



Panel show: Neom will use solar energy technology to make the most of Saudi Arabia's long hours of sunshine

Neom: oasis or mirage?

SAUDI ARABIA INTENDS TO RAISE UTOPIAN MEGACITY NEOM FROM THE SAND. THE AMBITIOUS PROJECT IS AN EXAMPLE OF SAUDI'S NEW VISION FOR THE COUNTRY: DIVERSIFIED, GLOBAL, GRANDIOSE AND MODERN. BUT CAN IT ATTRACT THE VAST AMOUNT OF FDI IT NEEDS? SEBASTIAN SHEHADI REPORTS

Futuristic megacity Neom is one of the cornerstones of Saudi Arabia's highly ambitious reform programme, Vision 2030. The latest in a series of super-projects designed to rebrand the country's image and reshape its economy through modernising, attracting FDI and diversifying away from oil dependency, Neom is the brainchild of Saudi's deputy prime minister and heir to the throne, crown prince Mohammad Bin Salman.

Located in an untouched north-western corner of Saudi Arabia, Neom is projected to cover 26,000 square kilometres of arid terrain. At 33 times larger than New York City, it will extend into the outskirts of Jordan and Egypt on the Red Sea.

Prime location

Lying southeast of the Suez Canal, Neom's coastal location takes it close to international markets and trade routes. Roughly 10% of the world's trade flows through the Red Sea and 70% of the world's population can reach it in

less than eight hours by plane. Thus, the new city would provide easy access to the Saudi Arabian, Egyptian, Jordanian and global markets.

Besides swathes of desert sand, Neom covers varied terrain including islands, beaches, more than 460 kilometres of pristine coastline, and mountains reaching up to 2500 metres in height (some covered in snow during the winter). The unusual geography provides a temperate climate that is, on average, roughly 10 degrees Celsius cooler than its surrounding areas and the rest of the Arabian Peninsula.

Neom's promotional video portrays a futuristic utopia, described by the narrator as "the blank page you need to write humanity's next chapter", and is accompanied by images of greenery, ethnic diversity, gender mixing, renewable energy, technology, family and health. In other words, the megacity aims to attract world-class talent by offering an idyllic lifestyle and a "community founded on modern architecture, lush green spaces, quality of life, safety, and technology", as the official website puts it.

Thanks to a comprehensive e-government,



ONLY 3% OF THE LAND OF SAUDI ARABIA CAN PROVIDE MORE THAN 50% OF THE ELECTRICITY OF THE WORLD, WITH TODAY'S SOLAR TECHNOLOGY



Neom residents are promised free facilities such as internet coverage and highly automated, technology-based civil services in education, health, transport, entertainment and other fields. According to Softbank CEO Masayoshi Son, the robot population in Neom may exceed the human one. Labour-intensive manual tasks will be automated and new technology built into the blueprints of its infrastructure, according to the official website.

Liberal environment?

Neom claims to be more than just a technological experiment, however. Its “social norms [will] adopt leading practices to improve... liveability”, according to the official website. The crown prince has already begun liberalising Saudi Arabia’s highly conservative Islamic society with support from the youth population. For example, cinemas will soon be legal and women have been granted the right to drive. However, public gender mixing is still forbidden, as is alcohol, and public executions continue.

The crown prince hopes to catalyse the liberalisation process through Neom (which has drawn criticism from some conservative Saudis). He says he will implement “98% of the standards applied in similar cities, but there’s 2% we can’t do, such as alcohol”. Whether 98% will be enough to attract global talent – when Middle Eastern hubs such as Dubai have no such restrictions – remains to be seen.

The megacity’s business environment will also operate autonomously. The first independent special zone spanning three countries, Neom’s judicial system will have its own laws, taxes and regulations that will be drafted by investors in accordance with international best practice. The zone will also be independent of Saudi Arabia’s existing governmental framework, excluding sovereign laws (that is, military and foreign policy).

Neom’s “regulatory environment will be extremely business friendly, especially relating to artificial intelligence and robotics. Getting businesses to define the rules and regulations

that govern them is innovative and completely eliminates the challenges of dealing with any Saudi institution,” says Ayham Kamel, Middle East and north Africa practice head at political risk consultancy Eurasia Group. This may placate foreign investors worried about Saudi government inefficiencies.

A \$500bn price tag

Neom will need at least \$500bn of support over the next few years from the Saudi Arabian Public Investment Fund (PIF) as well as local and international private investors. With a planned \$2000bn budget to fund Vision 2030, Saudi’s PIF is on the way to becoming the world’s largest sovereign wealth fund. Together with Blackstone Group, the PIF has already established a \$50bn infrastructure investment fund and, with SoftBank, a \$45bn technology fund.

Neom will be owned by the PIF until its initial public offering (IPO) with Saudi Arabia’s national oil company Aramco later in 2018, the largest planned IPO in history. The megacity’s listing aims to attract investments from companies in renewable energy, advanced manufacturing, biotechnology and entertainment, says the PIF.

Although some high-net-worth individuals, including Richard Branson, have voiced excitement over the project, only a few investors – such as SoftBank – have publicly committed finances. The PIF says it has established communication with a wide network of potential investors and partners. On January 30, 2018, Saudi Arabia awarded the first construction contracts to four local contractors.

Neom’s pitch

The megacity aims to be a global hub for trade, innovation and knowledge by “offering unique opportunities and advantages to worldwide leading investors and business owners”, according to its official website. Hoping to diversify the Saudi economy, Neom plans to develop nine economic sectors, including energy and water, advanced manufacturing, ►



THE OPPORTUNITY IS TO DEPLOY PRODUCTS IN AN URBAN ENVIRONMENT WHERE THERE ARE NO LEGACY DEVELOPMENT CONSTRAINTS



and technological and digital sciences.

While details are still to be firmed up, there will be major investment opportunities in tech, renewable energy and infrastructure. Softbank's Mr Son says of Neom: "Only 3% of the land of Saudi Arabia can provide more than 50% of the electricity of the world, with today's solar technology."

Hasnain Malik, head of equity research at developing markets investment bank Exotix Capital, says: "For technology and infrastructure companies, the opportunity is to deploy their products in an urban environment where there are no legacy development constraints: an urban test lab, effectively."

Saudi Arabia has promised investors they will receive financial support to develop projects that "serve Neom's future goals, since the Saudi Arabian government has classified this project as a priority at all levels". The website also says the city will encourage Saudi citizens to invest and travel within the country. Currently, billions of dollars are going abroad due to the country's limited local investment, education and entertainment options.

FDI fantasy?

Neom's greatest challenge is its investment strategy and the capacity of the PIF to pick winners in next-generation technologies, according to Eurasia Group's Mr Kamel. Mr Son will be of help, but Neom will need many more supporters. Naturally, at this early stage, finding concrete investment will prove difficult since there is very little proof of concept. Steffen Hertog, a specialist in Middle East politics at the London School of Economics, says: "The information publicly available is insufficient to judge the feasibility of the project and [Saudi Arabia] will have to provide quite significant incentives to attract anchor investors."

Neom is not the first megacity project in the country. Saudi Arabia's history of city building is poor, as shown by Riyadh's office park and the King Abdullah Economic City, two ghost

towns meant to house millions. However, Mr Hertog argues that Neom's "advantage is the very high-level backing under a now much more centralised political system with fewer veto players. So politically and administratively, the hurdles are lower." The crown prince has argued that Neom is "a totally different story... there's commitment from the government".

For this reason, Jon Truby, director of the Centre for Law & Development at Qatar University, is critical of the Neom plans. "It will be so costly and controlled that investors will again be faced by exorbitantly high rents and an infrastructure that requires maintenance beyond the capability of the local workforce: [robots that will constantly need repairing]," he says.

However, in just two years, the crown prince has ushered in greater socioeconomic and political change than any of his modern predecessors, and some people argue his efforts to diversify the economy are serious. Meqbel Aledan, a professor at Saudi Arabia's King Faisal University, says: "The commitment and passion shown by [the crown prince] towards the project is remarkable; he looks at Neom as his own dream. The number and type of investors who have visited [Saudi Arabia] recently is unprecedented."

Consolidating power

Meanwhile, Neom's contentious social reforms may be moving too fast for the country's conservative society, and reactionary forces may already be gathering steam. However, the crown prince's mild reforms have hitherto gone unchallenged from either bottom or top of society, and his power has become increasingly absolute and centralised.

However, his foreign policy and the volatile politics of the Middle East could also be barriers to FDI. Over the past three years, he has engaged in numerous controversies, such as the war in Yemen, the blockade against Qatar, the mass arrest of Saudi businessmen, and the political crisis in Lebanon. While some view this as a strong man's defence, others could consider him as unpredictable or aggressive.

Although Saudi Arabia is not reliant on Egypt or Jordan to build Neom, the crown prince will need to maintain healthy relations with the two countries if the megacity is to span three countries. Saudi Arabia will most likely need to support its partners' construction costs, thereby raising Neom's \$500bn price tag (which some have seen as a rather optimistic figure anyway). While nothing has been formally mentioned, there is also the possibility that Israel, with its deep expertise in IT, may play a role in Neom.

FDI in hand or not, Mohammed bin Salman's belief in Neom is reflected in the fact that land breaking has already begun on some critical infrastructure, according to the PIF. The first phase of construction may be complete by 2025, if FDI dreams become reality. ■