



MENA ECONOMICS UPDATE

Neom: is Saudi Arabia about to repeat past mistakes?

- **Plans announced today by the Saudi government to construct a huge new economic city, called Neom, have grabbed the headlines but the Kingdom has poor form when it comes to implementing mega-projects. Moreover, it may divert policymakers' attention away from implementing economic reforms.**
- Earlier today, the Saudi government launched the Future Investment Initiative conference in Riyadh. The conference has been labelled as a "coming-out" party for the Kingdom's sovereign wealth fund, the Public Investment Fund (PIF). It includes speeches from a number of high-profile Saudi policymakers, including Crown Prince Mohammed bin Salman, architect of the Vision 2030 reform plans.
- During the conference, the government announced a number of new initiatives. **The headline grabber, though, was the construction of a new economic city called "Neom"**. The city will be built in the north of Saudi Arabia, alongside the Red Sea and the Gulf of Aqaba and will encapsulate land in Jordan and Egypt. It is expected to cover 26,500km², about the same size as Rwanda or Macedonia. "Neom" is expected to receive US\$500bn of funding from the PIF, as well as local and international investors, and will operate as an independent economic zone, with its own laws, taxes and regulations. The government hopes that "Neom" will support efforts to diversify the Saudi economy away from oil.
- **While the plans sound impressive, there are several reasons to think that "Neom" will struggle to achieve its goals.** For one thing, the first phase is not expected to be completed until at least 2025 so it will be some time before companies and people will be able to reside there. In any case, there are question marks over its location – it will be built in previously uninhabited land that is likely to include parts of the Sinai Peninsula, where the Egyptian army has been fighting militant groups for many years.
- **Perhaps most importantly, though, Saudi Arabia has a patchy record when it comes to fulfilling mega-projects.** For example, the King Abdullah Economic City (KAEC) near Jeddah has faced repeated delays and has already been through four masterplans. On completion, the city was expected to have as many as two million residents but at present only around 5,000 people live there permanently.
- The Saudi authorities expected KAEC to rival Dubai as a trading hub. However, shipping statistics show that there are just 11 ships currently in port at KAEC, compared with 54 at Dubai's Jebel Ali. The troubles that have blighted KAEC are evident in other mega-projects, such as the King Abdullah Financial District as well as a host other economic cities that were announced by King Abdullah in 2005.
- **In addition, the Saudi government risks diverting attention away from its previously-announced economic reforms.** If anything, it would have been better for the government to expand on these. After all, there are still several key areas where Vision 2030 falls short, including reform of the education system, efforts to close the wage gap between Saudi and migrant workers, and improvements to the business environment. (For more, see our *Focus*, "Saudi Vision 2030 likely to fall of lofty goals", 27th June.)
- **Aside from the plans for Neom, the conference also saw policymakers provide details on the PIF's current and future assets holdings.** According to CEO, Yasir al-Rumayyan, the fund currently has around US\$230bn of assets under management and this is expected to grow to US\$2trn by 2030. The bulk of this rise is likely to take place once ownership of Aramco has been transferred from the government. **Crucially, Mr. al-Rumayyan said that around 25% of the PIF's holdings will be of international assets by 2025. This will be key when assessing the financial buffers available to the authorities to support the dollar peg.**



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