Saudia’s Economic Transformation Eyes Riyadh’s Regional Dominance

With Saudi Arabia’s ‘Vision 2030’ already in full motion, it has become increasingly clear that the purpose of this massive and multi-billion dollar economic transformation plan is not just to transform and diversify Saudia’s oil-dependent economy; rather a cardinal objective of this plan is to restore Saudia Arabia’s central position within the Gulf/Arab world. Until the UAE’s emergence as the regional hub of trade, finance and economics, Saudi Arabia could sufficiently rely on its unique position as the centre of the Muslim word without having to worry too much about economic factors. However, the emergence of Dubai and its rapid economic transformation leading to the eventual rise of the UAE as a regional power-house has left Saudia Arabi with not enough resources to maintain its central position. Crown prince Muhammad bin Salman’s ‘Vision 2030’, therefore, has a geo-political dimension that aims to make Saudi Arabia the regional centre of trade and economic activity, rivalling and potentially displacing Dubai. The plan is already leaving its mark on Saudia’s position in the region as well as its ties with the UAE.

For instance, a few months ago when Saudi Arabia announced its plan, the so-called “Programme HQ”, to end contracts with foreign companies whose regional headquarters were not located in the Kingdom, effective January 2024, it sent a shockwave across the Gulf, particularly in the UAE leading its former Finance Chief Nasser al-Shaikh to describe the move against the principal of single Gulf market. While it remains to be seen the extent to which the Saudis can actually use compulsion to turn Riyadh into the centre of regional trade and economic activity, it is already clear that a number of companies do have massive business stakes in the Kingdom, and many of them would ultimately register in Riyadh using probably different names to maintain presence in both the UAE and Saudi Arabia.
A number of multinational companies have agreed to set up their headquarters in Saudia. In January 2021, PepsiCo, French oilfield services company Schlumberger and Canadian fast food company Tim Hortons announced that they were moving their regional headquarters to Riyadh. In the announcement, a total 24 multinationals cited economic potential as the reason for setting up regional headquarters. Bechtel, for example, recently won the mandate to project-manage building “The Line”, a futuristic 170km city strip planned in Neom, the crown prince’s most adventurous domestic development.

Besides using compulsion as a tactic, the Kingdom is further incentivising its offer for these companies. Along with the ultimatum of January 2024, Saudi Arabia is offering companies that set up regional headquarters in Riyadh zero corporate tax for 50 years, a waiver on mandatory quotes to employ Saudis for at least 10 years and potential favouring in government entities’ tenders and contracts, according to a brochure issued by Invest Saudi, the country’s investment brand overseen by the Ministry of Investment.

These incentives clearly indicate that Saudia’s immediate goals do not include the imperative of creating more jobs for the Saudis; rather it aims to turn Riyadh into the regional centre of major economic activity as a means to re-establish itself as a major power, a status that has been damaged not only due to the rise of other regional powers, including the UAE, but also by Saudia’s self-destructive war in Yemen.

At the same time, plans are also afoot to modernise Saudia Arabia’s own red-sea ports to rival Dubai. In this behalf, Saudia’s Red Sea Gateway Terminal (RSGT), backed by the Public Investment Fund (PIF), the kingdom’s sovereign wealth fund, said it was targeting ports in the Middle East and North Africa that would service vital Saudi imports such as those related to food security. RSGT said that it was planning to invest in at least three international ports, with each investment totalling at least US$500 million. It also confirmed the kingdom’s intentions to spend up to US$1.7 billion to expand its main port in Jeddah on the Red Sea, as well as investing in other Saudi ports.

It is in line with the said cardinal objective of turning Riyadh as the regional hub that the Kingdom has also started to push for hosting the 2030 football world cup. To accomplish its goal, Saudi Arabia has hired Boston Consulting Group to analyze how it could land the quadrennial tournament — one of the most watched events in sports — only eight years after Qatar will become the first country in the Middle East to stage the event.

If Saudia’s push to force companies to establish headquarters in Riyadh pits it against the UAE, its push to hold a soccer world cup highlights its efforts to neutralise Qatar’s (which is another Saudi rival) regional dominance as a power broker in the game.

Targeting Turkey, another Saudi rival, Saudi has also started to establish strong ties with Greece, a Turkish rival in the Mediterranean. Besides a Saudi procurement of Patriot defense systems from Greece, both countries have agreed to develop a new “cultural partnership” as well, which will help uplift the existing trade relationship - of nearly $1 billion - to include the exchange of cultural goods, services and skills.

And as far as direct Saudi economic and political presence in the Gulf is concerned, the Kingdom gave it a major boost recently, with Saudia’ sovereign Public Investment Fund set to become an anchor investor in a new US$800m Gulf infrastructure fund set up by Aberdeen Standard Investments and Investcorp.

While this is evident that a major part of Saudia’s economic transformation plan is directed towards restoring Saudia as a dominant geo-economic player in the Middle East and North Africa, it is an open question as to the exact degree to which it can really displace the UAE (Dubai and Abu Dhabi) as commercial hubs. Besides the fact that Saudi Arabia has some significant structural constrains - relatively poor living standards than Dubai, for instance - it is logical to expect the UAE to throw fresh incentives to the multinational companies to lure them into staying in Dubai. On top of it is the rising security threats out of the on-going war in Yemen and the confirmed ability of the Houthis to target Saudi cities, including the capital.

In other words, before the Saudis can attract or browbeat multinational companies into shifting to Riyadh and Jeddah, the Kingdom will have to settle a number of political, social, economic and military matters. In the absence of a suitable environment, Saudi moves to modernise and re-establish their dominance could backfire.

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