The Fate Of Saudi's Vision 2030 Rests On Aramco IPO

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It has been two months since Prince Mohammed Bin Salman's ascendance to the role of heir to the Saudi Arabian throne, and **the preliminary effects of his aggressive economic diversification and anti-Iran platforms are beginning to show.**

The influence of Bin Salman (widely known as MBS) on foreign policy can most readily be seen in Iraq, where Iranian support for the war against the Islamic State has carved out a special niche for Tehran. While Riyadh had been preoccupied with battling Shiite Houthi rebels in Yemen, Ayatollah Ali Khamenei and the Iranian government strengthened their commitment to a unified Iraq, free from ISIS and free from the threat of an independent Kurdistan.

But now the tides are changing [5]. Emirati and Saudi politicians are making their rounds in Baghdad, rekindling old Gulf ties that have suffered since dictator Saddam Hussain invaded Kuwait in the 90s. Riyadh announced the inauguration of a new embassy in Najaf and sponsored Iraqi Sadrist leader Muqtada al-Sadr's visits to the Arabian Peninsula, leading Iranian news sites to condemn the tours as a betrayal to the Yemeni people.

Sadr, who leads a Shiite movement that receives a majority of its support from the lowest rungs of Iraq's socioeconomic ladder, also recently visited Egypt - a country allied with the KSA in its ongoing row against Qatar. Doha has been ostracized by its Gulf allies due to its close ties to Tehran in light of the gargantuan South Pars gas field, which it shares with Iran thanks to an unfortunate coincidence of geography.

But at home, it's all about money, and all about oil revenues.

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Domestically [7], revenues from non-oil services and goods dropped in the second quarter of 2017, but the policy trend overall favors its growth.

Oil revenues for Riyadh grew in the same period due to a new wave of crude production in the KSA. **The monarchist regime turns measuredly more protectionist as U.S. shale production and exports continue to rise.**

> *"Non-oil revenues are somewhat lower year-on-year in the first half of 2017 but should increase materially starting from 2018 onwards as fiscal reforms kick in," said economist Jean-Michel Saliba in a Merrill Lynch note.*

Non-oil revenue for the KSA is due to jump by $21.3 billion by 2018 because of the enforcement of a value-added tax (VAT) on luxury products and new fees on immigrant laborers who have brought their family members along from their home countries. Already, a lower tax on soft drinks and tobacco products has caused Riyadh's revenues to lurk upwards in hot summer months.

By 2020, Bin Salman expects non-oil revenues to rise by $100 billion - a sizeable jump, considering Riyadh forecasted [8] a total of $128 billion in oil profits for the government over the course of 2017.

MBS' Vision 2030 plans depend on an extra couple hundred billion dollars from the Saudi Aramco initial public offering (IPO) in 2018. The IPO, the largest of its kind in financial history, would make just a five percent portion of the oil giant accessible to private investors. Still, **the volume of the company's assets guarantee MBS the capital he needs to retrain the Saudi work force, develop a services sector and tone down the influence of the fossil fuel interests.**

Oil prices have fluctuated in recent months and MBS has so far not been able to leverage his political savvy to use OPEC to stabilize world oil markets. This is not to say that fixing barrel rates is his responsibility per se, but the future monarch does pretty much dominate the cartel, which controls 40 percent of the world's total oil production.

Overall, the crown prince's control of the Saudi image in the Middle East has become clear over the past 60 days of his official title change.

The KSA also seems to be on track to meet its non-oil revenues benchmark for 2020, meaning MBS has a lot to be proud of already. But the future of his hallmark Vision 2030 plan rests in the success of the Aramco IPO. The final determinant of its success depends on market conditions the moment the company goes public.

So far, Brent rates hovering around $50 do Riyadh no good.

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