative publicity from that is another potential challenge they're going to have to deal with.

Moving on to the UAE, the vision is for 2021, the fiftieth anniversary of the country's independence. There, too, the objective is economic diversification and private-sector promotion. The UAE is already the most diversified economy in the GCC; oil only comprises 30 percent of total exports—40 percent of exports excluding re-exports. So, for them the challenge is to move even a step further, and they're very focused on promoting a knowledge-based economy, innovation, and so forth.

Interestingly, in the case of the UAE, the fiscal-adjustment challenge is actually not that great. Yes, they're in deficit, but the deficit is not large; over the coming years, with the reforms that are already in the pipeline, it will be basically eliminated.

The issue is whether they will reach a level of fiscal surplus that's adequate, from their perspective, for future generations. They will probably need to do a little bit more over the medium term.

They actually may be doing a little too much in the near term. If anything, they should probably take a bit of an easier stance on the fiscal side in the current year.

That brings me to Bahrain and its Vision 2030. As in Qatar, it was launched in 2008 and the target is economic diversification.

In Bahrain, the fiscal-adjustment challenge is quite large. Unlike many of the others, Bahrain was already starting from a deficit position before the oil-price shock, and debt was significant. In that respect, Bahrain faces a larger fiscal adjustment challenge than the rest.

Kuwait has recently announced a five-year government-reform program covering a number of areas on the fiscal-adjustment and economic diversification side. I think the main implementation challenge has to do with getting bills through parliament. One of the reasons this five-year program was launched when it involves electricity reform: the government had

tried to push it through, but it held up in parliament. It eventually did pass, but in a diluted form. The criticism was that this is very piecemeal. So in response to that, they came up with a five-year plan. How much they can push through parliament and how quickly remains to be seen. Kuwait, unlike the others, will already be in surplus next year. So the fiscal-adjustment challenge is not as great.

Lastly, Saudi Arabia. Sizable fiscal consolidation is already underway. Energy and water prices have been raised significantly — big steps for the kingdom. Reforms to foreign-investor participation in the capital market have already been announced. So the Vision 2030 and the National Transformation Plan, at least in terms of what has been announced, are very wide-ranging and encompass pretty large reforms. The issue will be prioritization and sequencing in a way that reduces the implementation risks. For example, how should reforms be phased? For example, higher energy prices, higher fees on foreign labor, and cutbacks in government spending are all going to affect the corporate sector. The question is, how do you phase that in? At what speed do you implement? Do you try to do everything all at once, or do you focus on one or two key areas in order to get them right?

Another example is introducing value-added (VAT) and excise taxes, which are already in the pipeline. These are good moves that need to be done. At the same time, if the tax authorities also start thinking about a corporate income tax, is there a risk that attention could get diverted? Is there a risk that implementation could be spread too thin and all of it become more complicated? The issue will be to focus on the important things first, getting that focus right and getting it done.

FORD M. FRAKER, Chairman, Merrill Lynch Kingdom of Saudi Arabia; Former Chairman, Kohlberg Kravis Roberts & Co. (KKR) Middle East & North Africa; Former Ambassador, Saudi Arabia; President, Middle East Policy Council

Today I'd like to talk about Saudi Vision 2030 and the National Transformation Plan, referring to both these things as the "vision plan." Rather than get into the minute details of the plans or the vision, both of which are available to everyone, I want to focus on two particular aspects. One is the importance of these proposed reforms and changes in a historical Saudi context, and also, why are these proposed reforms and changes important in terms of the overall U.S.-Saudi relationship?

To set the scene, Saudi Vision 2030 and the Saudi plan are sponsored and promoted by His Royal Highness Prince Mohammed bin Salman, the deputy crown prince. The plan itself calls for sweeping economic/governmental reforms, with deep and wide-ranging implications for business and how the government actually functions. The prince is taking advantage of low oil prices and the resultant economic stresses to drive through an ambitious reform agenda that focuses on two particular areas: diversifying the economy away from overreliance on oil revenues and eliminating government inefficiency and waste.

How should we look at these proposed reforms and changes in the Saudi historical context? In short, the way I look at it is that these are unprecedented reforms and changes. Historically, Saudi Arabia is a deeply conservative and religious society unfamiliar with change. The Al Saud family has ruled Saudi Arabia since its inception in 1932, and their particular style of government is all the people have ever known. Decision making in the kingdom has been referred to as a "behind closed doors process," meaning private discussions, consultations,

consensus-building all happen behind closed doors, in private, secretly. And then we're used to having large public announcements.

That was the old Saudi Arabia. I think we began to see the emergence of the new Saudi Arabia when King Salman acceded to the throne in January 2015. Within the first few weeks, hundreds of royal decrees were issued: changes to many of the ministries, new ministers being appointed. Probably the most significant change was that, in one fell swoop, he disbanded over a dozen royal commissions and replaced them with two principal councils: the Council of Political and Security Affairs, to be run by Mohammed bin Nayef, the crown prince; and the Council of Economic and Development Affairs, run by the deputy crown prince, the king's son, Mohammed bin Salman.

By placing his son at the head of the Council on Economic and Development Affairs, he gave him the power and the mandate to embark on reforming the economy and the government. This is what we've seen unfold over the last 18 months. Working with an army of consultants in Riyadh, the deputy crown prince has set about creating, building and recently publishing his Vision 2030 and the Transformation Plan.

Now, for the first time, we're seeing transparency and accountability arising in conversations in Riyadh as a critical component to measure competency and efficiency, both for the ministries and for the ministers themselves. We're hearing all sorts of expressions like KPIs and KPTs, consultant-speak for key performance indicators and key performance targets. To actually be in meetings with Saudi ministers and hear them speak is transformative in itself. All of this would be anathema to the old Saudi Arabia.

Three examples of transparency and accountability I think are useful.

One is the discussion about Aramco. On January 4, Prince Mohammed bin Salman gave a five-hour interview to the *Financial Times* in London. Let me just stop there for a moment. This is a five-hour interview, on the record, being given by a senior member of the royal family. If we have any correspondents in the room today who remember back 40 years, trying to get an on-the-record interview with a senior member of the royal family, this is almost revolutionary. During that interview, he talked about his vision of taking Aramco public, using it as a way of creating the world's largest sovereign wealth fund. He talked about empowering women. He talked about developing many aspects of the economy. This was something the people in Saudi Arabia — and all of us outside Saudi Arabia — had never actually seen before, and I think is an important step in terms of how you will see Saudi Arabia operate going forward. This is the transparency part of that.

Another example is that, for the first time, the prince put all the ministers on a stage in a room, publicly available to be questioned about their priorities, their objectives, how they see themselves being held accountable. This also had never happened before.

The third example, Aasim mentioned, is the subsidies. The old Saudi Arabia had a social compact that simplistically went this way: the government said to the people, you'll get subsidized oil and gas and electricity, free education, and free health care; in return, we'll run the place. When you change that compact and start having a different conversation with the people and say, times are tough — we don't have the revenues; we're going to have to increase subsidies; you all are going to have to bear part of this pain—the conversation changes pretty dramatically. Conversations with the tribes, for instance, go like this. The tribes say, OK, if you're going to change the rules on us, and we're going to help finance you, we're going to want a greater say in terms of the sorts of laws that you pass and how we're governed. As some of my

younger Saudi friends have said to me, this sounds a little bit like no taxation without representation. These are new concepts in the kingdom, and it's going to be very interesting to see how they play out.

How should we think about all this from the standpoint of the U.S.-Saudi relationship? My personal reaction is that, from a U.S. business standpoint and a U.S. government standpoint, we should welcome these reforms and changes with open arms. Business opportunities will increase in Saudi Arabia. Prince Mohammed bin Salman's recent visit to the United States, in banker parlance, was akin to an investment-banking roadshow trying to sell a particular investment product to the country. The first stop was here in Washington, to get the political stamp of approval; then on to the West Coast and Silicon Valley to talk with the movers and shakers there and to show up at their recent big investment in Uber; and then back to New York to participate in meetings with investment bankers and fund managers. All of this to sell Saudi as an attractive place to invest.

I think it does present a terrific investment opportunity for American companies for the particular reason that it's being pushed and promoted from the highest levels. To have a government seeking investment and seeking opportunities to grow the business environment is a big deal, I believe.

A specific example of how this is actually working inside the kingdom—and I think it shows their serious intent—is what they've done with the Ministry of Commerce. It used to be called the Ministry of Commerce and Industry. It's now called the Ministry of Commerce and Investment, and by investment they mean foreign direct investment into the country. Now, for the first time, you have a minister of commerce who's not only responsible for commerce inside the kingdom, but also for the process of attracting foreign investment into the kingdom.

The other thing they've done to emphasize that is to take the Saudi Arabian General Investment Authority (SAGIA), the previous one-stop-shopping center for all foreigners who wanted to invest in the kingdom, and rolled it under the minister's wing. So, for the first time, you have a minister of commerce who has all the levers of power to make investment in Saudi Arabia work. I think that's an important point to make.

The other thing I should say from a personal standpoint as a former ambassador to Saudi Arabia — and I'm sure the current ambassador would say it — is that all this is music to our ears. One of the biggest responsibilities an ambassador has is promoting bilateral trade relations between countries. To have this kind of emphasis and impetus put behind this effort at the most senior levels in the government is a very important signal. I think the U.S. government should be watching this and be very positive and happy about what they're seeing. The U.S. government clearly has a stake in a more open, modern and enlightened approach to business and government in Saudi Arabia. From my perspective, they should be proactively encouraging and supporting this.

One of the benefits of transferring to a "new Saudi Arabia" concept is that you'll also be able to have more productive conversations on a series of previously very delicate issues like women's rights and labor — conversations that will be different today than they could have been yesterday in the old Saudi Arabia. That will be very positive.

A final point, which I could spend a lot of time on, is that the U.S. government has important strategic interests in seeing a stable and prosperous Saudi Arabia, given our deep and broad mutual engagement in the areas of the military, intelligence and counterterrorism. For anyone who hasn't been in a coma over the last 40 years, the Middle East is an unstable place, and there are lots of issues. So, from a U.S. policy standpoint, supporting our allies in the region

economically as well as politically — is a big part of what we should be pushing for. All of this argues, I believe, for the U.S. government to proactively support the prince in his efforts. We should be seeing him as an important future leader for the new Saudi Arabia.

A presentation like this probably raises more questions than it has answers about Saudi Vision 2030 and the Transformation Plan. What are the implementation risks, how is it all going to work out, how will all of this be accepted by the public as a whole, are there social implications? We could be here for many hours talking about these topics. But if there's one message I would like you all to take away today, it's this: we're seeing the emergence of a new Saudi Arabia, and we all should be doing everything we can to support it.

EDWARD BURTON, CEO and President, U.S.-Saudi Arabian Business Council

I am particularly honored to share the dais with former Ambassador Ford Fraker and equally honored to be in the room with former Ambassador Jim Smith. I've spent most of my professional career serving American business interests abroad, and I can easily recognize champions of American business interests. Although I served two other ambassadors while I was at the embassy in Riyadh, you will never find two ambassadors that have been more important to the business community during their tenure than ambassadors Smith and Fraker.

I'd like to add a bit more contour to Vision 2030, but I want to save the bulk of my presentation to talk about what we do at the U.S.-Saudi Arabian Business Council: focus on the opportunities for business as a result of Vision 2030 and the Transformation Plan.

The Vision 2030, adopted as a methodology and a roadmap for economic development and action in the kingdom, identifies general directives, policies and objectives. The Council of

Ministers is tasked with implementing this plan. As Ambassador Fraker indicated, the Council of Economic Development Affairs (CEDA), the engine of Vision 2030, and the implementation instrument, the National Transformation Program, are in CEDA's hands. There are a lot of moving parts here, and I would urge you to look at the plan if you are interested in Saudi Arabia and the way forward for the kingdom. It is an unprecedented move by the government to completely restructure and reorder how it operates. It is a move to accelerate government decision making and increase not only government productivity, but also efficiency.

Privatization is a big component of Vision 2030 and the way forward economically. One of its most exciting aspects for American business audiences is the plan to privatize 5 percent of Saudi Aramco. There are plenty of questions regarding how that's going to happen and the way forward there chronologically over the next year or two. What that will do with the Public Investment Fund, the public-investing arm of the government, is to move it from its current assets of \$160 trillion to about \$186 trillion after the privatization of Saudi Aramco and privatizations in other industries. It will end up with a strategic transformation of Saudi Aramco. It already started its move from an upstream company to downstream, forwarding those global interests in downstream and related industries, and moving forward even faster.

Strategic partnerships are also an important part of Vision 2030 and the government's intention to have public-private partnerships be a mechanism to take a lot of the assets that are currently on the government's books and have them shouldered more by the private sector. The initial public offering, as I said, hopefully will be available 2017, some say 2018. That's still in the works.

As to the goals, Saudi Arabia is a high spender on military equipment and services. Currently, only 2 percent of the military apparatus in Saudi Arabia is produced locally. There are

only seven companies and two research centers in Saudi Arabia that are devoted to the military industry. What they would like to do and intend to do, and are well on their way to doing, is to have 50 percent of foreign military sales be shouldered by local manufacturing. They want to increase the share of GDP generated by the private sector to 65 percent; now 40 percent. And they want to lower the unemployment rate, which now stands over 11.5 percent, to 7 percent.

They also want to increase labor-force participation by women from the current 22 percent to 30 percent. Life expectancy now is about 74 years; they want to increase that to 80 years. They want to increase *umrah* visitors, now at 8 million to 30 million. Saudi Arabia spends a lot of money on defense and security, \$87 billion last year, making it the world's third-largest spender.

Vision 2030, as I said, aims to promote the growth of a domestic defense industry. The United States remains a major defense supplier to Saudi Arabia, with \$97 billion in active and open foreign military sales. The Defense Initiative involves \$50 billion in new spending underway; the goal is to increase personnel strength and expand bases.

Health care is a key sector in Saudi Arabia. Unfortunately, the Saudis suffer from a number of maladies. They have one of the highest rates of diabetes and respiratory diseases. So it's a high priority. What the government wants to do is to allow the growth of the industry to feed employment in the kingdom. The 2016 budget allocates \$28 billion on spending for health and social development. New hospitals are under construction across the kingdom. The fastest-growing part of the medical/health-care industry is the private sector and the construction of privately-owned hospitals and clinics. There are a lot of U.S. companies looking at Saudi Arabia, particularly with a view to forming joint ventures with Saudi companies to handle many of the public tenders in this area. Johns Hopkins and Saudi Aramco formed a joint venture a number of years ago, and it's going well.

The market for medical devices is \$2 billion, and imports represent 90 percent of it. The government wants to move into that market, now supplied from overseas sources.

Saudi Arabia is the largest information and communication technology (ICT) market in the Middle East. ICT spending has grown over 10 percent annually, to reach \$7.3 billion in 2014. The IT services market is expected to reach \$2.76 billion in total value by the end of 2016, and consumer demand for ICT runs unabated. The mobile-telecommunications penetration rate is 167 percent. It's not unusual, if you've ever visited Riyadh and been in business meetings, to have your local business associate managing two or three phones, sometimes all going off at the same time. Fixed-broadband Internet access has a penetration rate of 68 percent. Saudi Arabia has the highest social-media usage rates in the region and the highest Twitter user rate as a percentage of total Internet users in the world. So young Saudis are connected, and ICT is a big market.

Vision 2030 has eight sectors, according to the McKinsey Group. They include mining, manufacturing, construction, health care, retail, petrochemicals, and a number of others that the government has targeted as high-growth industries and is going to rely to generate employment for Saudis. Sixty percent of the Saudi population is below the age of 30. So the demographics have sparked a high sense of urgency in terms of government growth.

I'm going to be unabashed and promote my book, particularly since it's my first. I'm more proud of it because of its theme. I was allowed access to some of the most well-known family businesses in Saudi Arabia, global businesses. So I took the opportunity to highlight many of these companies. I talk about the last 25-30 years of economic development in the kingdom. I had the most fun in interviewing these business people, and I spend a substantial portion of the book talking about the new generation.

The future of Saudi Arabia belongs to the young, and I spend a large portion of the book interviewing young Saudi entrepreneurs and talking about the challenges they face. These are the new Al Zamils, the Allianz; these are the seeds from which the next generation of family-owned global companies, hopefully, will spring. Vision 2030 is the roadmap, the blueprint they have to follow to get there.

KAREN E. YOUNG, Senior Resident Scholar, Arab Gulf States Institute; Visiting Fellow, London School of Economics Middle East Centre (MEC)

I'm a political scientist by training and I'm a comparativist. So I want to give you a bit of a picture of the comparative political economy of economic reforms across the GCC right now. One thing we know about structural reforms is that one size doesn't fit all; the results often take a long time to be positive, and that it's not a guarantee. This is what economists like Dani Rodrik have been writing about lately, and I think it's an important lesson because the short-term and long-term goals could potentially be in conflict for the GCC states. There's a lot at stake right now.

The first slide I want to share with you is a point about diversity among the GCC states in terms of their fiscal positions. Break-even oil prices are not an exact science, just as predicting oil prices is never an exact science. But it does show that there is a different resource dependency among the GCC states. That gives them different amounts of leverage and flexibility right now. Saudi Arabia and Oman are in more difficult positions than some of their neighbors, as Aasim mentioned earlier.

All of the GCC states right now are facing fiscal deficits to the tune of about 10 percent of GDP across the region. That means there are going to be different opportunities for reform, different mechanisms and different plans. They're not all going to be successful. That's because these states have different resources and different access to capital. The big trend right now is a rise in government debt issues, bond issues. So Gulf states, in a global sense, have pretty good access to capital. They're not heavily indebted. We probably could take a lesson from them here in the United States in terms of government debt, but in very different measures.

If we look at a country like Bahrain, it is in heavier debt than its neighbors and will have more difficulty servicing that debt. Bahrain has also been downgraded recently by credit-rating services. That means access to that capital becomes more expensive, though still accessible. Saudi Arabia is actively pursuing both bond issues and loans from corporates, big international banks. At this moment, if you follow bond markets globally, there's not a very high yield on most government debt all over the world. If you would like to make money by being a lender to a government, it's a good thing to have Gulf clients. They're willing to pay more for interest on the bonds they issue.

This is going to create some interesting dynamics — the short-term versus the long-term goals. The short-term goal is access to capital. That's going to help create a patch to the fiscal deficit. It's going to allow governments to continue the outlays in spending in terms of public-sector wages, health care and education services. But in the long term, it's not really sustainable. One reason is that there is very low productivity across the Gulf. Even if we create more jobs within the private sector, it's not clear that those jobs are going to be generating lots of wealth.

The other thing that's true is that all of the GCC states' currencies are tied in some way to the U.S. dollar. If the dollar is getting stronger, you have to repay your debt in dollars. But we're

not seeing much duration of economic growth, so that debt becomes more expensive over time. In the short term, the Gulf states are fine. They can access capital; they can meet their obligations. In the long term, 10 years out, if oil prices stay the way they are and the economies are not diversified, I think we have a more serious problem.

It's important also to think historically about where this wealth has come from, what happened in the most recent oil boom. From 2003 to 2014, there was an enormous period of generation of wealth across the GCC. What states did with this money is amazing. It's a great success story in state-led development, in economic-development history. They built state institutions; they built militaries; they built health-care systems and educational systems. It's really been miraculous, very different from the last oil boom of the 1970s, when public-sector spending was much lower.

There are also variations across the Gulf states in what they did with this wealth. Some states were better at creating rainy-day funds. The Kuwaitis were very good at putting money aside for a moment like this. Other states invested more in the non-oil sector, and that benefit is paying off right now for some more than others. I think it's important to know that this experience is different from the 1970s. The populations are different, the demographics of the Gulf are very different now than they were during the past oil boom.

Who lives in the Gulf now? Mostly people like me, expatriates and migrants. Nationals in most Gulf states are minorities within their own countries. The population explosion has taken place among nationals, but it's been even greater among non-nationals. The kinds of services and infrastructure that states provide are being provided not just to citizens but to residents as well.

In my work at the Arab Gulf States Institute, I've been tracking the economic reforms coming forward across the Gulf. We're calling it the Gulf economic barometer. I encourage you

to go our website and check it out. Basically what we're seeing are copycat reforms. This is useful because it makes it easier for a government to implement a reform when it can say, look, my neighbor had to do it, too. In terms of domestic politics, it has been a good idea.

As Aasim mentioned, fuel-subsidy reduction has taken place pretty much across the board, as has reduction in subsidies for energy and electricity. We're also seeing a lot of consolidation within government-related entities, state-owned entities, a lot of restructurings. This is good. This is cost-saving. It should have been done maybe 10 years ago. But it will probably mean reduction in staff. We're already seeing reduction in, for example, health-care benefits and the perks that go to many people who work within state-related entities. Oman has actually cut the most in terms of its public-sector and state-related-entity benefits.

As I mentioned, in monetary-policy measures there have been a lot of bond issues in the last six months across the Gulf states. I think the loans are coming next. Saudi Arabia is getting ready to place some very large loans. We're seeing the issuance also of Islamic bonds, sukuks. There was a very substantial loan placement last week from the Omani National Petroleum Company, \$4 billion. That will happen once; I don't imagine it can happen again in two years. This is a moment for Gulf states to access capital.

As for general government non-oil revenues, the percent of non-oil GDP, there's a lot of variation in diversification of economies across the GCC. There are states that produce less oil but are more dependent on that revenue, so the pressure points are very different. Another important issue, right now, which makes this oil boom and descent different from the last time — the 1970s and mid-'80s, when the oil prices crashed — is that the Gulf states are more integrated into the MENA economy and political system, as well as the global economy and global politics.

The Gulf states have taken on much more responsibility in terms of aid and foreign direct investment to the broader MENA neighborhood. They are displacing or disrupting what were traditional avenues of international financial institutions and the multilaterals in terms of development aid. We see this especially in Egypt, where Gulf cash injections into the Egyptian Central Bank have been very important. We see it also in Lebanon, where Gulf foreign aid — economic statecraft— toward Lebanon has been as punishing as it has been rewarding.

This has serious consequences for the region as a whole as it becomes more dependent on the Gulf as interventionist — financially, militarily, and as economically — in terms of their investment. The graph illustrates the displacement. The dark maroon is the GCC states, from 2013 especially, with the reversal in Egypt after the Arab Spring and then with the Sisi administration displacing a lot of what the IFIs used to provide.

The other area is in remittances. The populations of Gulf states are largely made up of non-nationals, migrants, expatriate workers. And the remittance flows from the Gulf states play a very important role in the financial and political stability of their neighbors — Egypt and Lebanon being important examples. We see that remittances have been more constant than aid from the second quarter of 2010 until the end of 2014. It shows you the volatility in Gulf aid.

At the same time, what we've seen since 2011 and 2013 is a contraction of the civil-society space within the Gulf; more and more, expatriates of certain nationalities are less welcome. Some countries will be more at risk for the loss of these remittances than others. Saudi Arabia is very important in the remittances that go to Egypt; Saudi Arabia is the prime destination in the Gulf for Egyptian expatriate workers. So the health of the Saudi economy has ripple effects that become very wide.

As to labor markets, in any kind of structural reform that might occur across the GCC, it's important to think about what to do with the *kafala* system, the system in which foreigners' visas and their right to work inside the Gulf are tied to an employer. The Bahrainis have been the most innovative across the Gulf in working on regulating and reforming labor rules. This should be, I would argue, a top priority in any kind of structural reform across the Gulf, because what they really need is job creation, higher productivity, and jobs that are not in the public sector.

The only way to do that is to create businesses that are interested in hiring nationals, not because they have to, because there's a quota system, but because wages become competitive. That is a huge challenge. We see across the GCC a very segmented workforce. This deepens and reinforces inequalities and social divisions. Essentially what this chart shows is that there are a small number of nationals in the private sector across the GCC.

In the states that have been more successful in getting nationals to work in the private sector, you have to ask why. What made that happen? A lot of the Saudi (Vision 2030) plan depends on the creation of jobs within the private sector. This is easier said than done; no government I know of is very good at creating jobs in the private sector. One thing we know about structural reforms as well is that it is not necessary to create jobs across the board, or all sectors of an economy. What matters, and what has made the difference in success stories in Taiwan, South Korea, even India, is that there can be a couple of key sectors that spark growth and create demand for jobs. Those are the sectors that can start a long-term economic revival. The choices now, as I said, are very important. The industries selected to be those engines, those incubators of private-sector job growth, will make the difference between states in the GCC that do better as a result of the decline in oil prices and the need for diversification and those that have a harder time.

I'm conducting research now on the inclusion of women in the GCC, in both political and economic life. In general, there are not a lot of women working in the Gulf, especially among nationals, and especially in the private sector. The data you see here, has Bahrain, Kuwait, Qatar, and Saudi Arabia; I don't have data for the UAE. We're also looking at the domestic sector. There are generally more men than women in all the Gulf states, because of the importing of cheap labor, most of it from South Asia. When you include the domestic sector, the largest segment of non-national women are working as housemaids. What we're also seeing is that the women's labor force in no country really makes up much more than a third of the total.

In the Saudi Vision 2030, the NTP, the objective to get more than a third of women nationals into the work force is actually only happening right now in Kuwait. Bahrain is also doing very well in terms of women's employment, but mostly in the public sector. Bahrain and Kuwait have the highest proportions of working women. Are women more likely to be working in these two states because there's more economic need — is it to generate money for families — or is there something about the political, and non-government, corporate environment that is more welcoming to women's employment?

Just to reiterate, the current fiscal deficits across the GCC indicate some diversity, Kuwait being a good example of having saved. But Kuwait is not necessarily a well-diversified economy and will not be very good at creating or generating productivity and private-sector jobs. So there are trade-offs there. Why is the 2003-14 oil boom different from the last one of the 1970s? Because the populations of the Gulf are different, governments inside the Gulf have made different decisions about how to spend that wealth and how to invest it internationally. The Gulf states themselves are more integrated now into the MENA region and into global economies than they were in the mid-1980s.

The success of reform very much depends on, of course, domestic politics, despite the misperception that there are no domestic politics in the Gulf, that it's all top-down. But that's not true. There is a lot of civil society, political organization that happens in informal institutions in ways that are not well-studied from the outside. If any of you are interested in doing further research, I would encourage that. Labor-market reform is probably the most important aspect of structural reform.

Plans like the National Transformation Plan are very important. They change the public conversation, the discourse about the relationship between state and society, ruler and ruled. I completely agree with Ambassador Fraker's statement about that: it's novel, it's different. The interview on Al Arabiya with Deputy Crown Prince Mohammed bin Salman and the interviewer sitting side-by-side, taking questions and answering them — that is a new way of seeing governance inside of Saudi Arabia. That doesn't mean it can fix all the problems, but it is, I think, a very hopeful sign for many Saudis.

Targeted reforms need to focus on where growth is likely. Not every sector matters, but identifying which sectors matter will be important going forward.

**AUSAMAH ABDULLA AL ABSI, Chief Executive, Labour Market Regulatory Authority;
Head, National Anti-Human-Trafficking Committee, Kingdom of Bahrain**

I've heard these impressive speakers talking about reform, about the opportunity, and dissecting the numbers. It's all very impressive, but we need to step back a little. I come from a country that embarked on reform during the days of milk and honey in 2003, when things were great and money was abundant. We went through an uphill battle, even during good times. Those

embarking on reform now, I respect a lot. People are the enemies of change. People are the enemies of what they don't know. Complacency, being comfortable where we are, vested interests, of course, always stand against those who want to reform.

In 2001, Bahrain started a political reform program that led to the 2002 elections of the first parliament. Then, in 2003, we started the economic reforms that were later split into labor reform, educational reform and economic reform. I was the project manager for labor reform as early as 2004, and I continued to be the chief executive of the main government instrument for labor reform. When we started, it was the good days: oil prices were high, everybody was happy and making money. Yet, we had to fight our newly elected parliament. We drafted the very first bill to be written and passed by the new parliament: the labor reform bill.

We had to fight the businesses. We even had to fight the people. We wanted to create jobs, but the idea of changing whatever people were used to from the '70s and from the '60s was not so welcome. When we started to see yield results from our reforms, when we passed the bill and started to build institutions, it was mid-2008. By November 2008, the world economic crisis hit and we had to slow down. The businesses could not help us move along. In 2011, when the so-called Arab Spring hit, we had to slow down again because so much change can't be accommodated by the social, economic and political environment. Once we were back on track in 2014, oil prices went down.

Not only goodwill is necessary for reform. It needs to be helped by circumstances, and reformers need to be flexible and agile, thinking on their feet about how to deal with the changes that they cannot control. I believe that the reform initiatives in Saudi Arabia come at a very good time; people really believe it is needed. We were asked back when we started, why we were

doing it. Why do we need reform? Everything is doing well. We have very low unemployment. People are making money. But it's because of that, that we believed we needed reform.

Labor reform, as was pointed out by several of the speakers today, is very important. Bahrain is actually a good example here. Eighty-two percent of the labor force is imported — and we're actually better than others. It is important that the wealth stay in the country, to be reinvested in the country and back to the businesses. It's also about human rights. It's about humane working environments. And it's about being part of the twenty-first century. These are challenges to the social fabric, rather than just the economic fabric, that the Gulf will have to fight.

What's most important for us here in the United States is this: How can the U.S. economy and U.S. businesses avail themselves of this? Changes are not in your favor either. In Europe today, the euro is very cheap, but it was prohibitively expensive in the past, and people looked to the United States for technology and investment and aid in this transformation. Now you have to be careful. The European Union has a cheaper currency now, after the Brexit vote in the United Kingdom, and that will make them more attractive than they were before.

We also have to take a look at the reformists themselves. It's not just how much money we can make or how much business we can do, but how much support can we give these reformists. They're fighting an uphill battle. Before we start talking about what can we do, we need to look at how we can support these movements. As times continue to be bad, as revenue diminishes with lower oil prices, these guys are going to find themselves with fewer and fewer resources, and they'll need the economic and political, even moral, support.

Before I conclude, my area and business is in labor issues and labor reform. The ideas are very simple. The change in sponsorship or the influence of the kafala system is something that needs to be done. We started that many years ago and continue to chip away at it one piece at a

time. When we are talking about 52 percent of population and 82 percent of the labor force, you can't flip a switch and expect that everything is going to be all right. The sociopolitical ramifications are too dangerous. This is not a small number of people. It is more than half of the population.

Businesses that today are increasing costs at the urging of the World Bank and the IMF, removing subsidies and introducing taxes, did not have this in mind when they made their financial plans and their budgets, or when they entered into contracts. They will be affected. We also need to take that into account when we attempt to change their labor relations and the way they are dealing with their own workforce.

We started this, luckily enough, in 2008, and actually achieved quite a bit of what we were aiming to before it became difficult. But things need to be looked at from a holistic point of view, as well as in specific areas. We cannot change labor laws, taxation, the cost structure and the regulatory environment all at once and expect businesses to just adapt. If we are going to do so, we need to provide additional support — and not necessarily financial. We need to be understanding of what businesses are going through as a result of these.

THOMAS R. MATTAIR, Executive Director, Middle East Policy Council

Ambassador Fraker said toward the end of his remarks that it was very important for the United States to support the Saudi Vision 2030 Plan for the strategic relationship and the stability of the country. We heard that in the UAE, too. There's a tremendous amount of support there for the Saudi 2030 Vision Plan. Saudi stability is important to the stability of the Emirates and all the GCC countries.

Would anyone on the panel like to expand on that?

AMB. FRAKER: The position of Saudi Arabia is critically important for all of the countries in the region, and, therefore, critically important for the United States. The United States has a vested interest in stability and economic prosperity in the region as a whole. Given the regional threats that all the countries in the GCC are facing, with the overlay of the Iranian threat ever present, supporting reform in all its guises throughout the GCC, in my view, has to be a U.S. government imperative. If we're not seeing that as an imperative, then we're really missing a number of critical points, not just strategic-defense related but also the economic opportunities that will be presenting themselves. The old adage is, where there's change there's opportunity. We're seeing enormous change throughout the region, and that throws up many, many opportunities.

DR. HUSAIN: Obviously, Saudi Arabia being by far the largest economy has huge strategic importance. But there's another sort of strategic angle that one should consider: all the GCC countries need to take reforms that are common. For example, in energy pricing; in taxation, the value-added tax is one, but there are others as well, perhaps further down the road — labor laws and reforms and so forth.

Moves by any one country help facilitate such moves elsewhere. Moving together — I think Karen made this point as well — facilitates reform. The value-added tax is a completely new thing. Taxation generally is a new thing in the Gulf. The countries are finding it easier to move together rather than one at a time.

DR. MATTAIR: There is a set of questions that here have to do with popular support and the impact that these kinds of reforms will have on the society: who can be expected to support them, who can be expected to resist them. Beginning with Saudi Arabia, who might the so-called winners and losers be, or the supporters and the resisters? What kinds of changes will this involve for the social compact, and what kinds of political rights might be demanded? Ambassador Schmierer, Ambassador Fraker and I have traveled in the region and heard a lot of support inside Saudi Arabia for this plan. But can you elaborate on where the support comes from and who we need to win over in those societies?

AMB. FRAKER: The whole issue of social stability in the region gets discussed a lot. It was first discussed at length during the Arab Spring of 2011, when there was social upheaval in various countries in the Middle East. People looked at Saudi Arabia and said, obviously Saudi Arabia's next, only to find that that was not the case. One of the points I make about Saudi Arabia is that, as a culture and a society, it is unique. I talked about how strongly conservative it is as a society and a religion. And its families and tribes are all mechanisms for unification and stability, in the face of change.

I've been traveling as a businessman to Saudi Arabia for over 40 years; I go out there every month. What I hear is that the need for change and reform has been well-understood at many different levels, particularly in Saudi Arabia. Now they have a young, dynamic leader heading up this charge for reform and change. He has an enormously broad level of support, not just in the younger generation, where the joke was, finally we have a senior leader who's got a smartphone and knows how to send text messages. This was not the case in the old Saudi Arabia. You also have this desire for productive change and reform at the middle sector of business and the upper-

middle sectors in government — the SABICs, the Aramcos, the Saudi Electricity Companies, people who have worked with a bureaucracy and an administration that has been lugubrious at best. The need for change has been obvious for a long time.

There's a very broad measure of support for these kinds of changes. It's too soon to tell the impact on society. We won't know how that will play out for some period of time. But I'm encouraged by the fact that there is this broad level of support for the changes that are being proposed. The devil's in the details, obviously. Trying to identify winners and losers at this point is probably a task that we cannot achieve, but I'm optimistic. I feel there is a general groundswell of support for what the prince is trying to enact. The cynic would say, they don't have a choice. To be solely reliant on oil revenues, is not a viable economic model. So these reforms need to be implemented, and some of them, anyway, need to be successful. It will be a very interesting journey.

DR. MATTAIR: Some of the other vision plans have been underway for a while. Do we have anything to learn from the other countries?

DR. YOUNG: I would agree that there is broad support in Saudi Arabia for Vision 2030. But at the same time, I think we have the experience, of the first oil boom (1973 to 1986) to shed light on the impact, at least on the corporate sector. What happened in that period was that many contracting firms, construction firms, in Saudi Arabia went bankrupt. Right now, those firms are also under a lot of pressure. The plan depends on a huge amount of infrastructure investment, which will entail enlisting these firms. If they're all bankrupt in six, or 12 months, it's going to be really hard to build the things that are going to be needed for a new economy. That means

there's a lot of trust that's very dependent right now between the Saudi government and the private sector, especially contractors. They've been issued IOUs in many cases. How long they can last before the public-private partnerships happen, before more foreign direct investment comes into Saudi Arabia, I think is a very important question.

On the other hand, we have lots of data, very good cross-regional information and studies on what happens in periods of structural reforms. We know the thesis from the post-socialist experience on early winners. This was work by Joel Hellman that was very instructive. In privatization programs, it often is early winners, the people who benefit especially from major privatizations of state entities, who win a lot. The people who lose are often vulnerable communities — the elderly, or people who are not as employable.

What's interesting about the way the reform discourse is going forward in the Gulf right now is that there is the understanding that we all have to shoulder some of the weight. But it's also creating conversations about who the haves and have-nots are. If you don't have an income-tax structure, it's very hard to say, I didn't make much last year, so I deserve to keep my subsidy. But if you do have to report in some way about what you own and what you earn, it makes it easier for the government to make choices about maintaining some support for certain communities over others. I have some optimism that the tax discussion could actually be useful in a reform dialogue; it will help some people justify the need for the continuation of some subsidies.

AMB. FRAKER: The Saudi government had made it very clear that they have no intention of disadvantaging the disadvantaged as a result of this. The mechanics of how you identify the haves and the have-nots have not been worked out and will be an ongoing challenge. But the

social risk to any government of not paying attention to the have-nots in their society is too high to be ignored, and they won't ignore it.

DR. MATTAIR: Direct government assistance to people who need it and are impacted by the reduction in subsidies is in the plans in some of these countries. Karen, in one of your recent publications you noted that the Saudi Vision 2030 is more about government spending and investment than it is about savings and austerity. You talked about public-private partnerships and about foreign direct investment. But you're specifically speaking about Saudi Arabia. Can you take us through the other five countries and maybe compare them to the Saudis in terms of the importance of savings versus investment?

DR. YOUNG: I have said that this Saudi plan is very expensive. It requires a huge outlay of government spending, which has to be generated through privatization or through other people's money, which is possible. In the other Gulf states, I think there is a different track record in terms of existing public-private partnerships. The UAE is a very good example; one of the first PPPs (public-private partnerships) in the region was with the Abu Dhabi Electricity and Water Authority. There are models of different kinds of revenue generation — the Dubai toll road, Salik, is a great example of monetizing state assets.

There are ways to do this, and there is precedent in the Gulf. Dubai is probably the best example. Dubai doesn't subsidize electricity and water the way that even other Emirates inside the UAE do. So there are certainly success stories. Those governments that have built state-related entities that are very competitive and more meritocratic inside their own governing structures have the experience to be able to deal with the current situation. But you'll also see

that the Saudi government is very interested in looking at what its neighbors have done well. They are actively looking at models in the other Gulf states. This is an interesting moment in terms of GCC unity — looking at past successes, though not necessarily further institutional integration.

DR. HUSAIN: I can comment on the previous question about possible winners and losers in reform. Others, Karen in particular, have touched on some of the winners and losers. I just want to add that on subsidies, one of the notable things in very large energy-price increases across the region has been the lack of social consequences, at least so far. That's notable. I wonder if it's because we are seeing that subsidies on energy go mainly to the wealthy, who consume relatively larger amounts of energy and therefore benefit more from it. A cutback in those subsidies really hasn't been as much of a difficult social issue as some might have expected.

There's another sort of potential loser: public sector jobs are going to be far fewer than before. Those getting those public sector jobs, especially those who might not have the skills needed to get good jobs in the private sector, are clearly going to be waiting in a queue for a job for much longer. And I think there is a short-term consequence that the countries will need to absorb; good social safety nets will be important. Over the longer term, of course, if they are successful in generating diversification and higher productivity growth in the private sector — and also in ramping up education systems so that what the private sector needs is provided in terms of skill acquisition — then over the longer term, the winners will be precisely those who may not fare as well in the near term.

DR. MATTAIR: Have cuts in the public sector in Oman driven more nationals into the private sector there? And what can we learn from that?

DR. HUSAIN: I don't know the specifics of the reforms in Oman, but I do know that Oman has had a very large fiscal adjustment. A lot of it is in capital spending, including military spending, which was quite high in 2014 and even going into 2015. The cutback there has been quite large. In terms of cutting back public-sector job growth, it's true not just in Oman. I'm not sure that the numbers there are significantly worse than elsewhere.

DR. YOUNG: Oman has made the most significant cuts in the public-sector workforce, and in public-sector benefits. What used to be a very generous welfare state in Oman has been cut back considerably. But at the same time, there's been a bit of a push-pull. In November last year, the government actually said they were going to reinstate some of those people who lost their public-sector jobs. So there is pushback, though it is not necessarily what we would think of as violent protest in the streets. Oman has probably seen more visible reaction to the reform agenda than some other places.

DR. MATTAIR: There is a big effort in Oman to attract foreign direct investment and to promote their own exports. There are questions from the floor about the sectors of the economy that are most promising. For example, in Oman, you have the development of ports and free zones with manufacturing facilities and logistics centers and tourism. Tourism is also one of the sectors that is being considered in Saudi Arabia, along with mining.

A lot of people are asking, when we talk about diversification in these economies, when we talk about foreign direct investment, where are the best opportunities? Which are the industries that are most likely to flourish? You touched on how important that question is, and how important those decisions are for sparking broader economic growth and diversification. Maybe, Ed, you can talk a little more about the specific opportunities in Saudi Arabia, and maybe some of you can talk about the others. In Oman, the development of special economic zones and ports is very significant.

MR. BURTON: The McKinsey report, the bedrock of Vision 2030, identifies eight sectors, some of which have been mentioned. Mining is projected to create 500,000 jobs over the next 10 years. Saudis spend less than 3 percent of their disposable income on entertainment in Saudi Arabia. But you have the deputy crown prince going to Disney and courting Six Flags. For a deeply religious society like Saudi Arabia, to see that in the headlines is truly impressive.

Going back to the point that Karen and Ambassador Fraker were making in terms of the private sector, I don't doubt, but I question, the long-term commitment that the private sector will have to the government's plans. Without the private sector, it's going to be tough sledding for the government to accomplish what it wants to do. When you look at household income for Saudis, and private-sector wages, it's now about 19 percent. The goal under Vision 2030 is to move that to 58 percent. How they move 40 percent of GDP contribution from the private sector, bumping up against the 70 percent that they want, flipping the economy basically — you can't do that without private-sector involvement. You have all these big Saudi corporations, family-owned businesses that have global assets all over the world. Convincing them to bring some of

that capital back home to spend and take a lot of the assets off government books onto their own, is a big challenge.

The stage is set for the small- and medium-sized (SME) business community and entrepreneurship in the kingdom to really take a great leap. You see SMEs contributing 20 percent to GDP and the government wanting to move that to 40 percent — the international norm is 70 percent. When you see the government spending money and creating the Small and Medium-Sized Enterprise Authority, similar to our SBA--the government in Saudi Arabia not having set asides-- I think the stage is set, if the government follows through with its plans, to really bolster that sector. That can contribute a lot to what the government wants to do. So they could be big winners.

DR. MATTAIR: Ed, you mentioned eight sectors. One that you did not mention is higher education. But there are plans to privatize education as well, are there not?

MR. BURTON: That's been a challenge. Certainly, higher education in Saudi Arabia has been an easier road for American institutions, K-12 less so. Ambassador Smith knows this very well; he paid a lot of attention to education. It was a passion of his — higher education and work that the universities are doing. It's not something that is mentioned in the McKinsey report, not to say that they're not targeting it for privatization.

DR. YOUNG: I'm not very optimistic about mining. I think the half-million jobs are not going to be done by Saudis. But there are a lot of opportunities, especially in health care. This could be a very good sector in which women could enter the workforce, if they were willing to take jobs

as nurses or as hospital technicians. That would be a way for people without advanced degrees to find work.

Across the Gulf, in the UAE, we're seeing big concentration on "fintech", financial services. There is a very underserved population in all the GCC states, people who want to access different kinds of credit, different kinds of ways of investing. So private wealth management and those kinds of things, but even basic banking, is one growth sector. Retail is one that I think is an easy entry point.

It does seem that some of the rules on foreign ownership have been loosening, which for a foreign investor is very positive thing. But if we think about the success of the state-led economic development model across the Gulf, it was the requirement that in order to have a business inside a Gulf state you needed a local partner. That was a way a lot of wealth was generated and distributed among the population, just that simple rule. If that rule is no longer in place or deteriorates, it's great for foreign investors, but it could have some side effects for locals.

DR. MATTAIR: The UAE actually has two vision plans. There's the 2021 Vision enunciated by Dubai's ruler, and an Abu Dhabi 2030 vision. Can you compare and contrast them?

DR. YOUNG: The UAE has always had very independent Emirates, and they have their own economic-development models. Dubai and Abu Dhabi, of course, have very different ways of doing business and ways of diversification. That's not new. I think there's a certain learning pattern that's happening between them; they rely on each other. I think there are strong

relationships. But Abu Dhabi is the seat of the federal government and the public sector is very important. It's more of a challenge to encourage the private sector there.

There's also the problem across the Gulf of these kinds of duplication of efforts. We don't need five financial centers in the GCC. It doesn't make a lot of sense to have a financial center in Abu Dhabi and one just up the road in Dubai. I think there's going to be a bit of working out to do in terms of strategy and priority of diversification goals.