Saudi prince vows Thatcherite revolution and escape from oil

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25 APRIL 2016 • 8:26PM

Prince Mohammad bin Salman is the tornado determined to break Saudi addiction to oil CREDIT: BLOOMBERG

Saudi Arabia has launched a radical ‘Thatcherite’ shake-up to an avert economic crisis and prepare the kingdom for the post-carbon world, stunning analysts with claims that it could break reliance on oil within just four years.

Prince Mohammad bin Salman, the country’s de facto ruler, vowed to build a $3 trillion wealth fund and break onto the world stage as an investment superpower, the spearhead of an historic package of measures intended to bring the deformed economy kicking and screaming into the 21st Century.

“We have an addiction to oil. This is dangerous. I think that by 2020 we can live without it,” he told Al Arabiya television.

It is an extraordinary claim for a government that has historically relied on oil exports for 90pc of its income and has yet to achieve much success in building alternative industries. Gulf veterans say his words should be understood as poetic licence.

Brent crude is bouncing around $45 per barrel CREDIT: BLOOMBERG

Prince Mohammad, a 31 year-old tornado determined to smash the status quo, has amassed immense power over the economy and defence that belies his title as deputy crown prince, filling the cabinet with modern technocrats and startling his sinecure cousins from the Al Saud family with the unfamiliar prospect of hard work.

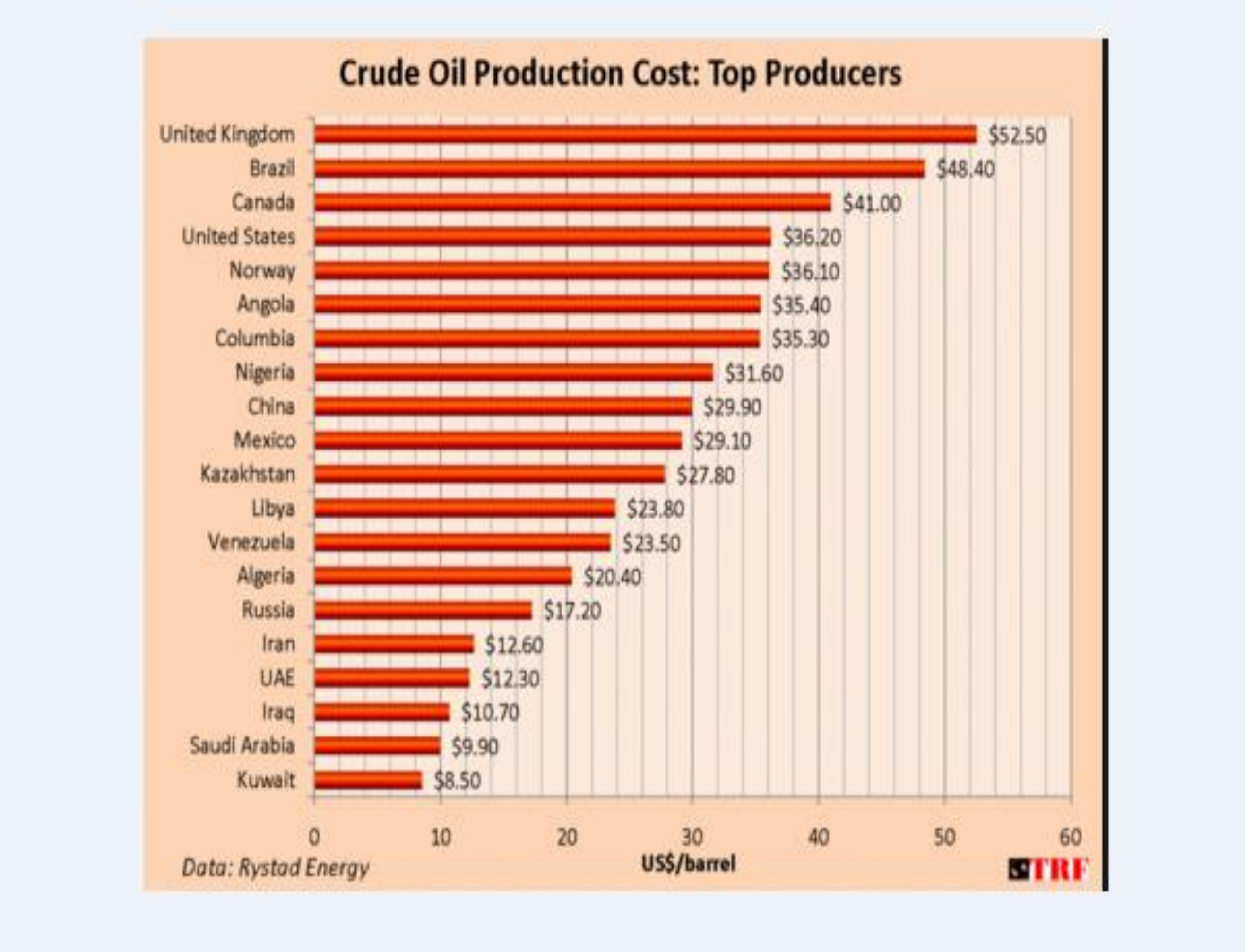
The plan known as “Vision2030” aims to slash $80bn of wasteful spending each year and impose some degree of order on the kingdom’s chaotic finances with a consumption tax and fresh levies.

Water prices have already risen tenfold as subsidies are paired back, though this prompted a protest storm on Twitter and is a warning of how hard it will be to dismantle the cradle-to-grave welfare system that keeps a lid on dissent. Petrol has jumped 50pc, but it still costs just 16 pence a litre.

Female participation in the workforce will rise from 22pc to 30pc. The share of non-oil exports is to jump from 16pc to 50pc. The country is to build its own defence industry. “We have the third or fourth-largest military spending in the world, yet our army is ranked in the twenties,” he said.

“When I enter a Saudi military base, the floor is tiled with marble, and the finishing is five stars. Enter a base in the US, you can see the pipes in the ceiling. It’s made of cement. It is practical,” he said.

The reform blueprint is inspired by a McKinsey study – Beyond Oil – that laid out how the country can double GDP over the next fifteen years and reinvent itself with a $4 trillion of investment across eight industries, from electrical manufacturing, to cars, healthcare, metals, steel , aluminium smelting, solar power, and most surprisingly tourism. McKinsey warned that half-hearted reform risks disaster, and bankruptcy.



Saudi Arabia has one of the lowest production costs in the world

There is some logic to the Vision2030 plan given Saudi Arabia's access to cheap energy. Delivery is another matter. "We have seen these sorts of transition plans before and they never come to much," said Patrick Dennis from Oxford Economics.

"I don't think they can pull this off. The riyal peg is grossly overvalued and that makes it even harder. We think market pressures will become overwhelming if there is little evidence of real reform by 2018."

Under the plan, Riyadh will sell up to 5pc of the state oil giant Aramco to global investors, and convert the secretive behemoth into a modern company with transparent accounts.

He valued the group at $2 trillion but this figure is plucked out of thin air. Investment funds have demanded a steep discount before buying into partial privatisations of this sort in Russia and other petro-states with a weak rule-of-law, fearing that they may be held hostage to politics.

The aim is to transfer the proceeds into the country's sovereign wealth fund, using the money to diversify into global investments. These will generate a non-energy income in the future along the lines of the Norwegian petroleum fund.

It is unclear how this Saudi fund can plausibly reach $3 trillion unless oil rises back above $100 a barrel, and stays there for a long time. The country is currently depleting its foreign exchange reserves by $10bn a month to cover a budget deficit still near 15pc of GDP, drawing down its overseas wealth to fund its military build-up, a war in Yemen and life-support for Egypt, as well as paying state salaries.

The Saudis may have left it too late to break oil dependency in time, especially as renewable energy reaches parity and the COP21 climate accords signal a move to worldwide carbon pricing. India is already examining plans to switch its entire transport system to electric power

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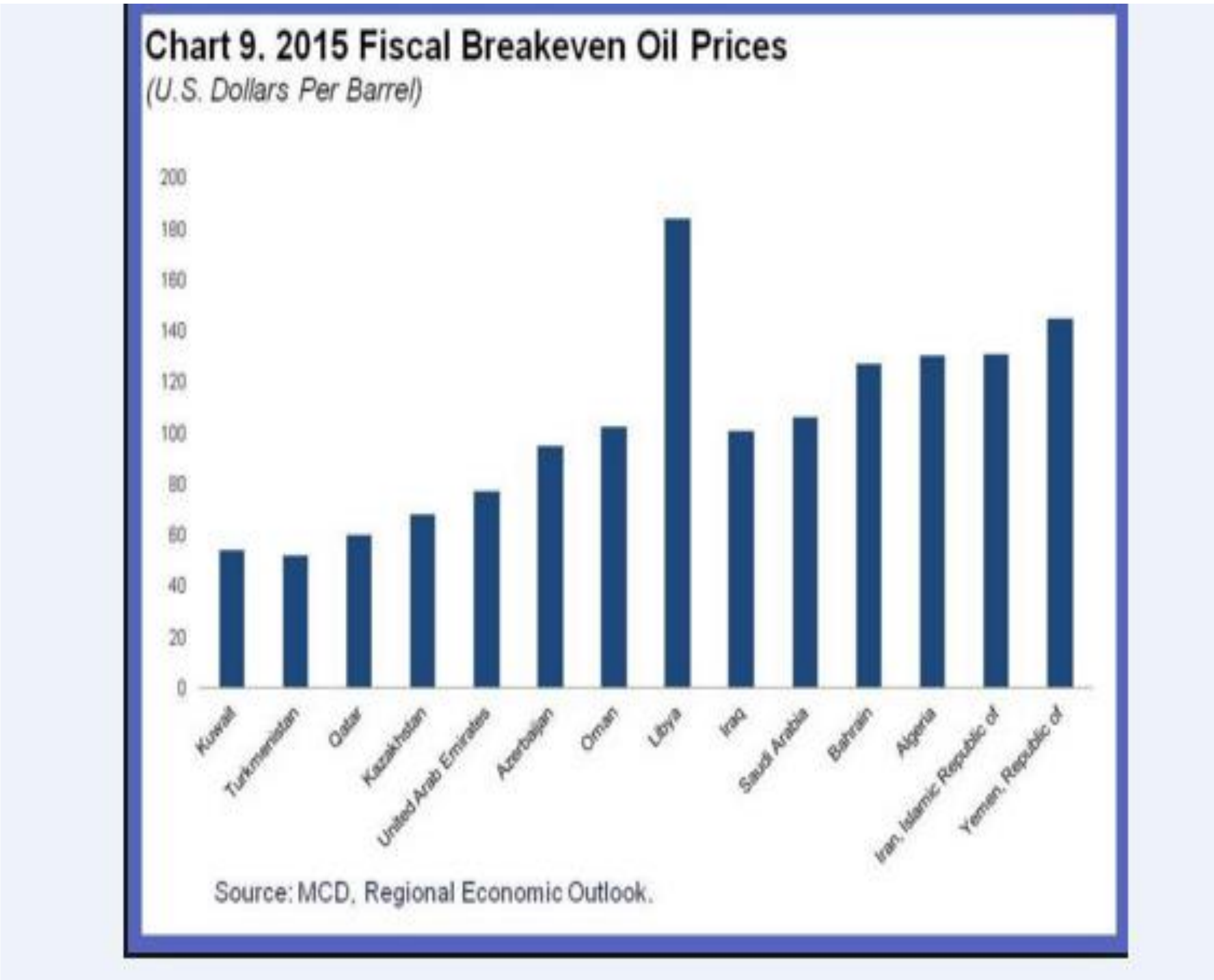

But Saudi Arabia needs $100 oil to balance the budget. That is it Achilles Heel

The kingdom squandered the commodity windfall from 2002-2012, wasting billions on white elephants such as the King Abdullah Financial District, a ghost city of empty skyscrapers that now haunts the desert like a monument to Ozymandias.

A study by the International Monetary Fund found that it is “very difficult” for commodity producers to escape the ‘resource curse’ and diversify. The few success stories – Mexico, Chile, Malaysia – did so by taking radical action long ago in the good times.

The parlous state of Saudi finances was made clear in a recent Bloomberg interview in Riyadh when the prince’s economic guru, Mohammed al-Sheikh, said the country had been losing $30bn of reserves a month the first half of last year and would have gone “completely broke” by early 2017 without drastic austerity measures.

Mr al-Sheikh admitted that he was “on the verge of a nervous breakdown”. This grim reality was carefully screened from the world last year. The question is whether it is really any better now.