The Stalling Visions of the Gulf: The Case of Saudi Arabia's Vision 2030

by Frédéric G. Schneider

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Brief Analysis

Saudi Arabia's Vision 2030 repeats old mistakes of relying heavily on new megaprojects and ignoring regional advantages in research and education.

When Saudi Arabia's Mohammed bin Salman gave an update on Vision 2030 in an interview last month, his optimism was substantially more muted than at its unveiling five years ago. This is hardly surprising to anybody who is familiar with the Gulf's Visions. Vision 2030 is hardly the kingdom's first attempt at economic transition, nor is it in any way unique in the region. Every GCC member country has a plan how to wean its economy off rentier paradigm based on fossil fuel wealth.

As a representative example, Vision 2030 offers a case study of the dynamics and weaknesses of Visions in the Gulf. While offering a spectacular façade, they tend to deliver few tangible economic results. Productivity in the Gulf is flagging, unemployment and government deficits are becoming endemic. If the region wants to stick the landing in the post-oil world, it needs to abandon its futile quest for megaprojects, immense military spending, and the focus on low-productivity, high-volatility industries like tourism. It must instead lean into its regional competitive advantage in higher education and research.

"Visions" proliferate in the GCC: the UAE has its "Vision 2021," Qatar a "National Vision 2030," Kuwait a "Vision 2035," and Oman a "Vision 2040." Saudi Arabia's Vision shares the hallmarks of all the other Visions of economic planning and industrial and labor policy. The goals are a diversified economy with a focus on trade, "world-class health care and education" to give "youths the skills for the jobs of the future," and a business-friendly environment to attract foreign direct investment and entrepreneurs. Like other Visions, it plans to diversify into tourism and high-tech industries, touching on hot topics, from AI to cryptocurrencies and climate change, all with an eye on sustainability and the environment. As we will see, the Saudi Vision not only shares the goals and policies of the other Visions, it also faces similar ensuing problems, only on a larger scale.

In good Vision tradition, spectacular infrastructure announcements form the core of the program. Chief among these megaprojects is NEOM, a gargantuan planned city larger than all of Kuwait, with a special economic zone that is supposed to focus on biotech, robotics, and green energy. The plan also includes "The Line," a 170km long city within NEOM for 1 million inhabitants.

It should come as no surprise, though, that NEOM is quickly becoming a city of salt, just like many other such megaprojects. Like its regional rivals, Saudi Arabia already has a history of abandoned megaprojects that primarily serve as just another grave for billions of infrastructure investments: 2006's "Economic Cities Program," a predecessor to the current Vision, was meant to house 4.5 million inhabitants by 2020 and to diversify the economy. But the projects have since stalled and today, the program's flagship, "King Abdullah Economic City" ("KAEC"), has just 4,000 inhabitants.

To some extent, this lack of success is the product of the usual overenthusiastic top-down planning with a penchant for PR stunts—NEOM is supposed to have flying taxis and some sort of artificial moon. But in the Saudi case, political turmoil adds to the uncertainty: NEOM was marred by the murder of Washington Post journalist Jamal Khashoggi and the eviction of a Bedouin tribe for the project. Similarly, work on the Jeddah Tower skyscraper has been on hold for four years now as its key backers have been imprisoned since Mohammed bin Salman's "anti-corruption" purges.

Beyond these scandals, foreign investment is also concerned with the country's ultraconservative climate, which, despite recent reforms, remains the most restrictive in the region. For example, the skyscrapers in the King Abdullah Financial District—the Saudi answer to Dubai's successful International Financial Centre—remain largely vacant, in part due to Riyadh just not being attractive to Westerners. One of the rumored remedies for the problem is that the Saudi government will allow alcohol consumption to attract foreign bankers. It already recently rescinded the bans on cinemas and Valentine's Day.

Restrictions like these also plague the country's tourism sector. Religious pilgrimage still dominates this industry, and the kingdom wants to leverage this by bundling pilgrimage with vacationing. Since 2019, the government has also been issuing visas to "secular" tourists and announced grand plans for ultra-luxury resorts like the AMAALA, another Vision 2030 project. These tourism areas, complete with separate airports, will be conveniently secluded from the eyes of the Saudi population and likely have relaxed social regulations regarding gender mixing, clothing, entertainment, and alcohol. This tentative and selective social reform, however, puts the Saudi government between a rock and a hard place, as continued relaxations of these norms, or a one-country-two-systems solution, will inevitably alienate the more conservative parts of the population, stir discontent and drive a wedge into society.

The conservative norms have also made it difficult to attract the foreign workforce needed for its economic transformation. The government is trying to better attract and retain foreign laborers. It recently relaxing its *kafala* (work sponsorship) system, which prevents migrant workers from, among other things, opening bank accounts, changing jobs, or leaving the country without permission of their *kafeel* (sponsor). At the same time, the *tawteen* ("nationalization" policies, locally called "Saudization" or *nitaqat*) policies show little effect to stem the "youth bulge" – 67% of the population are below the age of 35 and youth unemployment is at 29%.

Beyond domestic issues, Saudi Arabia is running up against stiff economic competition in the GCC, including in areas like megaprojects, finance, and tourism, with the main rival being the UAE. As mentioned above, Riyadh is trying to displace Dubai as the region's finance hub. Another telling example is Saudi Arabia's Jeddah Tower, which aimed to surpass the Burj Khalifa as the world's tallest building. The beginning of construction in Jeddah was soon followed by work on the Dubai Creek Tower, a secretive project of unknown final height and remarkably little usable space. Dubai Creek Tower was put on hold shortly after Jeddah Tower and seems to only serve as the city's ace up the sleeve in order to deny Jeddah's world record attempt and keep the title of the "world's tallest building" in Dubai.

Another episode in this rivalry is a new Saudi announcement to restrict government contracts to businesses without regional headquarters in Riyadh, Dammam, or Jeddah—notably, neither NEOM nor KAEC are mentioned. Commentators see the move as a heavy-handed or even desperate attempt to force the relocation of business from the UAE to the kingdom.

Whether this latest jab will become reality remains to be seen, but it highlights another problem that is endemic in the region. Economists often refer to this issue as institutional uncertainty or policy volatility, which is characterized by sudden, vague government announcements that are not backed up by actual policies. When policies do appear, their implementation and enforcement are erratic and often dependent on *wasta* (connections and nepotism). This lack of transparency and consistency is unattractive to international business and constitutes a crucial reason why special economic zones are popular in the region: they provide foreign companies a legal and judicial sanctuary from institutional uncertainty.

The above problems and rivalries are by no means confined to Saudi Arabia. Comatose megaprojects, for example, exist in Kuwait with *Madinat al-Hareer* ("Silk City"), a dormant megaproject featuring a 1,001m skyscraper and a 36km bridge, and between Qatar and Bahrain with *Jisr al-Mahaba* ("Friendship Bridge"), an abandoned plan for a 40km causeway. Besides plans for tall buildings and long bridges, the GCC is also littered with large, headline-grabbing soft-power events and institutions, the hosting of which is the region's rulers' favorite pastime. Examples include global sports events, international branch campuses, and 'starchitect'-designed museums.

And regional competition is just the beginning. By moving from fossil fuels to high-tech, the Gulf will transform from big fish in a shrinking pond to small fish in an expanding pond: the GCC will have to measure up against global competitors like South Korea, which has about the same GDP and population, along with 14 companies in the Fortune Global 500 – including tech leaders Samsung and LG, and automotive giants Hyundai and Kia. The Gulf, meanwhile, has only one company on that list: Saudi Aramco, the state-owned oil corporation.

Anxious to survive in the regional and global free-for-all, GCC governments are throwing escalating amounts of oil money into the balance. Saudi Arabia, the biggest spender, announced another investment program of $1.3 trillion until 2030. But money is not enough if it ends up spent in the same old kind of failed policies. Each Gulf country needs to lean into its unique selling proposition. This could mean nature and culture tourism for Oman, or financial niche products such as Islamic banking and takaful (Islamic insurance) for Bahrain. Saudi Arabia has the highest-ranked universities of the region such as King Abdulaziz University in Jeddah and King Fahd University in Dharan. This is a great chance for a true knowledge-based economy if the government addresses the two main issues that hold back higher education, science, and research in the region: it needs to increase funding, for example by redirecting funds from the massive Saudi military budget, which devours 8% of GDP. And it needs to embark on true educational reform, especially increasing academic freedom.

The most fundamental ingredient for prosperity, though, remains good governance and good institutions. As long as the region suffers from a lack of transparency and consistency in its policies, there is little hope for durable progress. The GCC must get serious with institutional reform by "building an effective, transparent, accountable and high-performing government." Such reforms, if undertaken earnestly, would be attractive for foreign businesses. Saudi Arabia's VAT increase from a 5% to a 15% last year—although MbS has promised this measure will be temporary—may well prove not be the last tax hike, and giving citizens institutional reform in return would make the bitter pill of taxes and austerity more palatable.

Mohammed bin Salman got it right when he declared that the Gulf must strive to be the " the new Europe." Norway, for example, is one of the few countries to cope with so-called "Dutch disease" (overreliance on a single economic sector) through the country's strong productivity, with some of the world's highest GDP per capita and welfare standards. But if Saudi Arabia wants to avoid disaster, Mohammed bin Salman's next interview must be different: instead of spending on improbable vanity megaprojects and the military in the face of growing fiscal constraints and a regional rat race, the focus needs to shift towards the kingdom's competitive advantage, education and research. The trust of international business needs to be re-won through less institutional and political uncertainty, and more transparency and accountability. The biggest challenge remains the softening of ultraconservative social norms without alienating conservative citizens. ❖

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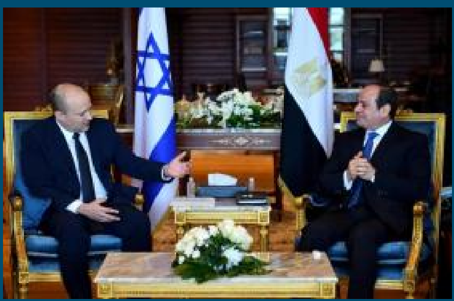

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