Special Report on Future Economic Cities of Saudi Arabia

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Introduction

The Kingdom of Saudi Arabia (KSA) is one of the most influential actors in the Middle East. It has enjoyed a relatively stable political climate and benefited substantially from its vast oil resources. Under the leadership of octogenarian King Abdullah bin Abdel-Azziz al-Saud, the KSA has cautiously initiated a reform program. The Gulf State also seeks to use the KSA's recent World Trade Organization (WTO) membership in December 2005 and its efforts to strengthen the Cooperation Council of the Arab states of the Gulf (GCC) to make itself a regional leader.

The Kingdom also faces a number of significant political challenges. King Abdullah has struggled to defend his limited liberal reform program from conservatives in the royal family and from religious leaders, the Kingdom's Ulema. At the same time, he has been criticized by liberal business elites and Saudi Shiites for not doing enough. In the wake of the September 11, 2001 attacks, the King has worked with moderate members of the Ulema to limit forces of radicalism within the Kingdom. This has included a campaign against al-Qaeda that since 2003 has successfully reduced the group's influence in KSA. However, the underlying sources of political strain in the Kingdom have not been addressed.

The KSA is also rife with socio-political tension. Per capita Gross Domestic Product (GDP) has remained low (see Figure 1). The oil industry is primarily controlled by the royal family through its ownership of 100% of shares in Saudi Aramco, the company responsible for a majority of oil production in the Kingdom. (Saudi Aramco 2007) As such, the distribution of wealth in the KSA has remained imbalanced. Unemployment rates in the KSA are high; almost 13% of Saudi males are unemployed and females enjoy much higher rate. In addition, a significant number of jobs are held by foreign laborers, who are better trained and better educated. (Economist Intelligence Unit 2006b: 21) According to the latest studies, only 58% of all Saudis enroll in primary education and only 51% enroll in secondary education. This rate is significantly lower that that of the United Arab Emirates (UAE), which has 87% and 67% enrollment respectively. Many Saudis lack the necessary job skills to compete with foreign laborers when they leave school. (Economist Intelligence Unit 2006b: 23) The Kingdom's unemployment problems could worsen as much of the population is under the age of 20 and will be entering the workforce over the next decade. These economic conditions have bred discontent, fueling violence and radicalism within the KSA. There have been several attacks on foreigners and foreign assets in recent years. Since the 1990s, many Saudis have interpreted the al-Saud family's political control of the government and the economic inequality as similar to the social injustices experienced in pre-Islamic society. Jihad is seen by some as a means to attain justice and equality. This unrest is most prominent in the eastern region of the KSA, which has the largest concentration of Shia Muslims. By conservative estimates, Shia Muslims make up 4% of the population, but are the majority in some eastern areas. Shiites have never been fully integrated into Sunni society and are particularly keen on securing political reform quickly.

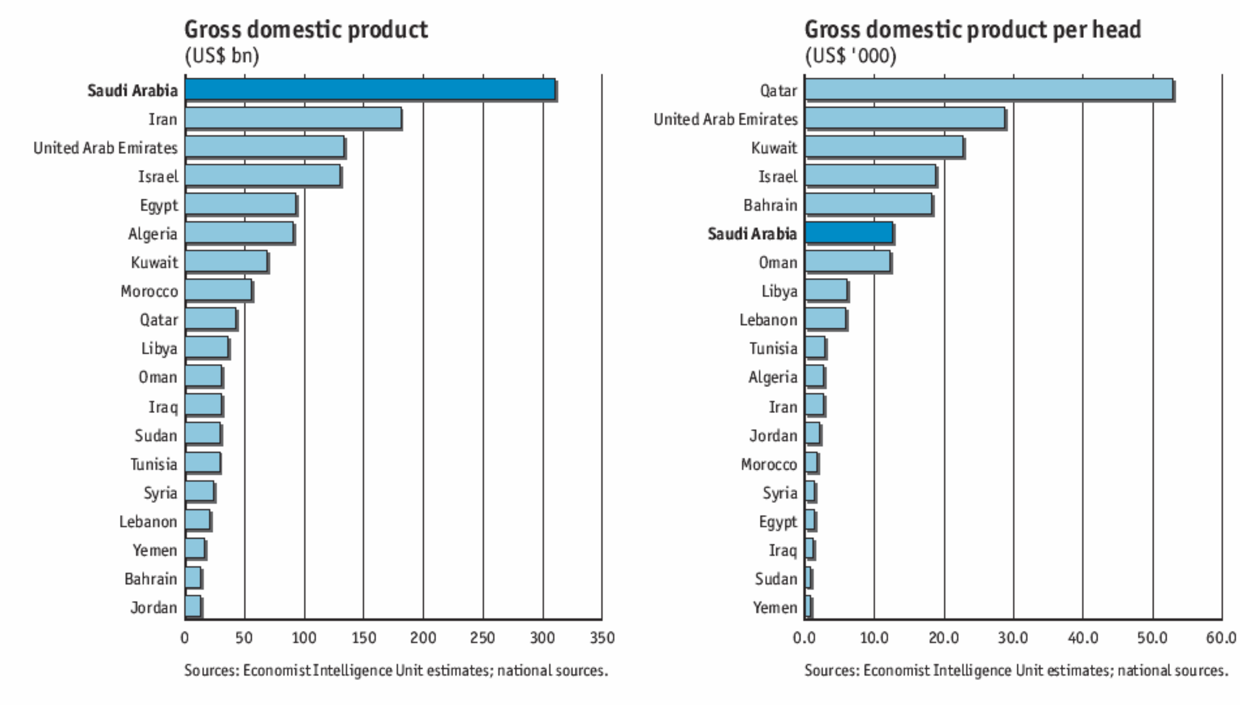

Fig. 1: GDP v. GDP per Capita

Since the mid 1990s, the Kingdom's GDP has varied considerably because Saudi economic strength is tied to the price of oil. Low oil prices in the late 1990s negatively impacted the KSA's economy. However, the post-9/11 oils shocks and the aftermath of the 2003 US-led invasion of Iraq have bolstered the Saudi economy and government revenues in 2003. Revenues have continued to rise in the last few years. Total GDP increased an average of 5.5% between 2003 and 2005, although it had only increased by 1.2% over the two previous years. In 2005, fiscal revenue reached an all time high of $148 billion. (Economist Intelligence Unit 2006a: 3) Although this economic boost will persist as long as oil prices are high, the increased pressure worldwide to develop and use more alternative energy sources to address global warming and climate change, as well as the low oil prices in the late 1990s has highlighted the risks associated with the Kingdom's economic dependence on the oil industry and demonstrated a need for economic diversification.

Economic Environment

Despite the KSA's political and social challenge and its need for economic reform, the short term economic outlook remains positive. In 2005, Saudi Arabia had a GDP of 306.8 billion US dollars. This was well over $100 billion more than any neighboring country. Additionally, the percentage growth in GDP was at 6.5%, up from 5.2% in 2004. These numbers are attributed to oil prices. However, the KSA's GDP per capita in 2005 was only $12,606. This compares poorly with the United Arab Emirates (UAE) which has a GDP per capita of $25,643 and Qatar with a GDP per capita of over $50,000 (Economist Intelligence Unit, 2006b, pp. iv & 30). This basic trend is likely to persist as long as oil prices remain high and the Kingdom's economy remains tied to oil.

Oil exports

	2001	2002	2003	2004	2005
Oil exports ('000 b/d)	7,118	6,278	7,623	7,739	8,153
Crude oil	6,036	5,285	6,468[a]	6,500[a]	6,853[a]
Refined products	1,082	994	1,155[a]	1,239[a]	1,300[a]
Crude oil export price (US$/b; av)	23.15	24.32	27.69[a]	34.53[a]	50.63[a]
Oil export receipts, incl refined (US$ m)[a]	60,139	54,439	75,259	93,360	144,615

[a] Economist Intelligence Unit estimates.

Sources: Saudi Arabian Monetary Agency, *Annual Report*; International Energy Agency; Economist Intelligence Unit.

Fig. 2: Increase in Oil Revenue

Oil production has on average accounted for 45% of GDP and 85% of government revenue (see figure 2) (Central Intelligence Agency, 2007). With roughly 25% of the world's oil reserves, the Kingdom has predicted that it will be able to continue production at present rates for 86 years, unless more oil reserves are found. The KSA has taken the lead in OPEC's efforts to limit oil supply and maintain a firm price floor of $50 a barrel. Natural gas also plays a large part in the KSA's economy. Furthermore, the Kingdom has many mineral resources such as steal, aluminum, bauxite, phosphates minerals and gold. However these resources have been neglected because they are located in remote regions. The Kingdom agriculture sector makes up only 3.3% of GDP and is conditioned by the region's natural limitations, specifically fresh water resources.

In 2005, despite an inflation rate that was low compared to many of the other countries in the Middle East, the KSA's overall inflation rate jumped from 0.7% to 2.9% as a result of the high price of oil, an increase in demand for the riyal and a decline in the value of the dollar to which the riyal is pegged. This increase in prices occurred mostly in the areas of food and rents, resulting in a disproportionate increase in cost of living (see figure 3). This served to further highlight the income disparity in the KSA between the rich and the poor. The prices of basic goods and the cost of living may decrease in the future because of continued government subsidizes, but these prices are not likely to drop below 2% (Economist Intelligence Unit, 2007, pg. 11).

Cost of living index for all cities
(1999=100; % change, year on year)

	2006 Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2007 Jan
Food & beverages	4.2	5.3	5.0	4.7	4.6	5.4	5.0	6.3	6.5	6.8	6.6	9.4
Fabrics, clothing & footwear	-0.9	-0.9	-0.2	0.2	-0.1	-0.9	-1.0	-0.6	-0.3	-0.3	-1.0	-1.7
Renovation, rent, fuel & water	-1.2	-0.6	1.1	0.7	1.2	1.5	1.3	1.3	1.8	2.3	3.1	3.5
Home furniture	0.5	-0.2	-0.2	0.0	-0.2	-0.1	-0.2	-0.3	1.4	1.1	1.1	0.8
Medical care	0.4	0.4	0.5	0.5	0.5	2.0	2.2	2.2	2.1	2.2	2.3	2.1
Transport & telecommunication	0.3	0.7	0.5	5.7	-5.3	-4.7	-5.0	-4.7	-5.3	-5.4	-5.2	-8.5
Education & entertainment	0.4	0.6	0.5	0.3	0.3	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1
Other expenses & services	4.1	5.4	5.5	12.2	10.2	9.7	8.8	8.4	8.6	8.6	8.6	7.0
General Index	1.6	2.4	2.4	2.2	2.1	2.2	1.6	2.5	2.7	2.8	2.9	3.0

Sources: Saudi Arabian Monetary Agency; Central Department of Statistics.

Fig. 3: Increase in the Cost of Living between 2006 and 2007

The Saudi unemployment rate has remained high in the last few years while the number of non-nationals, especially male non-nationals has grown. As of 2004, the KSA's population was 23.95 million people, 27% of which were foreigners. The Kingdom's current workforce is estimated to be roughly 4 million, and unemployment is estimated at 13%. This translates to well over 400,000 unemployed Saudi males. Additionally, it is estimated that at least 100,000 men will enter the workforce every year over the next decade. This crisis has led to a policy of "Saudisation" in which the government has sought to reduce the number of non-nationals living in the Kingdom from 27% to 20% over the next ten years and to transfer their jobs to Saudis. The government has begun to require that 75% of all employees in a company's workforce be Saudi nationals, unless given an exemption, and certain basic retail trades have been restricted to nationals only. The government has also begun to curtail the number of new visas being issued while pursuing those people who over-stay their visa authorization. Finally, there have been several new regulations introduced that require primary schools to teach job skills classes so that Saudis will have the necessary skills to become gainfully employed when they finish their primary education.

It is estimated at least 100,000 men will enter the workforce every year over the next decade

The decreases in the price of oil in the late 90s demonstrated the need for economic reform in the KSA. The government has taken many steps to diversify its economy and promote private business both foreign and domestic. In April of 2000, the KSA created the Saudi Arabian General Investment Authority (SAGIA). SAGIA's mandate was to act as an intermediary between the KSA government and foreign businesses and pass laws that would make the KSA a more desirable place to conduct international trade. SAGIA has made it possible for foreign companies to have up to 100% ownership in a Saudi business, with some exceptions, and it has decreased tax rates on foreign companies from 45% to 20% (SAGIA, 2005). It has recently reduced the startup time for domestic business from 51 days to 15 for private businesses and from 120 to only 30 days for foreign businesses. The amount of capital required to start a business has also been greatly reduced (The World Bank, 2007). These steps increased the number of business licenses distributed by SAGIA and generated a greater level of private sector investment in new businesses and helped create more jobs.

The Kingdom's stock market, the Tadawul, had regularly out performed other major stock markets since it was opened up to foreign investment in 1999 until February 2006, when the prices plummeted (see figure 4). However it has remained one of the largest stock exchanges in the Arab world and has continued to attract foreign investment. The KSA has also loosened control over some of the businesses that were previously restricted to national participation after the Kingdom joined the WTO in 2005. While a number of sectors remain off limits, including the tourist industry, it is possible that more sectors will become available in the future. In 2006, the KSA was ranked as having the sixth best business environment in the Middle East and North African countries, including Turkey (Economist Intelligence Unit, 2006c).

Fig. 4: Tadawul Performance

Finally, the Kingdom has taken other steps to try and diversify its economy. It has begun to more actively pursue mining and steel manufacturing. The government owned mining company Maaden was created to develop projects that will exploit the Kingdom's mineral resources. In early 2007, the government instituted new measures in order to construct industry and business clusters in the kingdom. In particular, the government wants to establish four new business clusters that will focus on automotive manufacturing, construction, appliances and packaging. It is hoped that these clusters will also attract more foreign investment.

Overall, the Saudi economy is performing well and the government is seriously pursuing liberal market reform, but the strain from the poor GDP per capita, unemployment, poor distribution of wealth and current reliance on the oil industry could cause problems in the future.

The Six New Economic Cities

In order to further diversify the Kingdom's economy and to combat the poor distribution of wealth and unemployment, the Kingdom of Saudi Arabia has set a goal referred to as the "10 x 10" program, by which it seeks to become one of the world's top 10 globally competitive investment destinations by 2010. This effort is best illustrated in the development of a series of new "economic cities" that the Kingdom has announced over the past two years. According to SAGIA, the first four of these cities are expected to attract investments worth more than 300 billion Saudi Arabia riyals (SR), or 80 billion dollars, and create more than a million jobs within the next 10 to 20 years. In 2005 the King Abdullah Economic City in Rabigh was launched. SAGIA launched three more integrated economic cities in 2006, one each in Hail, Madinah and Jazan. An effort is underway to establish two more economic cities, one in Tabuk and one in the Kingdom's eastern region in 2007.

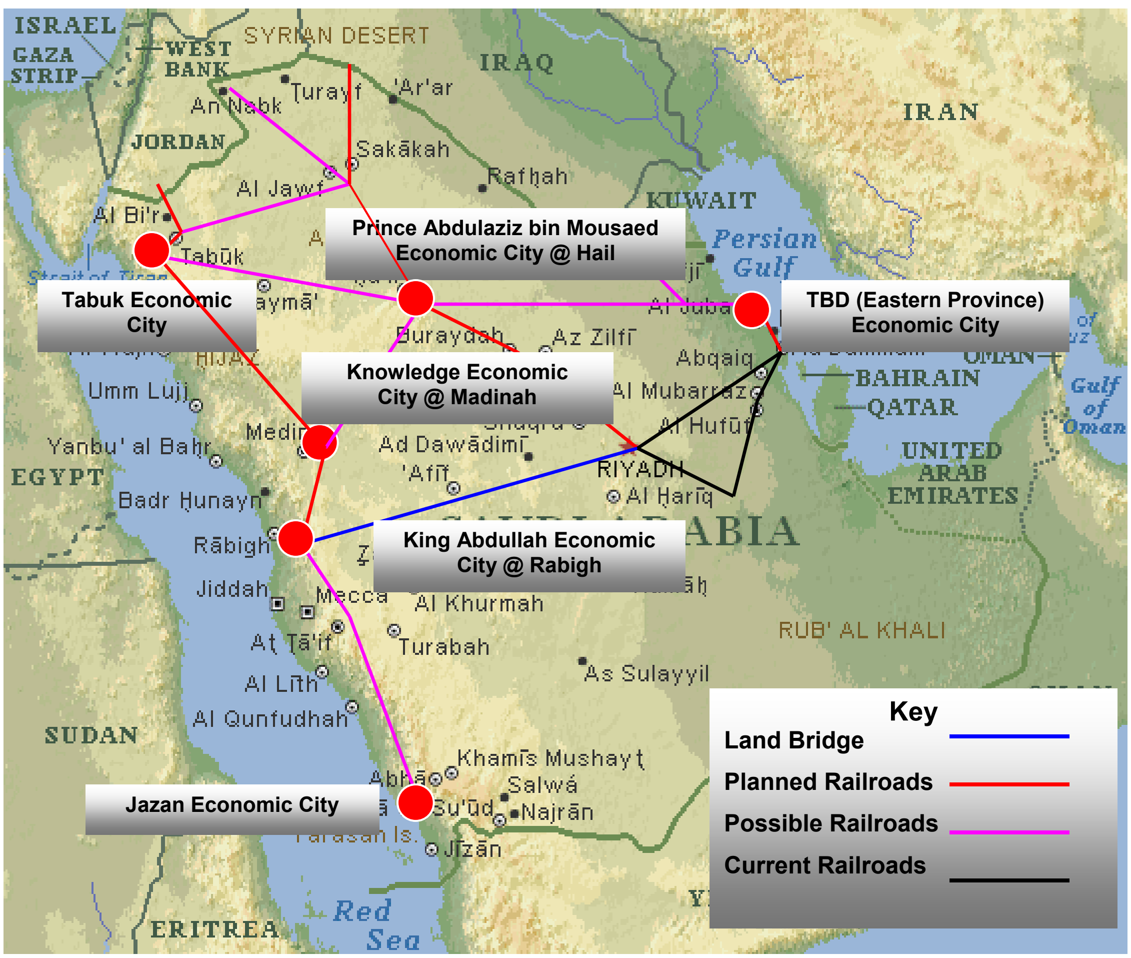

Fig. 5: Economic City Plan

King Abdullah Economic City, Rabigh

In 2005, the first city announced was King Abdullah Economic City (KAEC). The KAEC is a multi-billion riyal project located along the Red Sea, around 50km north of Jeddah. While the proposed city is fairly small in area (approximately 168 km²), it features important and sizeable buildings and skyscrapers. The seaport will have a capacity of over 10mn 20-foot equivalent unit (TEU) containers per year—which is significantly higher than all other regional ports. There are plans to construct Hajj Terminal to serve pilgrims are their way to Islam's holy sites. Additionally the city will feature an integrated international airport and railway line connecting other major cities in KSA, especially Jeddah, Mecca and Madinah. This will include a direct rail line to Dammam on the Eastern Gulf Coast, which will significantly reduce the transportation time of goods. The project cost is estimated at about 100 billon SR ($26.6 billion), which would indicate that the initial 300 billion SR budgeted for the entire series of cities is likely to increase.

The project is jointly partnered by Emaar, a Dubai based joint stock real estate development firm, with a team of international consultants including RSP architects (Singapore), Parsons, SOM, WATG, Cansult and OPM. Emaar has worked to shape the city's design including resorts, hotels, marinas, a financial island, university campuses, as well as industrial and port zones. As compared to initial planning, Emaar has modified the KAEC master plan and made substantial additions to its six major components, which are;

- The Port
- Industrial District
- Central Business District (including commercial and retail centers and a financial island)
- Resorts
- Educational Zone
- Residential (including Corniche and souks)

The Industrial District has been specifically designed to encourage local entrepreneurs through incubator-like modules. International experts have been consulted to ensure that the Industrial Zone development is in line with the best environmental practices. The Central Business District (CBD) will offer 3.8 sq. miles of office space, hotels and mixed-use commercial space. The Financial District, within the CBD, will be the largest regional center for banks, investment houses and insurance groups. The retail district will house over 50,000 shops and a hospitality zone with more than 120 hotels and 25,000 rooms. SAGIA plans to establish a specialized plastic industry infrastructure, or "plastic valley," at the KAEC. To achieve this, it has recently raised the profile of the Saudi plastic industry and provided incentives for businesses to invest in the project.

To make the KAEC a cultural center and a desirable place to live, 550 mosques including several grand mosques, will be built in the residential zones. The KAEC will have an estimated 250,000 apartments and 25,000 villas. Several schools will be constructed to meet the educational needs of the children in each community in addition to a university campus capable of teaching 18,000 students. A 45,000 seat sports stadium will also be developed.

The construction of this economic city will help generate more employment opportunities for Saudis, enhance foreign direct investment and boost the Kingdom's economy. Following its expansion by Emaar, the project has the potential to generate one million jobs for Saudi citizens and will serve as home to two million residents. The jobs created will be in industrial and light industries (330,000), research and development (150,000), business and office (200,000), services (115,000), hospitality (60,000), and education and community services (145,000).

In short, this city will serve as a major center of industry, business and education. The port's location on the Red Sea places it in a vital strategic and economic position to facilitate regional trade with both the Middle East and Africa. The development of a specialized plastic city should stimulate significant economic diversification and regional trade. The port and modern business district should attract foreign investment and provide a place for the creation of new businesses, both foreign and domestic. The city's location on the Red Sea and the large resort project should also attract a large number of tourists. These factors should lead to the development of numerous business opportunities for corporation and private entrepreneurs.

Prince Abdulaziz bin Mousaed Economic City, Hail

The second in the series of economic cities is the Prince Abdulaziz bin Mousaed Economic City (PABMEC) located in Hail. Hail already serves as the crossroads for all trade and transportation routes for the Middle East, this strategic location is instrumental for a city that is described as being the link between the East and the West. Hail is one of the Kingdom's most attractive regions in terms of economic growth potential and investment opportunities. The region offers a strategic location, moderate climate, well-established agricultural sector, and potential exploitation of a large amount of mineral resources.

With a 30 billion riyal ($8 billion) investment project already underway, the city will cover an area of over 150 million square meters, and incorporate a cluster-based development scheme with 12 distinct components for trade and services in sectors such as agriculture and food processing, mining, petrochemicals, education, housing and entertainment. Hail's existing foundation in agriculture accounts for 70 percent of the region's employment and produces 90 percent of the corn, 33 percent of the potatoes, and 31 percent of the barley in the Kingdom. Total annual production is in excess of 800,000 tons. This region has an enormous potential for expansion in the area of pre-packaged foods and other agricultural-related industries.

Fig. 6: PABMEC Master Plan

In the area of transportation, logistics and supply chains, an international airport is expected to capture 3 million passengers per year, while a railway station will cater to some 2 million passengers annually. Dry ports and operation centers will be capable of handling over 1.5 million tons of cargo annually. Major new highways and railroads are being constructed to link the Kingdom, via Hail, with Jordan, Iraq and Kuwait, as well as other cities in the KSA like Madinah, Dammam, Jeddah and Riyadh. Additionally, a SR1.8 billion water distribution center will be created to supply Hail and the surrounding villages with water and make more efficient use of the regions limited water supply, thereby improving agricultural capacity.

The city will house the Center of Agriculture Industries and Services, which promises to transform the region into a mass agricultural market and make it the main food source for the region in the future. A mining station for the city is also imperative, considering the rich mineral resources located in the area. Hail's mineral resources also make it an ideal location to establish a petrochemical industries sector. A specialized petrochemicals industrial zone is going to be set up in the PABMEC to capitalize on this rapidly expanding industry. This sector is expected to generate thousands of jobs and attract billions of riyals. The future economic activity in PABMEC will require adequate residential facilities, offices and supporting services. It has been proposed that 30,000 residential units and 3000 office spaces be constructed which will accommodate thousands of employees and more than 80,000 residents..

Hail's rich historical heritage, wild beauty and moderate climate, make it a potential destination for tourism. With over 260 historical and ancient sites, it is expected to attract over 700,000 visitors annually. Additionally, an entire zone will be dedicated to educational services such as colleges, research centers, vocational and training centers as well as public and private schools. By its fourth operating year, the educational zone will have over 40,000 students enrolled in schools, training centers and universities. This investment in human capital will help increase the productivity rate and perpetuate the need for a strong and specialized workforce.

Rakisa Holdings is leading the development of this project, in cooperation with a prestigious group of local, regional and international investors including the Gulf Finance House, Abu Dhabi Investment House and Tanmiyat Group, Al Abdulatif Group, Al-Rashid Group, Al-Qusaibi Group, BWC, Kanoo Group, Kuwait Investment Company, National Investment Company, Obekon Investment Group, PWC Logistics and Saudi Agricultural Group.

Overall, the Prince Abdulaziz bin Mousaed Economic City at Hail will diversify the KSA's infrastructure by improving agricultural production, exploiting the Kingdom's mineral wealth, and creating a diverse range of private sector investment opportunities. At the same time, the PABMEC will serve as a major transportation hub for the extensive rail lines being constructed in the KSA. When this project is complete, it will reduce coast to coast transportation of minerals, goods and oil from 4 to 5 day by ship to less than a day by train. This new rail network, known as the Land Bridge, will link the KAEC with many major cities through the Middle East and provide vital logistical support for future Saudi industry. In addition, it is estimated that PABMEC will double per capita GDP in Hail within the next 10 years.

<u>Potential Industries and Investment Opportunities</u>

- **Petrochemicals**
- **Agriculture**
- **Mining Center**
- **Entertainment Area**
- **Passenger and Transport Railways**
- **Business Center**
- **Dry Ports**

Knowledge Economic City, Madinah

The third economic city in Saudi Arabia initiated by SAGIA will be dedicated to knowledge-based industries (KBI) and the development of human capital as a means to develop the Kingdom's economy in a hi-tech manner and relieve mounting pressure on the infrastructures of the country's other three major cities. It will also develop a new business district for Madinah with modern facilities and incentives for entrepreneurs.

The city, named Knowledge Economic City (KEC) will be comprised of various zones designed to compliment each other; a technology and KBI zone; an advanced IT studies institute; an interactive museum on the life of Prophet Mohammad (PBUH); a center for Islamic civilization studies; a campus for medical research and life sciences; an integrated medical services zone; a retail zone; a business district; residential zones including high rises, houses, and fully-serviced apartments; shopping malls; and a mosque with a 10,000 worshipper capacity. Madinah is considered to be a major cultural center of the Islamic world and the KEC project will be a renaissance of sorts for this historic city. It will be developed on 4.8 million square meters of land while the built up area will near 9 million square meters. The KEC will include 4,000 stores and 30,000 residential units capable of housing 200,000 inhabitants. It will attract some 25 billion Saudi riyals ($6.7 billion) worth of investments and add 20,000 new jobs in information technology and other industries.

The SR26 billion ($7 billion) hi-tech project is designed to turn the Al Madinah region into a center for knowledge based industry where young Saudi entrepreneurs can be trained and nurtured. It also intends to attract the best Muslim Information Communications Technology (ICT) talent from around the world to the second most holy city of Islam. The modern Madinah is also already home to some of the KSA's leading educational institutions, has a growing ICT industry and piloted the country's new e-Government program. These facts reaffirm the strategic positioning of the Knowledge Economic City on the outskirts of Madinah, a convenient seven kilometers from the nearest airport.

Transportation within KEC will be facilitated via a ring road above which will run a monorail that will also connect the city to the neighboring Grand Mosque of Madinah. This monorail will be tethered to the planned train station, thus linking the city to Makkah, Yanbou, the King Abdullah Economic City and Jeddah. In addition there are plans to make the KEC a tourist destination supported by a unique theme park and world-class hospitality establishments.

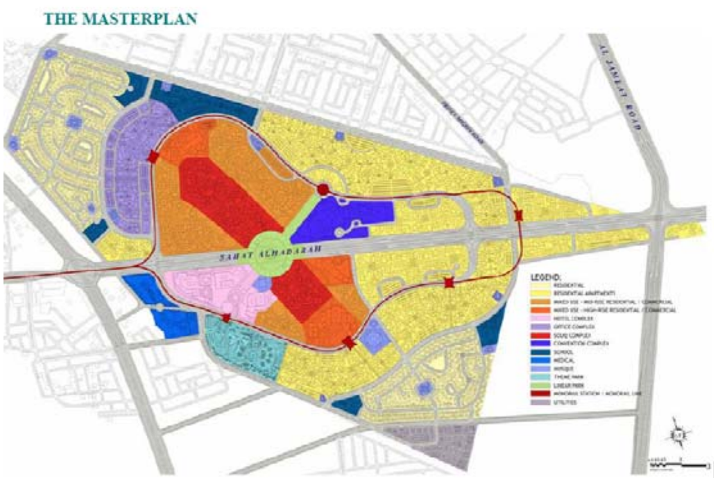

Fig. 7: KEC Master Plan

The KEC will combine the concepts of Intel Corporation's "digital city," Cisco's "smart city" and Microsoft's "internet frontier." The project is lead by Savola Group Co., in cooperation with PMDC, Taibah Investment & Real Estate Development Co., Quad International Real Estate Development Co. and the King Abdullah Foundation. Additionally, Cisco has recently agreed to develop the city-wide broadband network. Preliminary studies suggest that investors can expect a 15 percent return, however that could prove to be a conservative estimate if other major projects in the Gulf region such as those in the neighboring United Arab Emirates, are accurate predictors of returns on investment.

If the KEC project is successful, it will not just become a major business center with a capacity to attract foreign investment, but it will also serve as an education and human capital based business center for the entire Kingdom. The proximity of advanced education centers to knowledge based businesses should create a skilled information technology and service based business infrastructure. Also, the KEC's location near Madinah should attract tourism and stimulate foreign investment in the city as well as the region as a whole. Theses two aspects should work synergistically with each other to make the KEC the cultural and educational center of not only Saudi Arabia, but the entire Middle East.

Jazan Economic City

The fourth city announced is the Jazan Economic City (JEC), which will be located 60 km northwest of Jizan City and 23 km east of Bayush. The port's location near the Bab al Mandeb strait on the periphery of the Gulf puts the JEC in a strategic location to act as a hub for local shipping and trade. Its port will be similar in size and capacity to the one planned for the KAEC. The project is expected to attract more than 100 billion Saudi riyals in investment and create some 500,000 new jobs. It will be able to accommodate 250,000 residents and include an island for trade and commerce in the center of the residential area. The JEC will also boast an education area to develop a skilled workforce, a health services area and a cultural center to make the JEC a desirable place to live and work.

An aluminum complex, led by the Saudi-based Western Way for Industrial Development Co. (WWIDC), will be the largest mineral processing facility and an anchor for investment in JEC's industrial zone. The plant, when completed, is expected to produce 1.4mn tons of alumina and 660,000-700,000 ton of aluminum per annum. All the alumina will be made from bauxite imported from Greece. Investment in the complex and the associated plants required to supply adequate power and desalinated water, is estimated at $4 billion.

Much like the KAEC, this city should serve as a major industrial center and a trade and logistics hub. The focus on aluminum and other minerals refinement should improve the regions economic capacity and stimulate trade, especially with North Africa and the Middle East. Also like the KAEC, the JEC will also provide specialized education to create a Saudi workforce that will be able to take advantage of the jobs created through this economic diversification and development.

Tabuk Economic City

The fifth economic city is planned for the northwestern region of Tabuk, on the coast of the Red, Sea near the Sinai Peninsula. The historic area has developed into one the fastest-growing industrial regions in the country and boasts a population of nearly 450,000. Historically, Tabuk was a region of advanced transportation, with infrastructure remaining from Ottoman Empire's train systems. Its position in the northwest region, which is unique as of yet to the series of economic cities, places it in a valuable area for expansion and the creation of a comprehensive transportation hub and logistics center for managing trade with Africa, Asia and Europe, including a SR10 billion dollar causeway linking Egypt and Saudi Arabia. This logistics capability will serve as a vital source for future economic development and investment.

The scheme of the city will be very similar to that of KAEC and JEC, and is likely to include an industrial district, business district, a resort and tourist district, educational zone and residential area. As a coastal region and trading center and logistics hub, Tabuk will also mirror KAEC's port zone, increasing commerce and investment in the area.

A university, a medical center and number of technical colleges and vocational training centers have also been planned for the Tabuk Economic City, and SR475 million have already been invested in the university project. Several health projects have been planned, as well as a SR320 million medical city projects. An infrastructure project is also under development that will include a water purification and distribution center to supply water to Tabuk and the surrounding region. Overall, it is estimated that the Tabuk Economic City will cost 100 billion SR.

The new city is expected to draw billions of riyals in investment, create thousands of new jobs, and boost Tabuk's overall development. Many of these jobs will come in ways that are similar to KAEC that is, within hospitality, production, research and development, services and education industries. There may also be attempts to develop the city into a major center for culture and tourism, as is being done at the KAEC and PABMEC economic cities. This will likely include mosques and tourism centers devoted historically significant sites.

TBD (Easter Province) Economic City

There are also plans to announce a sixth economic city in the KSA, however, very little is known about the city's precise location or its economic focus. It is known that the city will be placed in the oil rich eastern part of the Kingdom, probably on the Gulf Coast. This will make it the only new economic city placed in the eastern region of the country and a likely hub for trade and commerce. Because of its proximity to the Kingdom's major oil refineries, this city will probably serve as a major oil distribution center. In keeping with the design of the other economic cities, it will probably feature specialized education centers and a business district to cater to the economic strengths of the region, as well as residential housing and cultural centers to attract young Saudis and foreign investors alike.

While the location of the economic city is unknown, it has been speculated that it will be in or near Ras Azzour, a major mining and mineral refinement center. On May 1st, 2007, the Saudi mining corporation Maaden signed a SR26 billion deal with the government to construct a new aluminum mining facilities in the north of the country and to then ship the aluminum ore to Ras Azzour for smelting and processing.

This deal is twice as large as any previous mining contract in the Kingdom and represents an attempt to make mining the third pillar of a diversified Saudi economy, along with oil and petrochemicals. As such, Ras Azzour might be the location of the 6th economic city, but this is only speculation.

Since little is known about this city, it is hard to predict the impact it will have on Saudi Arabia's economy, however the city's location on the east coast of the KSA is of important note for political and economic reasons. As mentioned previously, the east coast of Saudi Arabia is both the area of greatest oil concentration and of greatest political unrest due to it concentration of Shia Muslims. Placing a new economic city in this region could be both negative and positive. On the one hand, the city is likely to be less attractive to investors and private entrepreneurs because of its less stable political climate. In fact, recent attempts by radicals to attack oil facilities could make developers shy away from the region. On the other hand, the region is suffering from socio-economic and political strain, and this economic city could play a vital role in developing the region's economy and stabilizing the political and social climate. This will make it an especially important part of the KSA's expansion project.

Analysis / Conclusions

Despite the Kingdom of Saudi Arabia's oil wealth and natural resources, it is lagging behind other regional states in many areas. GDP per capita is lower than many of Saudi Arabia's neighbors, and the KSA's GDP remains variable because of its dependence on oil prices and the lack of other well developed industries. The low education levels, high unemployment rates and rapidly increasing workforce have meant that there is an unequal distribution of wealth when compared to some of the KSA's neighbors, such as the UAE and Qatar. This situation can only be exacerbated by the large number of foreign workers in the Kingdom. The growth of non-oil related industries has remained low and subject to variability brought on by changes in oil prices and traditional government control of the economy.

The government has thus far avoided addressing some of these problems by issuing government subsidies, but the economic situation is causing unrest and dissent among citizens. The drop of oil prices in the late 1990s also made clear that the Kingdom's dependence on oil is a problem and that it must diversify its economy to serve long-term interest. Furthermore, the greatest oil-consuming nations are growing increasingly alarmed at their own dependence on oil and are pushing for the use of renewable energy to help cut greenhouse gas emissions. As such, the KSA has opened its economy in recent years and is beginning to expand other industries.

Many of the political and social problems that plague the Kingdom have economic roots. The issue of religious militancy has been a concern for the KSA since as early as 1979. The poor economic conditions and disparity of wealth have fueled religious militancy, especially among Shiites in the eastern part of the country. Those who engage in violent action are not necessarily direct victims of the socio-economic conditions, but will act in their name. Many young militants, both Shia and Sunni, see the current state of economic inequality and the Royal Family's domination of politics as similar to pre-Islamic society. They are unimpressed with the political reforms enacted by King Abdullah and claim that Jihad presents a more effective means to engage political and economic reform. Some of the more radical Ulema in disagreement with the government's liberal reforms have instigated political action among these militants. Despite the KSA's relative political stability, the government has routinely arrested protestors and demonstrators, including a recent incident in which several demonstrators called for a constitutional monarchy. This repression of dissidents has resulted in a number of deaths. Political violence has also spread, as demonstrated by a failed 2006 attack on one of the largest Saudi oil refineries at Abqaiq. Another more ambitious attack to be conducted by insurgents with supposed links to al-Qaeda against a number of targets was thwarted in early 2007.

Given these economic, social and political problems, the economic cities have two basic objectives. Economically, the cities and the other associated projects are an attempt to build a more diversified economic infrastructure from scratch. When they are finished, the Kingdom will have an integrated network of economic cities specializing in different economic activities and acting as hubs of commercial activity. The King Abdullah Economic City, Jazan Economic City and Tabuk Economic City will facilitate trade with Africa, Asia and Europe while providing logistical support for KSA economic activity. The Prince Abdulaziz bin Mousaed Economic City in Hail will be a major mining, agriculture and petrochemicals center while serving as a railroad transportation hub that will facilitate the transportation of goods between the KAEC, Dammam, Jeddah and Riyadh. Through these economic cities, the Saudi economy will expand its activity in the area of petrochemicals, plastics, mineral resources, aluminum and information technology, allowing them to move away from their dependence on the oil industry. Finally, the numerous business districts, cultural centers and tourist facilities are designed to entice foreign investment while capitalizing on Saudi Arabia's rich history and providing specialized education for Saudi citizens that will provide them with skills specific to a particular region's economic strengths.

Socially and politically, the cities are a government sponsored social engineering project with the goal of restructuring Saudi society. It is not a coincidence that every economic city has planned to construct education centers, modern and attractive living accommodations, new jobs and government sponsored cultural centers promoting moderate Islam. These plans coincide with the government's new laws aimed at minimizing the presence of foreign workers in the KSA and transferring jobs held by foreigners to Saudi nationals. These steps indicate the Saudi government is actively addressing issues relating to the distribution of wealth and joblessness as well as other sources of socio-economic tension in the country. These new cities are also a means to construct an alternate vision of Saudi society that will be modern, prosperous and cosmopolitan so as to serve as a foil to radicalization. At the same time, these projects could relieve the pressure on the Royal Family to initiate greater political reforms that would threaten their political dominance, especially from some Muslim clerics and the liberal business elite.

These new cities are an attempt to make a prosperous and moderate Saudi society that will serve as a foil to radicalization

While the vision associated with the new economic cities and the other associated economic and social projects are quite grand, there are also some problems that will have to be addressed for the project to be a success. First of all, the project is likely to cost more than the initial SR300 bn indicated by SAGIA. The KAEC and JEC projects both already cost SR100 bn and it is possible that the Tabuk economic city will cost a similar amount. This means that the new economic cities by themselves could easily cost over SR500bn. When these cities are combined with the rail systems, power plants, water purifications systems and other logistics projects, this project of economic diversification represent a substantial investment.

Fortunately, the KSA's current economic boost from the high price of oil makes such an investment possible. In the short term, this boost is likely to persist and the KSA will likely have the funds necessary to support these projects. OPEC has successfully restricted its oil production to establish a firm price floor of $50 a barrel, though the Saudis have taken most of the responsibility for this cut in production and thus absorbed some of the loss in revenue. However, the long term prospects for such a large government project are not as promising. As mentioned above, alternative energy has become an increasingly pressing issue for many developed countries and it is unclear how long the world's dependence on oil will persist. The KSA can fund these reforms, but if it does not institute these economic reforms within the next decade or two, they may lose the opportunity to do so in the future.

Foreign investment is also a critical component relating to the success of this project because the Kingdom expects foreign investment to help pay for the costs of these cities. SAGIA and the government have worked hard in the last few years to repeal past restrictions on foreign businesses and private entrepreneurs. Membership in the WTO has also helped to open the once closed Saudi economy. These measures have made the Kingdom a much more desirable place to do business and enticed many companies to invest in this massive project. However, the new regulation concerning the hiring of non-nationals will likely have a negative effect on the willingness of businesses to operate in Saudi Arabia in the future. Also, tourism and other related businesses are still restricted and may hamper foreign investment to some degree. Therefore, it is important that the Kingdom maintain the positive business environment it has created in the past few years and perhaps open the economy more in the future.

Another challenges relates to the fact that the KSA is already suffering from strained water and energy needs. The Jeddah region south of where KAEC is being constructed is already experiencing regular blackouts. There are a large number of desalination pants in the KSA, but much of this water is still too saline for use in agricultural. The economic cities could place substantial strain on these resources, especially as the Kingdom is hoping to attract tourists. To address this issue, some of the economic cities have included power and water desalination plants in their master plans. Additionally, there a number of water and power projects have recently been undertaken not just in Saudi Arabia but throughout the CCG. The continued development of power and water purifications plants will be a critical component to the overall success of the KSA's economic diversification project.

> **The growth in the workforce could potentially out strip the pace of the government led expansion**

Also, even with the new jobs being created through economic diversification and Saudisation, it is clear that the KSA will be hard pressed to merely maintain a 13% unemployment rate. According to some predictions, the workforce will expand by well over 1,000,000 Saudis in the next decade. This means the growth in the workforce could potentially out strip the pace of the government led expansion. This challenge means it is critical that the Kingdom further promote private entrepreneurship in the future. A more liberal and open market could create more jobs in addition to the ones created by the government.

The project may also be challenged by its own scope. As both an economic and social project, the six economic cities are nothing short than an overhaul of Saudi society. Such an undertaking is bound to be difficult and stressful both economically and socially. King Abdullah and his supporters are already under pressure from conservative in the Royal Family, radical clerics, discontented Shiites and militant Sunnis. While government is actively trying to addresses the root causes of this discontent, the sources of political and social unrest will not disappear over night. Indeed, some of the dissent within the al-Saud family and the clergy is a direct result of this liberalization. Other sources of tension could emerge in the future which could affect the optimistic outlook inherent in the "10 x 10" concept. These political and social problems will have to be addressed carefully and moderately if this reform program is to create a new economic infrastructure and also alleviate the sources of extremism and dissatisfaction within Saudi Arabia.

The new economic cities represent part of a very challenging program being undertaken by the KSA government, but they also are necessary reforms critical for Saudi Arabia's development. At present, the economic and political environment in the KSA is favorable to such a large reform project. The government's revenues from oil sales over the last few years have given the KSA the capacity to initiate these projects. The government has succeeded in providing incentives to foreign business to invest in the Kingdom. Additionally, the Kingdom has received outside support from many of its neighbors who recognize the importance of social and economic reform in the Kingdom, especially from Dubai in the area of educational development. If the cities and other economic and logistics projects can be completed and if the challenges mentioned above can be overcome, then these reforms have the potential to turn the KSA into the Middle East's economic powerhouse and political leader while alleviating many of the social tensions presently placing strain on the al-Saud royal family and the Kingdom as a whole. But the difficulties associated with this project should not be understated. This ambitious project is a will be difficult for the al-Saud leadership and its success or failure will have a significant impact on the future of Saudi Arabia and the Middle East as a whole.

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