

Development Plans and Visions in the Arab Gulf countries. What is the likelihood that they will be implemented?

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News

All of the GCC states have published development plans and visions over the last decade. While GCC states have carried out formal development planning since the mid-1970s, current planning in these countries is mostly of the “new-style,” which establishes visions, sets aims and identifies priorities, while leaving room for actors within both the public and private sectors to pursue development aims in a flexible manner. The idea is to promote cumulative change in the chosen direction; as such, it departs from the “old type” of comprehensive planning, where detailed lists of investments and projects were implemented in order to meet developmental targets (Hvidt 2012, p. 192).

The focus of this paper is on whether or not the planning undertaken in the capital rich Arab Gulf states translates into real life, or stated differently, what is the likelihood that the plans are successfully implemented?

Summary

If one views the pace of growth in the cities in the Gulf region, there is little doubt that physical planning takes place and is being implemented. Roads, airports, water supply etc. are being planned and implemented. However, planning is much more than physical planning. It also entails economic and social planning, which – given the current level of development - poses very different and more complex challenges. How, for instance does one plan for structural transformations of societies from being oil-based to an economy with a diversified income base? How does one plan and implement large scale reforms within the labor market or in educational sector, to achieve long term developmental goals?

Key Words

Planning, Visions, consultancy firms

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Analysis:

The current development plans published by the governments of the Gulf region seem to be in near total agreement when it comes to their analyses of the barriers to the future development of the GCC societies:

First among the barriers is the rapid depletion or technical obsolescence of hydrocarbon reserves. The second is fluctuating prices in oil, affecting the performance of the GCC economies. Third is the inability of the current economic model to create sufficient income and not least a sufficient number of the right kind of jobs for rapidly growing and increasingly well-educated national populations. Fourth is a combination of the above – future difficulties in securing high living standards for the national population, since the governments in all the GCC states lack the financial means to act as the sole sponsor of the vast welfare societies they have established over the last half century. A fifth and final barrier to growth, explicitly or implicitly noted in the plans, involves “motivational and capability” problems related to the national workforce. It is understood that “nationals” are neither motivated nor capable (despite increasing education levels) of taking jobs outside the protected environment of the public sector. As carefully described in the *Bahraini 2030 plan*, nationals are not “the preferred choice” for employers in the private sector (Government of Bahrain 2008, p. 7). Likewise, the *Kuwait Vision 2035* calls for reform of the education system to “better prepare youth to become competitive and productive member[s] of the workforce” (Government of Kuwait 2017). All plans address these five issues and aim to bring larger shares of their national populations into high-knowledge-content jobs in the future.¹

Diversifying the economy away from dependence on oil and gas is seen as a means to solve these problems. The term diversification is rarely defined in these plans, but is understood both as further processing of natural gas and crude oil (e.g. petrochemicals) or utilization of gas and crude as input in production processes (e.g. for aluminum smelting) or that the revenues from the hydrocarbon sector are used as stimulus for growth of non-oil related manufacturing and particularly service industries. Diversification is also closely linked to the expansion of the private sector. Oman and Bahrain signal urgency in accomplishing the diversification process, due to their small and rapidly dwindling oil reserves. Kuwait, Qatar and the UAE, on the other hand, are more moderate in their call for the speed of the process, while Qatar with its vast gas

¹ See also *The Vision Kuwait 2030*, which summarizes the planning goals in previous Kuwaiti plans (Tony Blair Associates 2009, pp. 40–1)

reserves and long-term gas supply contracts deliberately aims for a “slow” diversification process. The Saudi Vision 2030 expresses urgency in the transformation process spurred primarily by the challenge of job creation.

In these plans, diversification is to be achieved through a three-step approach: first, the highest priority in countries with sizable hydrocarbon reserves is to diversify into oil and gas related activities, e.g. by using crude oil or gas output either to produce downstream products such as LNG, petrochemicals, fertilizers and chemicals (Saudi Arabia, Abu Dhabi, Oman); or to use it as cheap fuel in energy-intensive industries such as aluminum or steel production (Bahrain, UAE). Both strategies aim to reap a larger part of the value addition associated with their endowment.

The second step is to seek further diversification within sectors or activities in which each country has already been successful: such as banking or raw aluminum processing in Bahrain; logistics, ports and the trade sector in Dubai; the trade sector in Kuwait; and the LPG industry and steel mills in Oman.

The third step is the effort to introduce new sectors, industries or activities that hold high growth potential. Not surprisingly, the choice of such activities are those high growth sectors of the globalized economy, e.g. aviation, tourism/hospitality, real estate, logistics, business services, manufacturing and “high-technology-content products” like smart or green technologies. The massive investment in airports, aircraft and flight service facilities by the likes of Etihad (Abu Dhabi), Emirates (Dubai), and Qatar Airways (Qatar) are examples of such investments. The *Saudi Vision 2030* takes the diversification process a step further, by planning to sell off five percent of Aramco and place the proceeds from the sale in its Public Investment Fund (PIF), which will then act as investor in productive businesses in Saudi Arabia (50% domestic, 50% foreign investments). The IPO, however, has been delayed, and it is uncertain if and when it will happen.

Will the aims and visions of these development plans be implemented?

Development plans mirror the historical epoch in which they are created and are therefore a reflection of dominant ideas and ideologies, the global financial situation and, more broadly, perceived threats and possibilities. Furthermore, plans are political documents, which signal the intentions of a leadership to its citizens, potential investors, financial analysts and the international community. The current plans in the GCC

countries originate from an historical context of neo-liberalism, free trade and globalization.²

Below follows a number of considerations concerning the likelihood that these development plans and visions will form the “future growth trajectory” of the GCC states.

In order to transform plans into practice, first, state planning requires reliable data reflecting the structure and dynamics of society. Second, it requires capable institutions to draft plans and more importantly, implement them. Implementation necessitates that planning authorities have delegated powers to oversee or intervene in decision-making in the relevant ministries. This might be less of a problem for specific reforms which fall within the portfolio of just one ministry, whereas implementation is much more challenging for broad economic, financial, regulatory or social reforms such as the fiscal or labor market reforms within the current plans. Such reforms are exceedingly complex and span several ministries and actors at various institutional levels and thus necessitate political agreement and commitment at the top level, but also willingness and the capacity to implement the reforms at the state, regional and local levels.

While the capacity to conduct planning and implementation has been strengthened in recent decades, and varies among the countries in the region, the GCC states generally possess a weak administrative and regulatory capacity that is primarily geared at solving immediate demands and *ad hoc* crises. This situation arises partly out of young bureaucracies that lack administrative traditions for appropriate implementation; e.g. a lack of willingness to share data among entities.

An additional structural problem with regard to planning arises from the fact that state bureaucracies have largely been shaped by the task of distributing oil wealth, which among other things, implies that taxation has not taken place, which in turn significantly weakens the breadth and depth of the data and information that each government processes about its people and society.

A final factor which challenges the proposed reforms is that it has a direct impact on people’s lives. Cutting back or reforming government services, privileges or pensions and exposing the population to higher levels of uncertainty in the job market are difficult for any government, but especially for the GCC governments due to the notion of the social contract between the state and the citizens.

² The GCC countries widely use international consultancy firms in plan preparation (Hvidt 2018b; Ulrichsen 2016; Consultancy.uk 2016).

To tackle the problems in Saudi Arabia King Salman, after assuming the throne in 2015, established a new centralized body to oversee economic planning and development, namely the Council of Economic and Development Affairs, which has 20 ministries as members and is headed by Crown prince Muhammed Bin Salman. Whether this council can in fact solve the coordination problems among the ministerial “fiefdoms” of Saudi Arabia is unknown. Other attempts in the region to create strong units for the implementation of plans are the Economic Development Board (EDB) in Bahrain and the Departments of Economic Development (DED) in Abu Dhabi, Dubai and other emirates in UAE. A recent survey of Gulf experts sums up the above understanding as follows:

There was [...] broad consensus among experts that political and economic support and institutional capacity are key to successful policy reform, but that gaps in governance structures and the difficulty in dislodging entrenched vested interests may have a diluting effect on the rollout of specific measures (Ulrichsen 2018, 11)

If recent experiences of the implementation of plans and visions in the GCC can be a guide to the future, then there are reasons to believe that development plans will suffer both delays and derailment.

First, the reactions to the Arab uprisings in 2011 showed that in time of crisis, *ad hoc* measures take precedence over plans. Even more seriously, governments not only abandoned their long-heralded policies of diversification and private-sector-led development, but implemented measures that directly contradicted them, such as increasing salaries and creating jobs on a large scale in the public sector (Hvidt 2013, p. 43).

Secondly, as expected, it has proved difficult to undertake painful cut backs or reforms which have negative consequences for the population. In 2016, Crown Prince Mohammad bin Salman announced his Vision 2030 and on October 1 of this year he cut public sector salaries by 20–30 percent and reduced benefits, etc. in order to weather the effects of the 2014 oil price collapse. However, already in April 2017, these reforms were revoked, allegedly due to better economic conditions caused by higher oil revenues. By mid-October 2018, the remaining public sector allowances were reinstated (Young 2018a).

Third, on the positive side, all governments in the region have successfully removed subsidies on fuel, electricity and water and in Saudi Arabia and the UAE implemented a VAT of five percent. These are noteworthy achievements that testify to the acceptance

by the population in the region of such changes, at least as long as they hold limited economic consequences.

However, the aim of diversification through strengthening of the private sector continues to be the most notorious example of a failure to solve an urgent policy problem. The likely reason is the pervasive government hold over the economy. In all the GCC states, the state remains the driver of the economy through its substantial development budget and ownership of firms, while the private sector operates in a niche position where the state has chosen not to invest, e.g. in trading, retail, or construction (Hvidt 2013, 37). This provides overwhelming incentives for the private sector to focus on doing business with the government, and to become service providers to consumers – in other words, an economy where the private sector is not incentivized to engage in production (World Bank 2017, p. 2).

There are no indications in current development plans that this state dominance of the economy will significantly decrease. If the private sector comes to play a more vibrant role in the economy in the future, this presupposes that the public sector is willing to retreat and thus leave room for the private sector to develop (Young 2018b, p. 3).

A final issue related to planning implementation is that both private sector growth and public sector privatization are closely linked to the availability of FDI. The current issues related to the Qatar crisis and the war in Yemen, and not least the Khashoggi case, are expected to negatively affect the availability of FDI for the region.

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