



THE DITCHLEY FOUNDATION

CAN SAUDI ARABIA LEAD THE GULF TO A KNOWLEDGE ECONOMY AND A SUSTAINABLE AND STABLE FUTURE?

18-20 May 2017

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Saudi Arabia's Vision for 2030 envisages a transformation from an economy dominated by petrochemicals to one with a more diversified portfolio and a strong emphasis on technology, defence and knowledge industries. This is not the first ambitious plan launched in the Gulf but there are signs of new seriousness and urgency on implementation. The stakes are higher than ever before. How can we support Saudi Arabia and the Gulf in their transition to more balanced economies? What are the risks to stability if the transformation succeeds and if it doesn't? Can the Gulf become a source of global growth after oil, rather than of renewed instability?

Most commentators expect the oil price to spike occasionally but to remain lower for longer than in previous times – it is shale that is the game changer with climate change concerns building on this. Saudi is determined to get its oil out of the ground first and to take market share from more expensive producers. Nonetheless, Saudi is having to dig into its reserves and is now taking tentative measures on austerity and tax in order to reduce the rate of depletion. Meanwhile, Prince Muhammad Bin Salman's announcement of a partnership with the Japanese company Softbank on a \$100 billion technology investment fund indicates determination to become a major player in the tech economy and a willingness to take investment risks in pursuit of high returns. Could this produce a situation where Saudi Arabia becomes committed to following through on its transformation? Or is the announcement of the death of the oil-based economy premature?

Saudi Arabia and the other Gulf states have significant advantages in pursuing a knowledge economy but also some serious barriers to overcome. The young population, high uptake of social media and ubiquitous adoption of smart phones shows a country connected to the Internet in every sense, primed for the rapid diffusion of innovations and with a strong platform for informal education. Unlike western countries there is not a pervasive liberal arts bias to overcome in responding to the technological revolution. The country is still awash with wealth which could be directed to create new companies. There are plenty of Gulf students at prestigious universities across the world. Saudi higher education is improving and this is a major objective of the 2030 plan.

That said a lot of education remains mediocre to poor. The role of women is still very constrained. Socially conservative codes may constrain innovation. The 2030 plan is largely silent on democratic reform, although consultation is emphasised and this may also constrain Saudi Arabia's ability to develop as a knowledge economy. Can Saudi forge real ties with the Burning Man culture of Silicon Valley or will the social and religious divide preclude that? Are there other potential partners? This question is set against a context where increasingly there are two broadly successful modes of capitalism, U.S.-led liberal democratic capitalism and China-led authoritarian capitalism.

It is impossible to judge Saudi Arabia and the Gulf's opportunities separately from the prospects for national security and regional stability. Can Saudi Arabia reinvent its economy whilst fighting proxy wars against Iran in Syria and Yemen? How will Saudi Arabia respond to the Trump presidency and its renewed interest in an alliance against terror and Iran alike? Will greater *realpolitik* from President Trump encourage Saudi Arabia to be bold in pursuing transformation, or will this allow more conservative voices to have sway and reduce the urgency for change?

The same youth and connectivity that makes Saudi ripe for innovation offers routes to radicalisation, particularly as the economic screw tightens. Can economic transformation provide sufficient jobs and prospects for Saudi's new generations to counter Da'ash's romantic appeal to young and frustrated Muslims? How does the power of the Saudi security apparatus, for which we in the West probably have cause to be grateful, impact on the prospects for an innovative knowledge economy?