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To what extent has Saudi Arabia been able to position itself as a hub for global flows beyond oil and religion?

This thesis is submitted to the University of East Anglia in fulfilment of the requirements for the degree of PhD in philosophy.

By

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Declaration

I, **Nassar Alnassar,** confirm that the work presented in this research has been performed and interpreted solely by myself except where explicitly identified to the contrary. I confirm that this work is submitted for the Ph.D. degree and has not been submitted elsewhere in any other form for the fulfilment of any other degree or qualification. Sources and quotations are properly acknowledged.

Signature: Nassar Alnassar

Dated: 5 October 2024

Research abstract

This thesis investigates the political-economic relationship between global flows and the ambitions of emerging powers, with a focus on Saudi Arabia's efforts to establish itself as a regional hub within the Gulf Cooperation Council (GCC) and beyond. At the centre of this investigation is Saudi Arabia's Vision 2030, an ambitious project aimed at transforming the country's economy by diversifying away from oil dependency and enhancing the role of the private sector. Vision 2030 represents a strategic shift to position the Kingdom as a key player in global economic and political systems, especially by facilitating new flows of capital, technology, and human resources. The central research question guiding this study is: ***To what extent has Saudi Arabia been able to position itself as a hub for global flows beyond oil and religion?***

In addressing this question, the thesis critically examines the interplay between Saudi Arabia's religious influence, its historical reliance on oil, and its economic diversification ambitions. This research draws on frameworks within International Political Economy (IPE) and builds its argument through four key areas. First, it explores how institutionalised Islamic power, as analysed through Faiz Sheikh's work in *Islam and International Relations*, supports or challenges Saudi Arabia's aspirations. The Kingdom's unique status as the custodian of Islam's holiest sites confers a significant degree of religious soft power, which plays a critical role in its global standing. However, the thesis also examines the inherent tensions between leveraging religious authority and advancing economic modernisation, especially as Saudi Arabia seeks to attract global flows while maintaining its conservative Islamic values.

Second, the research delves into the historical and continued significance of oil in shaping Saudi Arabia's political economy. The Kingdom has long relied on oil revenues to sustain its economic and social structures, making diversification away from oil a complex challenge. The thesis investigates how fluctuating oil prices, geopolitical shifts in global energy markets, and the increasing global emphasis on renewable energy affect Saudi Arabia's diversification goals. Through case studies on Aramco's Initial Public Offering (IPO) and the Public Investment Fund (PIF), the thesis highlights the paradoxical situation in which oil revenues are still the primary source of funding for diversification efforts under Vision 2030.

Third, the thesis assesses Vision 2030 itself, as a blueprint for economic transformation and global repositioning under the leadership of Crown Prince Mohammed bin Salman Al Saud. It evaluates the extent to which Vision 2030's proposed reforms—ranging from privatization efforts to legal and regulatory changes—can transform Saudi Arabia into a dynamic, globally integrated economy. The study emphasizes the critical role of the state in these reforms, particularly through state capitalism, where government-controlled institutions such as sovereign wealth funds (SWFs) and state-owned enterprises (SOEs) continue to dominate key sectors of the economy. While Vision 2030 aims to promote private sector growth, the thesis explores the inherent tensions between state-led development and the need to foster a more competitive private sector, as highlighted by the challenges faced in major projects such as the partial privatisation of Aramco.

Fourth, the thesis examines the regulatory and zoning frameworks introduced to accommodate global flows, especially in finance, while remaining consistent with Islamic principles. The analysis focuses on the development of Saudi Arabia's urban megaprojects, such as King Abdullah Economic City (KAEC) and King Abdullah Financial District (KAFD), which are designed to position the Kingdom's cities as global hubs for capital, commerce, and innovation. However, the research shows that both KAEC and KAFD have encountered significant challenges, including delays, regulatory hurdles, and difficulties in attracting foreign investment. These issues highlight the broader infrastructural and governance barriers Saudi Arabia faces in its efforts to rival established regional hubs like Dubai and Qatar.

Throughout the thesis, Saudi Arabia's dual role in the global order is emphasised—one based on material power, derived from its vast oil wealth, and the other on immaterial influence, rooted in its religious leadership. As the global economy moves towards greater technological specialisation and renewable energy, the thesis questions how Saudi Arabia will navigate these challenges while maintaining its religious authority and economic ambitions. The Kingdom's ability to balance its material and immaterial sources of power will play a crucial role in shaping its future within the global political economy.

This study contributes to ongoing discussions about globalisation, state capitalism, and economic reform in the Gulf region. By engaging with theories of state capitalism, Global Production Networks (GPNs), and global cities, the thesis offers a comprehensive analysis of Saudi Arabia's strategic efforts to deepen its integration into global production and trade networks. While Vision 2030 is a bold and forward-thinking reform initiative, the research highlights that the Kingdom is on the right path toward becoming a global hub for flows. However, its success will depend on addressing certain economic, political, and cultural challenges. With sustained commitment to reform and careful navigation of these complexities, Saudi Arabia has the potential to fulfil its Vision 2030 ambitions and solidify its place as a key player in the global economy.

Keywords: International Relations, International Political Economy, Global flows, Global Cities, State Capitalism, Global Production Networks, Globalisation, The Kingdom of Saudi Arabia (KSA), Vision 2030, Oil, Religion, Economic diversification, Economic Reform, Political Reform, and Social Reform.

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List of Abbreviations

KSA: Kingdom of Saudi Arabia	**USA:** United States of America
MBS: Prince Mohammed Bin Salman	UK: United Kingdom
MBN: Prince Mohammed Bin Nayef	**UAE:** United Arab Emirates
IR: International Relations	**(IMF):** International Monetary Fund
IPE: International Political Economy	**GDP:** Gross Domestic Production
(IRT): International Relations Theory	**USD:** United States Doller
GCC: Gulf Cooperation Council	**(KAEC):** King Abdullah Economic City
PIF: Public Investment Fund	**(KAFD):** King Abdallah Financial District.
(SMEs): Small and medium-sized enterprises	**(SAMA):** Saudi Arabian Monetary Agency
ARAMCO: the Arabia American Oil Company	**(GPNs):** Global Production Network
SOCAL: Standard Oil of California	**SOE:** State Owned Enterprise
OPEC: The Organization of Petroleum Exporting Countries	**NEOM:** New Future
(CASOC): California Arabian Standard Oil Company	**(GC):** Global Cities
G20: The Group of Twenty	**(SC):** State Capitalism
(WW1): First World War	**(GCC):** global commodity chain
(GVC): global value chain	**(TNCs):** transnational corporations
(ANT): actor-network theory	**(SABIC)** Saudi Basic Industries Corporation

Contents

Chapter 1: Introduction

1. A New Era in the Kingdom of Saudi Arabia (Vision 2030)

Saudi Arabia finds itself in a global context of multiple powers - USA, UK, Europe, Russia, China, India – that is undergoing change. The Kingdom's ambition is to be considered an emerging power in this new world order. This means adapting to the rapidly changing political and economic context. To do this, Saudi Arabia needs to diversify its economy by reducing its dependency on the primary source of its income: oil. Saudi Arabia has adopted this plan for several important reasons. First, the oil price crisis that occurred in 2014-2015 led to the Kingdom falling into debt due to the deterioration of Saudi Arabia's economy. Second, there are external pressures from the United States of America to control global oil prices, even though it is not a member of OPEC. The reason for implementing such pressure is driven by the USA's desire to stabilise its economy and not to raise oil prices from a level commensurate with its economic situation. Finally, as the world develops the alternative energy sector and the production of electric vehicles, there are global indicators that the world is moving to a post-oil/post-carbon economy for several reasons, including climate change.

Historically, oil has contributed significantly to Saudi Arabia's political and economic power in the international system (Young, 2022). The oil presence in Saudi Arabia thus provides the life of welfare to its citizens and plays a vital role in consolidating the relationship between the government and the citizens. Saudi Arabia is, however, planning to diversify its economy as part of its Vision 2030 strategy. This Vision is being steered by Crown Prince Mohammad Bin Salman (MBS) and is a key agent in its efforts to reduce the dependence of the economy and the state on oil revenues. The goal is to generate growth in non-oil sectors and to encourage Saudis to work in the private sector driving less dependence on oil subsidies and revenues. The Vision effectively puts in place new political, social, and economic policies that the state has not followed for decades.

In the context of global economic shifts and growing pressures to transition away from oil-based economies, Saudi Arabia has embarked on an ambitious journey to redefine its political and economic landscape. Vision 2030[1], announced in 2016, reflects Saudi Arabia's strategic decision to move beyond its historical reliance on oil as the backbone of its economy. The vision outlines a comprehensive reform agenda aimed at transforming the Kingdom into a diversified, globally integrated economy, focusing on new sectors such as finance, technology, tourism, and alternative energy. At the heart of these efforts lies the state's desire to secure its role as a regional and global hub for capital flows while maintaining its religious authority as the custodian of Islam's holiest sites.

This thesis is particularly relevant because it addresses a critical moment in Saudi Arabia's history: the Kingdom's need to balance its traditional flows and sources of power, namely oil and religion, with the realities of a rapidly globalising world that is moving toward decarbonisation and increasing economic complexity. The central question explored in this thesis is: ***To what extent has Saudi Arabia been able to position itself as a hub for global flows beyond oil and religion?***

[1] Under the leadership of King Salman bin Abdulaziz and then the Deputy Crown Prince – the current Crown Prince Mohammed bin Salman, Saudi Arabia launched Vision 2030 in 2016 to drive the Kingdom toward a diversified, sustainable future. This ambitious plan leverages Saudi Arabia's strengths—its leadership in the Arab and Islamic worlds, investment capacity, and strategic location. Vision 2030 focuses on economic diversification, citizen empowerment, and creating a vibrant environment for local and global investors. Implemented in phases, the first phase laid critical reforms, the second accelerated investments, and the upcoming third phase will sustain growth. Through Vision Realization Programs, Saudi Arabia is transforming its socioeconomic landscape, improving quality of life, and fostering global integration.

2. The Challenges of Vision 2030

Since its announcement in 2016, Vision 2030 has represented Saudi Arabia's most ambitious attempt to reshape its political economy and secure its position in the international system. Now, a bit after its halfway mark in 2023, the kingdom faces both the original challenges envisioned when the plan was introduced and new obstacles that have emerged over the past seven years. These challenges can be grouped into domestic, regional, and global dimensions, each reflecting the evolving landscape of Saudi Arabia's transformation.

At the domestic level, Vision 2030 fundamentally challenges the social contract that has long defined Saudi governance. For decades, the Saudi state has relied on oil wealth to fund a generous welfare system, provide public sector employment, and maintain political legitimacy. However, Vision 2030's focus on economic diversification requires a significant restructuring of the political economy, shifting the state's role from primary employer to facilitator of private sector growth. This transition poses a potential legitimacy challenge as the government encourages greater private sector participation, reduces subsidies, and privatises key industries, such as Aramco. The partial privatisation of Aramco in 2019, though symbolically significant, did not deliver the full-scale transformation initially promised, signalling the difficulty of reducing reliance on state-owned enterprises that are integral to the national identity.

Regionally, Saudi Arabia continues to navigate the volatile geopolitics of the Middle East, which has only intensified since Vision 2030 was launched. The Gulf Cooperation Council (GCC), once envisioned as a stable framework for regional cooperation, has been strained by conflicts such as the Qatar blockade (2017-2021) and the ongoing war in Yemen. These regional tensions divert attention and resources from domestic reform efforts and complicate Saudi Arabia's bid for regional leadership. Iran's expanding influence in Iraq, Syria, and Lebanon, as well as Turkey's assertive regional policies, pose further challenges to the Kingdom's goal of regional dominance.

The rapprochement with Iran in 2023 represents a significant shift in Saudi Arabia's foreign policy, signalling a pragmatic approach to reducing regional tensions. While this detente may ease immediate security concerns, it also underscores the complexity of maintaining regional stability while advancing domestic reform. Vision 2030 is not just about economic growth it is also focused on Saudi Arabia asserting itself as the political and economic hegemon in the region. However, competing powers such as Turkey and Iran, along with the presence of external actors like Russia and China, complicate this ambition.

At a global level, the international system itself has undergone significant shifts since 2016, posing new challenges for Vision 2030. Saudi Arabia's traditional reliance on US security guarantees has come into question as the United States reassesses its role in the Middle East. The uncertainty surrounding U.S. foreign policy, particularly in the wake of the Biden administrations' pivot to Asia and focus on domestic issues, forces Saudi Arabia to rethink its long-standing alliances and explore new partnerships. This has led to growing economic and strategic engagement with China and Russia, both of which offer alternative models of power that diverge from the Western-led liberal order. The 2023 reconciliation with Iran, brokered by China, highlights the shifting dynamics of power in the region and globally, with China emerging as a key player in Middle Eastern diplomacy.

Economically, the global energy market has also undergone dramatic changes since the launch of Vision 2030. The decarbonisation effort in major economies and the rise of renewable energy technologies have intensified the pressure on oil-dependent states (Young, 2022). Saudi Arabia faces the dual challenge of managing short-term oil revenue while investing heavily in non-oil sectors to ensure long-term sustainability. The post-carbon transition presents a fundamental challenge to the rentier state model, particularly for Saudi Arabia, where oil continues to account for a substantial portion of state revenues. Although the kingdom has made strides in diversifying its economy, with investments in sectors like tourism and entertainment, the pace of this transition is crucial. Global energy trends indicate a diminishing role for oil in the long term, and Saudi Arabia must accelerate its diversification efforts to avoid the economic volatility associated with global oil price fluctuations.

Additionally, foreign investment, a key pillar of Vision 2030, has faced challenges in gaining momentum. While the kingdom has made efforts to create a more business-friendly environment with regulatory reforms and the promotion of Special Economic Zones (SEZs), attracting sustained foreign direct investment (FDI) has been slower than anticipated. Competing with established financial hubs such as Dubai and Qatar, Saudi Arabia is attempting to position itself as a regional financial centre through projects like KAFD and NEOM. However, these megaprojects have been delayed, and questions about their viability persist. The success of these ventures will depend not only on the Kingdom's ability to implement regulatory reforms but also on how effectively it can market itself as a stable and attractive destination for international capital in a competitive global market.

Finally, demographic pressures continue to pose a challenge. With a rapidly growing young population, Vision 2030's success will hinge on how well the kingdom can integrate its youth into the workforce. The education system and job training programs must evolve to meet the demands of a modern, diversified economy. Moreover, creating a sense of economic participation among young Saudis, who are critical to the country's future, will be crucial for maintaining social cohesion.

As of 2023, Vision 2030 reflects Saudi Arabia's strategic response to shifting global and regional dynamics. The plan is less about meeting specific challenges and more about redefining Saudi Arabia's role within the international system of power. By emphasising economic diversification, state-led mega-projects, and social reforms, Vision 2030 reveals how the Kingdom seeks to transform its identity beyond oil dependency and religious authority, aligning itself with global economic trends and multipolar geopolitical structures.

Rather than assessing the plan's feasibility, Vision 2030 offers insight into Saudi Arabia's bid to assert economic influence through sovereign wealth funds like the Public Investment Fund (PIF) and integrate more deeply into global financial and political networks. It reflects the Kingdom's ambition to reshape its global image, while navigating the pressures of globalisation and the transition away from fossil fuels. In this sense, the plan is not just about internal reform but a strategic recalibration of Saudi Arabia's place within the global order.

3. Significance "why does it matter"?

The thesis investigates Saudi Arabia's evolving role in the global economy by focusing on four key areas:

1. Economic Diversification: The thesis explores the strategies Saudi Arabia is employing to reduce its dependence on oil revenues, fostering growth in non-oil sectors such as alternative energy, finance, and tourism. It examines the role of Global Production Networks (GPNs) and how Saudi Arabia seeks to embed itself in these global value chains.

2. State Capitalism and Sovereign Wealth Funds (SWFs): The thesis will analyse how state capitalism plays a critical role in Saudi Arabia's transition, particularly through SWFs like the Public Investment Fund (PIF). The focus will be on how the Kingdom uses these state-controlled investment vehicles to drive both domestic and global investments in support of its Vision 2030 objectives.

3. Global Cities: Saudi Arabia's Vision 2030 includes the development of global cities, such as NEOM, King Abdullah Economic City (KAEC), and King Abdullah Financial District (KAFD), which are designed to serve as financial and logistical hubs within global flows. The research will examine how these cities are positioned to attract foreign investment and integrate into the global financial ecosystem.

4. Religion and National Identity: Finally, the thesis will explore how Saudi Arabia's religious identity remains a core element of its national legitimacy. As the birthplace of Islam, Saudi Arabia must balance its modernisation efforts with its role as a global religious leader. This section will analyse how the kingdom navigates the tension between modernising its economy while maintaining religious authority in a globalised world.

Through these four dimensions, the thesis aims to provide new insights into how Vision 2030 fits within broader discussions of globalisation, state capitalism, and urbanisation, contributing to academic debates on global economic restructuring and the evolving role of the state in managing globalisation.

The success or failure of Vision 2030 will have profound implications not only for Saudi Arabia but also for the broader Middle East and the international system. Saudi Arabia's attempt to transition from an oil-dependent, rentier state to a diversified, globally integrated economy represents one of the most ambitious economic reform agendas in recent history. As the world moves toward a post-carbon future, the kingdom's ability to navigate this transition will serve as a critical test case for other resource-rich states that face similar pressures. This thesis, therefore, is significant in its investigation of how Saudi Arabia is attempting to reposition itself in the global economic order while maintaining its religious authority and regional leadership.

The challenges of Vision 2030 highlights the kingdom's internal strengths and weaknesses, revealing the barriers that must be overcome to secure long-term political and economic stability. The success of this vision will determine Saudi Arabia's trajectory over the coming decades and will have a direct impact on the region and the world. As a leading oil producer and the custodian of Islam's holiest sites, Saudi Arabia occupies a unique position in both the global energy market and the Islamic world. How it adapts to the dual pressures of globalisation and decarbonisation will influence not only its domestic economy but also the geopolitical dynamics of the Middle East.

This research, therefore, contributes to a deeper understanding of the state's goal to situate itself as an emerging power within the new global political and economic order, positioning Saudi Arabia as a regional hegemon within the Gulf. The thesis makes several key contributions across empirical, theoretical, and methodological dimensions, offering new insights into how religiously significant, resource-rich states adapt to global transformations.

3.1 Theoretical Contributions

The thesis makes theoretical contributions by integrating Islam and religion into the analysis of international relations (IR) and global political economy. The theoretical framework is largely drawn on Faiz Sheikh's work, Islam and International Relations: Exploring Community and the Limits of Universalism (2016) in Islam and International Relations, which critiques the exclusion of religion from IR theory. This thesis challenges the conventional secular framework of IR by arguing that religion—and particularly Islam—plays a critical role in shaping Saudi Arabia's engagement with the global political and economic order. It emphasises that Saudi Arabia, as the birthplace of Islam and the custodian of its two holiest cities, Mecca and Medina, must navigate its unique Islamic identity alongside its aspirations for economic modernisation.

By examining how religious legitimacy intersects with economic goals, this thesis extends the discussion on the role of religion in international political economy (IPE). It argues that Saudi Arabia's religious identity not only influences its domestic governance but also shapes its international engagements, particularly in the Muslim world. This study contributes to the growing body of literature that integrates post-secular theory into the analysis of global politics, expanding the intellectual space to include religious frameworks within the global political economy.

The research draws on Sheikh’s concepts of Islam-as-faith and Islam-as-politics to explore how Saudi sovereignty is uniquely informed by religious principles. The idea of God’s sovereignty as a key Islamic concept adds a layer of complexity to Saudi Arabia’s efforts to position itself as a hub for global flows of capital. The thesis highlights the tension between religious sovereignty and the state's desire to integrate into the secular global financial system, providing new insights into how religiously grounded states interact with global economic structures.

3.2 Methodological Contributions

This thesis makes a significant methodological contribution by integrating a mixed-methods approach tailored to the complex socio-political context of Saudi Arabia, balancing qualitative and quantitative techniques to provide a holistic analysis. The methodology offers a multi-layered investigation into how Saudi Arabia’s ambition to transform itself into a regional hub for global flows is shaped by intricate interactions between the state, economy, and religion.

Firstly, the research applies a mixed-methods approach, combining quantitative data—derived from government reports, industry publications, and economic datasets—with qualitative insights gathered from semi-structured interviews with experts, financial actors, and policymakers. This combination allows for a comprehensive assessment of both macro-level trends (such as economic flows and investment strategies) and micro-level phenomena (such as stakeholder perceptions and the nuanced role of religion in governance). In-depth interviews, which were conducted in London, due to fieldwork constraints in Saudi

Arabia, provided critical first-hand insights from participants familiar with Saudi Vision 2030, offering a reliable basis for contextualizing quantitative data.

The research design, addressing Saudi Arabia, focuses on four major case studies: King Abdullah Economic City (KAEC), King Abdullah Financial District (KAFD), the Public Investment Fund (PIF), and Sovereign Wealth Funds (SWFs) in the Gulf region. These cases provide a focused yet comprehensive lens through which to examine Saudi Arabia's political economy. The methodological approach is especially effective in capturing the layered dynamics of state-led development and the regional competition for global flows, highlighting how these projects not only seek to attract foreign investments but also reflect Saudi Arabia’s internal efforts to balance its religious identity with economic liberalisation.

In terms of research philosophy, this study is grounded in constructivism, acknowledging that social, political, and economic realities which are constructed through human interaction and interpretation. The methodological framework reflects this ontological and epistemological stance, enabling the researcher to explore how Saudi Arabia’s efforts to establish itself as a regional hub are shaped by both material factors (e.g., economic strategies) and ideational factors (e.g., religious identity). This constructivist approach, especially its application to International Relations (IR), allows for a more nuanced understanding of how the state’s identity and religious legitimacy influence its global positioning and the reception of its economic reforms by both domestic and international actors.

A key methodological contribution lies in the way the thesis addresses the challenges posed by researching sensitive political and religious topics in Saudi Arabia. The decision to conduct interviews in the UK, for instance, was influenced by concerns over participant safety and the potential risks involved in openly discussing Saudi political and religious dynamics within the Kingdom itself. By acknowledging these limitations, the methodology ensures both the reliability and ethical integrity of the research process.

The validity and reliability of the data are addressed through the triangulation of multiple data sources, including secondary data from respected global organisations and primary data from expert interviews. Triangulation strengthens the findings by cross-referencing diverse sources, ensuring a robust and comprehensive understanding of the complexities at play in Saudi Arabia's Vision 2030 initiatives. Moreover, the methodology emphasises confidentiality and anonymity, protecting the identities of interviewees to encourage more candid discussions of politically sensitive issues.

By combining constructivist theory with empirical analysis, the research design successfully navigates the overlapping dimensions of religion, state power, and global economic integration in Saudi Arabia. This mixed-methods framework is well-suited to the broader aims of the thesis, which seeks to understand how the Kingdom is managing the tensions between its religious identity and its economic aspirations in an increasingly interconnected world. Thus, the methodology serves as a replicable model for studying other religious states that are attempting similar transitions towards global economic integration.

3.3 Empirical Contributions

At an empirical level, this thesis explores the key mechanisms through which Saudi Arabia is attempting to achieve economic diversification and global integration. Specifically, it analyses the state's use of Sovereign Wealth Funds (SWFs), such as the Public Investment

Fund (PIF), and the development of megaprojects like King Abdullah Economic City (KAEC) and King Abdullah Financial District (KAFD). These projects serve as case studies for understanding how Saudi Arabia is leveraging state-directed investments to drive growth in non-oil sectors, including finance, tourism, and technology. The thesis also engages with state capitalism and global cities literature, situating Saudi Arabia's strategy within broader discussions on sovereign wealth funds (SWFs), and the role of megaprojects in global capital accumulation. By examining the Public Investment Fund (PIF), this research highlights the unique role of state-directed capital in facilitating economic diversification and integrating the kingdom into global financial networks. Additionally, the analysis of KAEC and KAFD illustrates how urban centres serve as critical nodes in global capital flows, making Saudi Arabia a central player in global production networks (GPNs).

The thesis also provides a detailed investigation of Saudi Arabia's regulatory reforms and how they are designed to create a more favourable environment for foreign direct investment (FDI). By comparing Saudi Arabia's diversification efforts with those of other Gulf states, such as United Arab Emirates, this research offers a comparative perspective on the opportunities and challenges facing Gulf Cooperation Council (GCC) states as they seek to diversify their economies.

While economic modernisation is a central focus of Vision 2030, the thesis also considers how Saudi Arabia's religious identity continues to shape its economic strategies. As the custodian of Islam's two holiest sites, Saudi Arabia must balance its role as a global financial player with its leadership in the Islamic world. The research contributes to discussions on how religious legitimacy interacts with the economic transformation of a state, particularly in the context of Islamic finance and regulatory frameworks that accommodate Shariah law.

4. The structure of the thesis.

This chapter – **Chapter 1** introduces the central research question: **"To what extent is Saudi Arabia attempting to establish itself as a hub for global flows beyond oil and religion?"** It sets the stage by outlining the challenges Saudi Arabia faces, particularly in its economic diversification efforts under Vision 2030. The context of Vision 2030, launched in 2016, is discussed, focusing on its goals to reduce reliance on oil, foster a vibrant private sector, and address the global shifts driven by climate change, fluctuating oil prices, and globalisation. The chapter also highlights the significance of studying Saudi Arabia as a case of state-led reform and modernisation, acknowledging the unique role of religion in the state's identity. It previews the subsequent chapters, which delve into literature, analysis, methodology, and case studies while setting the scope of the research questions.

Chapter 2 reviews the key academic literature relevant to the study, focusing on three central concepts: State Capitalism, Global Production Networks (GPNs), and Global Cities. The chapter explores how these concepts relate to Saudi Arabia's economic transformation under Vision 2030. First, it examines state capitalism, emphasising how the Saudi state retains control over strategic sectors, such as oil, finance, and infrastructure, to drive economic development. Next, it introduces global production networks (GPNs), analysing how Saudi Arabia is trying to diversify beyond oil by embedding itself in global economic networks. Finally, the concept of global cities is discussed, with a focus on how Saudi Arabia aims to transform its cities into global hubs, drawing comparisons with successful models like Dubai and Singapore. These frameworks will inform the empirical analysis in later chapters, particularly with respect to Saudi Arabia's urban megaprojects.

Chapter 3 reflects on Saudi Arabia's shifting role in the global economy, focusing on how Vision 2030 seeks to reposition the Kingdom amidst global economic and geopolitical changes. The chapter draws from the theoretical frameworks discussed in Chapter 2—state capitalism, GPNs, and global cities—to assess Saudi Arabia's attempt to move away from oil dependency and establish itself as a key player in new sectors like finance, technology and tourism. It also examines the interplay between Saudi Arabia's religious authority, derived from its custodianship of Mecca and Medina, and its economic ambitions. This chapter lays the foundation for analysing how Vision 2030 addresses the challenges posed by both the domestic socio-political landscape and the global economic shifts, including climate change and the energy transition.

Chapter 4 introduces the theoretical and methodological approach of the thesis. It emphasises the importance of incorporating religion into the analysis of International Political Economy (IPE), drawing on Faiz Sheikh's work on Islam in International Relations (IR). The chapter argues that religion plays a crucial role in shaping state behaviour in cases like Saudi Arabia, where the state's legitimacy is tied to its religious authority. It discusses how this religious dimension interacts with the economic goals of Vision 2030, particularly in the areas of governance and modernisation.

Chapter 5, the methodology section justifies the use of semi-structured interviews with policymakers, economists, and business professionals, highlighting how this qualitative approach provides a deeper understanding of the practical challenges in implementing Vision 2030. This chapter sets up the analytical tools that will be applied to the case studies in the following chapters.

Chapter 6, as the first empirical chapter, addresses how The Public Investment Fund (PIF) plays a pivotal role in Saudi Arabia's Vision 2030, acting as the primary vehicle for the Kingdom's economic diversification. Initially established in 1971, PIF's influence expanded significantly under Vision 2030, as it became the key instrument to channel oil revenues into domestic and international investments. This expansion reflects the state capitalism model, where the government utilises state-controlled wealth to drive its long-term economic transformation. PIF is tasked with funding mega-projects such as NEOM and other initiatives in tourism, technology, and infrastructure, all aimed at embedding Saudi Arabia into global economic networks.

Despite PIF's ability to fund ambitious projects, there remains a tension in relying on oil revenues to finance diversification. This creates a paradox where the Kingdom, while seeking to reduce its dependence on oil, still relies on it to fuel these very projects. This case is important as it highlights the complexities of globalisation for resource-dependent countries like Saudi Arabia. While engaging in global economic flows, the state remains tied to the very resource it aims to move away from.

Chapter 7, the second case study**,** addresses King Abdullah Economic City (KAEC), launched in 2005, and is a prime example of Saudi Arabia's efforts to create a global hub for industry and logistics. Initially designed to attract foreign direct investment (FDI) and promote economic diversification, KAEC faced significant challenges in meeting its original goals. Vision 2030 sought to revitalise the project, aligning it more closely with national economic objectives and addressing the obstacles that had hindered its progress. KAEC's struggles underscore the challenges that resource-heavy economies face when trying to diversify into non-oil sectors.

Despite its strategic location, KAEC has encountered several hurdles, including governance issues, regulatory barriers, and underwhelming foreign investment. These difficulties highlight the broader issues that countries like Saudi Arabia encounter when attempting to transition from a resource-based model to one more integrated into global production networks. The case of KAEC demonstrates the need for structural reforms to make such projects attractive to global investors and businesses, aligning with international standards of competitiveness and investment appeal.

KAEC illustrates the obstacles that emerging economies face when building global cities and positioning themselves as key players in international trade. It highlights the importance of structural reforms in creating the conditions necessary for successful global integration and diversification beyond traditional economic bases.

As the final empirical chapter **– chapter 8,** covers King Abdullah Financial District (KAFD), initiated in 2006, was conceived as a major financial hub that would position Riyadh as a global player in the financial sector. Like KAEC, KAFD struggled with delays and failed to attract the global financial institutions it was designed to house. Vision 2030 sought to realign KAFD's goals with Saudi Arabia's larger diversification strategy, aiming to transform the project into a cornerstone of the Kingdom's financial sector modernisation.

KAFD's difficulties reflect the broader challenges faced by economies trying to position themselves within global financial flows. Developing a global financial centre requires more than just modern infrastructure; it demands regulatory openness, transparency, and flexibility—qualities that Saudi Arabia is still working to develop. The case of KAFD underscores how state-led projects must align with global market expectations to succeed. This project, in particular, highlights the tension between state control and the demands of global investors and financial institutions, revealing the need for regulatory and governance reforms to facilitate deeper integration into the global financial system.

KAFD demonstrates the complexities of integrating into global financial networks and highlights the importance of governance reforms in aligning national projects with global economic standards. This case is crucial in understanding the economic and political challenges that Saudi Arabia faces as it seeks to become a global financial hub.

It is worth noting the importance of addressing these case studies through the lens of Globalisation. The fieldwork conducted, particularly through interviews with policymakers, economists, and business professionals, offers important insights into how Saudi Arabia is navigating globalisation. As a state-led economy, Saudi Arabia faces unique challenges as it attempts to diversify and open up to global markets. The model of state capitalism remains central to the Kingdom’s approach, with the government controlling major sectors and driving economic reform through state institutions like PIF. However, there is a clear tension in relying on oil revenues to fund projects designed to reduce oil dependency, a challenge faced by many resource-rich nations trying to adapt to global economic shifts.

In addition to economic challenges, the fieldwork highlights the regulatory and infrastructural barriers that have hindered projects like KAEC and KAFD from reaching their full potential. While Saudi Arabia has made significant efforts to modernise its economy, the regulatory environment still poses challenges for foreign investors seeking transparency and ease of doing business. These challenges reflect the broader reality of globalisation, where success depends not only on ambitious projects but also on aligning domestic institutions with international standards.

Furthermore, the fieldwork highlights the tensions between modernisation and tradition that Saudi Arabia faces as it opens its economy to global markets. The Kingdom must navigate the delicate balance between global economic demands and its deeply rooted social and religious values. This tension is particularly evident in projects like KAFD and KAEC, where the expectations of global investors may conflict with local norms. Saudi Arabia’s encounter with globalisation is thus multifaceted, involving economic reforms and social and cultural adaptation.

The PIF, KAEC, and KAFD case studies provide a comprehensive view of how Saudi Arabia is attempting to navigate globalisation through state-led initiatives. The fieldwork underscores the complexities of this process, highlighting the contradictions, regulatory challenges, and social tensions that must be addressed as the Kingdom seeks to diversify its economy and integrate more fully into the global economy.

Finally, **chapter 9** concludes this study by synthesising the findings of the empirical chapters and tying them back to the overarching research question. It assesses how far Saudi Arabia has come in achieving the goals of Vision 2030 and identifies what has worked, what has not, and why. The chapter highlights the contradictions inherent in Saudi Arabia’s reliance on oil revenues to fund diversification, as well as the challenges of balancing religious conservatism with economic modernisation. It also discusses the broader implications of Saudi Arabia’s reform efforts for the global order, particularly in terms of state capitalism, global production networks, and the role of religion in international political economy. Finally, the chapter offers suggestions for future research, particularly in exploring how Saudi Arabia's economic and social reforms will continue to evolve as the Kingdom grapples with global economic shifts and internal pressures.

Chapter 2: Literature Review

1. Introduction

The central research question guiding this chapter is: ***To what extent has Saudi Arabia been able to position itself as a hub for global flows beyond oil and religion?*** This question invites an exploration of the ways in which states, regardless of their individual contexts, navigate and harness the dynamics of globalisation to secure and optimise various forms of economic, political, and social flows. The term "flows" here is broadly conceptualised to include capital, information, goods, services, and people—each of which plays a critical role in shaping the global landscape. As globalisation intensifies, understanding how states interact with these flows is crucial for explaining their strategies and positioning in the international arena.

Globalisation, in this context, is understood not merely as an increase in cross-border interactions but as a process characterised by the movement or "flow" of resources and influences across state boundaries. This conceptualisation draws on Strange's (2010) perspective in International Relations (IR), which posits that the global system is deeply intertwined with both economic and political dimensions, making it impossible to separate the two when analysing state behaviour in the globalised world. Strange's work emphasises that states are not just political entities but are also deeply embedded in global economic networks. This dual focus on economics and politics provides a more nuanced understanding of globalisation, where states are seen as actors striving to manage and direct these flows to their advantage. The process of globalisation is not uniform; it is hierarchical and asymmetrical, benefiting some states while disadvantaging others. This asymmetry means that states are not passive recipients of globalisation's impacts but are active participants seeking to maintain or alter their positions within this global hierarchy. The literature indicates that states use various strategies to either attract beneficial flows or mitigate the risks posed by globalisation. These strategies can include economic reforms, policy adjustments, diplomatic efforts, and alliances, all aimed at navigating the complexities of a globalised world.

To further enrich this discussion, it is essential to integrate Keller Easterling’s (2014) insights on globalisation's infrastructural and spatial aspects. Easterling’s work highlights how the built environment and the spatial organisation of economies play a significant role in how states engage with global flows. Her perspective suggests that globalisation is not just an abstract process but is also rooted in the physical and infrastructural dimensions of statecraft (Easterling, 2014). This view complements the broader IPE discussion by adding a layer of analysis focused on how states' spatial and infrastructural strategies contribute to their ability to attract and manage flows.

This chapter reviews key literatures —Global Production Networks (GPNs), State Capitalism, and Global Cities—that offer essential insights into the dynamics of global capital flows and state positioning within the global economic system. These frameworks are critical for answering the research question: ***To what extent has Saudi Arabia been able to position itself as a hub for global flows of capital?*** By drawing on this literature, the chapter builds a foundation for understanding how states, particularly those with historically distinct economic and cultural flows such as Saudi Arabia, navigate the complexities of globalisation to attract and manage international capital.

The literature on **GPNs** is particularly relevant to the research question because it explores how states and regions are embedded into global value chains, where capital, goods, and services flow through intricate, transnational systems of production. GPN theory focuses on how economic actors—from states to corporations—organise production on a global scale and how certain countries position themselves to capture value within these networks. For Saudi Arabia, this framework is invaluable because its historical economic flows have been dominated by oil, a resource that has shaped its integration into global production and trade. While oil remains a central flow, the modern Saudi state is attempting to diversify its economy, embedding itself into broader production networks beyond energy and providing valuable insights into how transitional economies reposition themselves in the global hierarchy. The GPN literature thus offers insights into how states in transition, like Saudi Arabia, can strategically align with global value chains to reposition themselves in the global hierarchy, making it central to addressing the research question.

However, GPNs cannot be fully understood in isolation from the political structures that govern them, which is where the concept of **State Capitalism and Globalisation** becomes indispensable. The literature on State Capitalism is critical to understanding how states, especially those with firm centralised economic control, manage and direct global flows of capital. In contrast to market-oriented neoliberal models, State Capitalism emphasises the state's role in regulating and actively participating in the market through sovereign wealth funds, state-owned enterprises, and national strategic policies. This is particularly important for resource-rich countries like Saudi Arabia, where oil revenue has historically allowed the state to exert significant control over economic flows. Yet, as Saudi Arabia attempts to transition from an oil-based economy to one that attracts diverse forms of capital, including foreign investment in emerging industries, the state's central role remains vital. The literature on State Capitalism thus provides a lens through which to analyse how states use their sovereign power to manage the globalisation of their economies, positioning themselves as active hubs for capital flows rather than passive recipients. This literature is critical for analysing how Saudi Arabia’s centralised economic structure allows it to assert influence over global capital markets, especially as it seeks to shift away from oil dependence.

The **Global Cities** literature complements the previous frameworks by focusing on the role of urban centres as key nodes in the global network of capital, talent, and information. For example, Easterling’s (2014) work emphasises that global cities act as gateways for global capital flows, and the concentration of financial services, multinational corporations, and advanced infrastructure in these cities facilitates the attraction and retention of capital (Easterling, 2014). For Saudi Arabia, cities like King Abdullah Economic City (KAEC) and King Abdullah Financial District (KAFD) are designed to serve as hubs for financial and industrial activity, seeking to emulate prosperous global cities such as Dubai. This body of literature helps explain how urbanisation and global capital flows are deeply intertwined. For countries looking to reorient their economies toward global capital markets, the development of global cities becomes a strategic imperative. In this context, Saudi Arabia’s longstanding religious and economic flows provide a unique backdrop. Historically, the two key global flows that have shaped Saudi Arabia are oil and religion. Oil positioned the state as a global economic player, while religion—through the management of Islam's two holiest sites in Mecca and Medina—has endowed the country with immense geopolitical and cultural capital. As Saudi Arabia seeks to position itself as a hub for new forms of capital, the Global Cities literature provides insights into how it might leverage its religious significance and oil wealth to transform cities into global centres of finance, tourism, and innovation.

This theoretical convergence is key to understanding the broader implications of the research question. While GPN explains how states position themselves in the global division of labour and attract investment by integrating into value chains, State Capitalism sheds light on how state power can be leveraged to direct these flows. At the same time, as reflected in Easterling (2014), the Global Cities framework illustrates how capital often converges in urban centres, creating financial ecosystems that attract both people and investment. Together, these frameworks offer a multidimensional approach to understanding state positioning in the global economy. They are particularly relevant for understanding Saudi Arabia's unique position, where the oil legacy and Islam's cultural significance continue to shape its role in global flows of capital.

Moreover, by considering these frameworks together, the literature helps unpack the broader question of how states evolve in response to globalisation. As Saudi Arabia aims to diversify its economic base and lessen its dependence on oil, these theoretical perspectives reveal the multifaceted strategies it may employ to transition into a diversified hub for global capital flows. The interplay of state power, urbanisation, and integration into global production networks will determine the extent to which Saudi Arabia—and states like it—can sustain and reshape their positions within the global economic order.

These interconnected frameworks—GPNs, State Capitalism, and Global Cities—provide a comprehensive view of Saudi Arabia's position in the global economy. They explain how the interplay of state power, urbanisation, and integration into global networks informs its strategy to become a diversified hub for capital flows. This is particularly relevant as Saudi Arabia seeks to reshape its global role through Vision 2030, an effort aimed at economic transformation.

The detailed application of these theoretical frameworks will be explored further in Chapters 6, 7, and 8, where the case studies of Saudi Arabia's Public Investment Fund (PIF), King Abdullah Economic City (KAEC), King Abdullah Financial District (KAFD), and Sovereign Wealth Funds (SWFs) will be examined. These chapters will demonstrate how these projects align with the global trends and theoretical perspectives discussed here. Additionally, Chapter 3 will focus on Saudi Arabia's role in the global hierarchy, placing its efforts at economic diversification, particularly under Vision 2030, within the broader global and regional context.

2. Global Production Networks (GPNs)

2.1 Overview

Analysing the intricacies of the global economy, characterised by its inherent geographical disparities and substantial inequalities, presents significant theoretical and empirical challenges. An in-depth examination requires a framework that integrates the complex activities and interactions of diverse institutions and interest groups operating across multiple scales and territorial domains, including economic, political, social, and cultural entities. These interactions occur within dynamic and asymmetric power structures, resulting in distinct geographical patterns: the tangible environment in which individuals strive to navigate their lives. Additionally, it is essential to acknowledge that these material economic processes are intertwined with both 'nature' and the 'lifeworld', encompassing identities, discourses, work cultures, and the socio-cultural context of economic activities. This perspective aligns with what Sayer (2001) describes as a critical cultural political economy (Sayer, 2001 and Hudson, 2001).

Despite variations in terminology and focus among different scholars, there is an increasing consensus that the concept of the network is crucial for understanding the complexities of the global economy, particularly its geographical dimensions. This consensus does not suggest that networks are a recent development; rather, they embody the fundamental structural and relational nature of the organisation of production, distribution, and consumption of goods and services, which has always existed. While production networks have become significantly more complex in their organisation and more expansive geographically, they represent a fundamental form of economic organisation. Contrary to some arguments, these networks are not a hybrid existing in a space between markets and hierarchies but are intrinsic to economic systems (Thompson, 2003).

Production networks are fundamentally dynamic, and constantly evolving in both organisational and geographical terms. Their spatial and temporal characteristics are highly variable and contingent. As Hudson (2004) highlights, 'economic processes must be conceptualised as a complex circuitry with a multiplicity of linkages and feedback loops rather than as simple circuits or, even worse, linear flows'. Some networks endure over long periods, while others are more transient; some span vast geographical areas, while others are more localised. None remain static for long, as continuous adjustments—both major and minor—are made in response to internal and external conditions. Analysing these dynamics requires a heuristic framework that is attuned to variations in time and space. We contend that GPN concept offers such a framework.

GPN’s approach serves as a comprehensive relational framework, extending beyond the valuable yet more limited global commodity chain (GCC) and global value chain (GVC) models. While the core concept of all three frameworks centres around the nexus of interconnected functions, operations, and transactions involved in the production, distribution, and consumption of a specific product or service, there are two critical distinctions between them. First, GCCs and GVCs typically represent linear structures, whereas GPNs aim to transcend this linearity by incorporating diverse network configurations. Second, GCCs and GVCs concentrate primarily on the governance of inter-firm transactions, whereas GPNs seek to include all relevant actors and relationships within the network.

According to Levy (2008) GPNs are inherently both economic and political in nature. He describes them as contested organisational fields where actors negotiate the construction of economic relationships, governance structures, institutional rules, norms, and discursive frames. GPNs operate within a 'transnational space' shaped by global elites, institutions, and ideologies. Additionally, GPNs are social and cultural phenomena, influenced by and influencing the diverse social, political, and cultural contexts they inhabit, as well as the material aspects of their core transformational processes. Despite their broad ambitions, Levy (2008) notes that many studies using the GPN framework resemble those conducted with GCC analysis, showing a convergence with conventional competitiveness approaches and a drift from their critical origins. This chapter aims to address some underdeveloped areas of the GPN framework that require further analytical advancement to enhance our understanding of contemporary economic globalisation and its effects on territorial development. Specifically, this involves refining the conceptual categories of the GPN framework, with a focus on the notions of power and value, to better understand GPNs as integrated economic-political systems.

This section of the chapter asserts that the fragmentation and geographical dispersion of production networks have given rise to a new economic structure that increasingly shapes the global economy and its uneven development. Since the early 1990s, various terms and concepts have been introduced to describe this emerging phenomenon. Notably, in the realm of trade, the global export of intermediate goods now exceeds that of final and capital goods, indicating a significant shift as more components and parts are traded internationally for use in further production and export activities. As Gereffi (2014) observes, 'governments and international organisations are recognising this emerging trend in global trade, often described as a shift from "trade in goods" to "trade-in value-added," "trade in tasks," and "trade-in capabilities."' From the perspective of purchasing firms or 'buyers,' the terminology of outsourcing is frequently used to describe the acquisition of intermediate inputs from abroad, whether through external relationships (offshore outsourcing) or intra-firm transactions (offshore insourcing from affiliates). Proponents of the global commodity chain approach emphasise the governance mechanisms that oversee the production of specific goods and services within the global economy.

Contrastingly, our approach emphasises the pivotal economic actors in these processes, aligning with the increasing academic and policy focus on GVCs. For instance, a 2010 World Bank report on the post-2008 global economy states that 'given the fragmentation and global relocation of production processes across many industries, GVCs have become the backbone and central nervous system of the world economy' Cattaneo et al., (2010). Thus, analysts from numerous international organisations now regard global value chains as a fundamental structural component of the contemporary global economy.

This section aims to reframe existing debates and develop a more dynamic theory of global production by focusing on the emergence and development of GPNs within the global economy. A GPN is defined as an organisational structure composed of interconnected economic and non-economic actors, coordinated by a global lead firm, producing goods or services across various geographical locations for global markets. This terminology is chosen deliberately, reflecting a commitment to an analytical approach that addresses the complexity of the multi-actor and geographically intricate contemporary global economy.

The primary focus is on the actors that constitute GPNs, emphasising the crucial role of the lead firm and the multiple locations linked through economic relationships among these actors. The concept of a GPN extends beyond simplistic notions of task trading and outsourcing by highlighting the actor-specific coordination and cooperation strategies that build, manage, and sustain such networks. It also considers the strategic responses of other corporate and non-corporate actors within the GPN. This actor-centric approach sets GPN theory apart from other frameworks that concentrate on specific commodities such as global commodity chain research or aggregate various value chains into industries such as global value chain research. The central objective is to illustrate how the GPN framework can effectively explain patterns of uneven development—both inter-country and intra-country—in the modern global economy.

This section has three goals. First, it outlines the intellectual context in which the GPN framework first appeared in the early 2000s and summarises its fundamental attributes in comparison to related approaches. Second, it presents the structure and arguments of this section, explaining how the aim is to develop an enhanced GPN theory—referred to as 'GPN 2.0'—that builds upon and significantly expands existing research. Finally, it identifies the key structural forces that have led to the rise of GPNs as an organisational phenomenon in the global economy since the early 1990s. The increasing spatial and organisational fragmentation of production has fundamentally transformed the global economy since 1990. These organisational shifts have been paralleled by significant geographical changes, including the rise of emerging market transnational corporations (TNCs) and a shift in global demand towards the Global South. This shift includes the growth of South-South trade and the increased focus of firms from the Global North on these markets. These trends have been further accelerated by the global recession that began in 2008, which also led to a consolidation of global production networks in various industries.

This section of the chapter does not aim to provide an exhaustive mapping of these shifting patterns within the global economy. Instead, it seeks to explain the fundamental conditions and capitalist imperatives that have led to the emergence of global production networks as a predominant organisational feature of the world economic system. What follows is a brief overview of the complex and varied dynamics of industrial and organisational change on a global scale. Throughout much of the first half of the twentieth century, industrial capitalism was largely confined within national borders, characterised by an era of mass production commonly known as Fordism. Although international production systems existed, they were often dominated by relatively self-contained multi-domestic structures, with TNCs replicating their home operations abroad.

By the late 1970s, the advanced economies of North America and Western Europe began undergoing a radical transformation from Fordist production systems to more flexible and spatially dispersed economic organisations. In their work, Piore and Sabel (1984) describe this shift as a move towards 'flexible specialisation.' This new mode of organisation involved more flexible intra-firm relations, rapid vertical disintegration of production processes, and the emergence of extensive hybrid and non-hierarchical forms of organising production, such as subcontracting and spin-offs. Instead of the extensive intra-firm technical division of labour that characterised Fordist production, these new flexible systems embedded a more profound social division of labour. Herrigel (2010) describes flexible specialisation as an ongoing and intense collaboration between design and manufacturing, occurring within the increasingly fragmented division of labour both within and across firms. Production units have become smaller and are often restructured into separate legal entities. Instead of following market signals or hierarchical directives, these relationships are continually redefined through collaboration and negotiation. The interactions among these collaborating producers are typically managed by various extra-firm practices and institutions. These mechanisms are designed to balance cooperation and competition, enabling the constant reconfiguration of roles and capacities. Such relationships are evident in both developed and developing contexts, as well as in scenarios that bridge the two.

The structural shift in Atlantic capitalism during the 1970s was primarily driven by the crisis of Fordism, a response to the intensifying global competition. Walter and Zhang (2012) states that this heightened competition was fuelled by the rapid internationalisation of domestic production systems and the emergence of new competitors from East Asia—first Japan in the 1960s and 1970s, followed by South Korea, Taiwan, Singapore, and Hong Kong in the 1970s and 1980s. To maintain a competitive edge, flexible production systems were adopted as a strategic response. Piore and Sabel (1984) described flexible specialisation as a strategy centred on permanent innovation and adaptation to continuous change, relying on versatile equipment, skilled labour, and the establishment of an industrial community that promotes innovation-friendly competition.

This transition from Fordism led to the rise of major lead firms capable of exerting control over products and markets and expanding their global production networks in industries such as automobiles, electronics, semiconductors, and machinery. These lead firms, facing increasingly globalised markets and competitors, are primarily driven by three key dynamics: cost, flexibility, and speed. These dynamics profoundly influence the configuration of global production networks and economic development across various regional and national contexts. To succeed in the post-Fordist global economy, lead firms must effectively address these capitalist dynamics. The resulting reorganisation of value activities has given rise to global production networks, with geographical, organisational, and technological adjustments serving as interconnected responses to the imperatives of cost, flexibility, and speed.

The relentless pursuit of cost reduction is a cornerstone of industrial competition. By the 1990s, with global competition intensifying and product life cycles shortening, lead firms prioritised production costs. Advances in manufacturing technologies, product standardisation, and modularisation, along with reduced profit margins, allowed manufacturing to be outsourced to specialised producers with significant cost advantages due to scale and scope economies. Since the 2000s, these specialised manufacturers have expanded into TNCs. This outsourcing has enabled lead firms to focus on core competencies and new strategic areas while mitigating investment risks from market fluctuations. Cost pressures in the service sector mirror those in manufacturing, affecting industries like finance, accounting, and software. Non-core services, such as human resources and IT, are increasingly outsourced to specialised providers globally.

This competitive cost pressure leads to a spatial fix, where lead firms in both manufacturing and service industries seek lower-cost suppliers internationally. High-cost national economies have experienced deindustrialisation, while lower-cost economies have gained investment through a new international division of labour. This process is evident in the relocation of European and American manufacturing to East Asia since the 1970s, underpinning the success of export-oriented industrialisation in these economies. However, the spatial fix is not a long-term solution for global lead firms' competitive challenges. Flexibility and speed have become crucial dynamic capabilities. According to Yeung (2014), since the 1990s, lead firms have pursued an organisational fix to gain competitive advantage. This involves reorganising production networks through strategic business practices rather than merely relocating production geographically, focusing on organisational principles that maximise competitiveness.

Outsourcing to independent suppliers is a common organisational fix that allows lead firms to enhance production flexibility without the financial and operational burdens of maintaining or establishing new facilities. Lead firms can sell existing production facilities to strategic partners domestically or internationally. Contract manufacturing arrangements in modularised industries like electronics and machinery exemplify this strategy. Modularisation of components reduces costs for switching parts or making production modifications, fosters shared innovation and promotes technological development. This approach enables lead firms to collaborate with strategic partners, sharing expertise to jointly develop new products and services.

In advanced economies, lead firms have adopted what Herrigel (2010) describes as 'industrial recomposition,' where innovative industrial actors continuously redefine the social relations of manufacturing. Herrigel's (2010) research shows that lead firms in the steel, automobile, and machinery sectors in Germany, Japan, and the United States have restructured national and regional institutions and governance to better respond to global competitive pressures. These changes often do not involve moving production geographically but rather reintegrating supplier-customer relationships into new organisational models like lean production and contingent collaboration. This has led to more internationally oriented and integrated production networks, creating sophisticated global production networks managed by global lead firms. However, not all organisational fixes lead to global production networks. Some fixes, like in situ industrial recomposition, consolidate production within specific industrial districts and regional complexes such as Baden-Wurttemberg (Germany), Silicon Valley (USA), and Toyota City (Japan). These approaches create varied geographical configurations of value activities, resulting in different growth opportunities and development paths for regional and national economies.

The quest for low-cost production and organisational efficiencies does not fully encapsulate capitalist dynamics in globalisation. Harvey (1989) describes 'time-space compression,' where advancements in transport and communication technologies drive firms to seek new competitive edges. This acceleration heightens the need for rapid time-to-market, essential for capturing early product life cycle value and market share. As product life cycles shorten due to technological innovation and market demands for diversity, quick time-to-market becomes critical[2]. Lead firms may use a spatial fix by placing production close to key markets or an organisational fix by integrating value creation within global production networks to speed up innovation, production, and delivery. Thus, success hinges on the intersection of production costs and time-to-market.

In essence, global production networks have become the foremost solution to the dynamic challenges of cost, speed, and flexibility that drive competitive success in the modern

[2] Scholars in international economics have emphasised production fragmentation, outsourcing, offshoring, and trading tasks in tradable goods. Notable contributions include works by Jones and Kierzkowski (1990) and (2001), Feenstra and Hanson (1996), Feenstra (1998), Arndt and Kierzkowski (2001), Antràs and Helpman (2004), Antràs (2005), Antràs et al. (2006), Grossman and Rossi-Hansberg (2008), Antràs and Chor (2013), Baldwin (2013), Baldwin and Venables (2013), Milberg and Winkler (2013), and Koopman et al. (2014).

global economy. As a prevailing organisational structure, these networks integrate aspects of spatial, organisational, and technological fixes. Earlier international labour divisions were shaped by European colonial trade patterns and, later, by the rise of TNC-owned subsidiaries in the 1960s and 1970s. However, the current global division of labour, emerging since the 1990s, is marked by the development of global production networks across diverse sectors. Instead of relying on direct ownership, lead firms exercise control and coordination through complex arrangements involving subcontracting, alliances, partnerships, and other non-equity-based relationships.

2.2 The emergence of GPN 1.0

The rapid and profound shifts within the global economy since the early 1990s have posed substantial challenges for theorisation. Within the critical social sciences, the most productive research avenues have moved the analytical lens from traditional trade between national economies to the intricately coordinated global chains or networks of firms, now recognised as the central organisational form in the contemporary global economy. This literature review examines the emergence of the GPNs framework, which underpins this section of the chapter. The initial formulation of this framework, referred to as GPN 1.0, took shape in the early-to-mid 2000s and has been a key focus of scholarly work since then. The primary objective of this section is to advance towards a more sophisticated version—GPN 2.0—that seeks to enhance its analytical and explanatory power, offering a more dynamic theory of global production networks. Before delving into these developments, it is important to first consider the intellectual context from which the GPN 1.0 framework arose and the contributions it aimed to make.

While the theories surrounding global chains and networks have origins dating back to the 1980s, a pivotal moment in their development occurred at the Sixteenth Annual Conference on the Political Economy of the World System, held at Duke University in April 1992. The conference led to the publication of an influential edited volume in 1994, *Commodity Chains and Global Capitalism* by (Gereffi and Korzeniewicz, 1994). This work marked the beginning of extensive research into global commodity chains, a line of inquiry that continues to this day. Gereffi and Korzeniewicz drew initial inspiration from Immanuel Wallerstein's world-systems framework (1974), which categorised national economies into core, semi-periphery, and periphery within a global order. They advanced the concept of global commodity chains as a new analytical category for understanding the evolving spatial organisation of production and consumption in the global economy. By defining global commodity chains as 'sets of inter-organizational networks clustered around one commodity or product, linking households, enterprises, and states within the world economy,' they sought to move beyond nation-state-centric analyses. These networks were described as situationally specific, socially constructed, and locally integrated, highlighting the social embeddedness of economic organisation. The aim was to develop a Meso-level analysis that could explore the connections 'above and below the level of the nation-state' and expose the macro-micro links between processes typically confined within global, national, and local units of analysis (Gereffi and Korzeniewicz, 1994).

Each global commodity chain is characterised by four interconnected dimensions. First, the input-output structure identifies the various products and services that combine in a value-adding sequence to enable a specific economic activity. Second, territoriality refers to the spatial configuration of the actors involved, whether they are spatially concentrated or dispersed across different locations. Third, governance within the chain reflects the power and authority dynamics that influence the flow of materials, capital, technology, and knowledge.

Fourth, global commodity chains are shaped by the broader institutional frameworks surrounding them, including state policies and regulations related to trade, investment, and technology. Among these dimensions, the governance aspect has sparked significant research within the global commodity chain framework, particularly building on Gereffi's (1994) influential distinction between 'producer-driven' and 'buyer-driven' commodity chains. Given the foundational importance of this distinction, it warrants a brief reiteration here[3].

Producer-driven chains are typically found in industries where large industrial TNCs dominate and control global production structures. These chains are prevalent in capital- and technology-intensive sectors such as aircraft, automobile, computer, semiconductor, pharmaceutical, and machinery manufacturing. In these chains, power is centralised within the headquarters of leading TNCs, which exert control over both backward linkages to raw material and component suppliers and forward linkages with distributors and retailers. High profits are generated through large-scale production combined with the ability to drive technological advancements within the production system. In contrast, buyer-driven chains are more common in industries where large retailers and brand-name merchandisers play a central role in controlling global production systems, particularly in export-oriented countries. This type of global commodity chain is typical in labour-intensive consumer goods sectors, such as clothing, footwear, and toys. Production in these chains is often organised through tiered subcontracting arrangements, where finished goods are produced according to the pricing and product specifications set by powerful buyers. These buyers achieve substantial profits by

[3] For critiques on how global value chains (GVCs) have been adopted by international organisations and national governments, refer to the works of Starosta (2010a, b), Glassman (2011), Fernández (2014), and Neilson (2014). Fernández (2014) offers a pointed critique, suggesting that "as neoliberal tools and policies rooted in the Washington Consensus have lost favour, the GVC approach has gained traction in supranational agendas. This shift has provided fresh theoretical backing for various assistance programs, financial projects, and institutional efforts that were once deeply committed to market self-regulation theories.

leveraging their design, sales, marketing, and financial expertise, along with strong brand names and access to large consumer markets in developed countries.

Although the global commodity chain framework has inspired a substantial body of research, several limitations became increasingly apparent from the late 1990s onward. Firstly, despite the theoretical identification of four dimensions within the framework, governance structures have overwhelmingly dominated GCC research. The distinction between producer-driven and buyer-driven chains, while useful in illustrating overall control, can obscure the nuanced and complex governance arrangements present within broader global commodity chains.

Secondly, the geographical scope of GCC research remains underdeveloped, with a predominant focus on national scales as the primary unit of analysis. This focus often overlooks the processes of local and regional economic development and the macro-regional production configurations within countries. The limited territorial perspective also reflects a broader issue in adequately exploring how firm networks interact with diverse social and institutional environments. Additionally, there has been insufficient examination of ownership structures and the varying organisational strategies that firms of different national origins might adopt.

Thirdly, while the GCC framework has been effective in analysing basic and agricultural commodities, its emphasis on commodities rather than the leading actors within the system has hindered its ability to fully explain competitive dynamics in the multi-product and multi-service sectors characteristic of contemporary capitalism.

Finally, a significant challenge within GCC research is the difficulty of 'scaling up' findings from individual commodity chain studies to assess broader developmental trends and outcomes in the global economy. As Dussel Peters (2008) critiques, 'most research on global commodity chains treats the GCC framework as a "methodology" rather than a "theory,"' leading to an abundance of empirical studies on specific chains and firms but limited theoretical integration to explain these findings systematically.

While research on Global Commodity Chains (GCC) remains active, the early 2000s saw the development of the Global Value Chains (GVC) framework, which addressed several of the GCC approach's earlier limitations. This newer perspective, drawing from disciplines such as economic sociology, development studies, and industry analysis, sought to provide a more nuanced understanding of inter-firm governance. Gereffi et al. (2005) proposed a five-part governance typology in GVCs, based on the interaction of three factors: transaction complexity, the ability to codify transactions, and the capabilities of suppliers. This framework expands beyond the traditional market and hierarchical models by introducing modular, relational, and captive governance, which involve varying degrees of coordination and control. Despite its impact, this typology has been critiqued for not fully accounting for the influence of local institutional contexts and the dynamic interactions within and between firms. Later research has built on this by exploring the various modes and levels of governance in GVCs, differentiating between the overarching control (whether buyer- or producer-driven), the specific forms of coordination (as outlined in the five governance types), and the broader processes of normalisation that occur throughout the value chain, with insights from convention theory[4].

[4] Also see: Hsu, J.-Y. and Saxenian, A. (2000) 'The limits of guanxi capitalism: transnational collaboration between Taiwan and the USA', *Environment and Planning A*, 32(11), pp. 1991–2005, Phelps, N. A. and Wood, A. (2006) 'Lost in translation? Local interests, global actors and inward investment regimes', *Journal of*

Research on GVCs has increasingly acknowledged the complexity and fluidity of governance relationships within global production systems. Additionally, two significant areas of development within GVC research are (1) the integration of sub-national spaces, such as industrial clusters, into global value chains and the implications of this integration, and (2) the strategies by which firms and localities can enhance their positions within global value chains over time, a process widely referred to as upgrading. Another notable achievement of GVC research is its growing influence in the policy realm, with the terminology gaining traction among various international development agencies since the early 2000s. Although a universally accepted definition of a global value chain is rare in key academic discussions advocating the approach, UNCTAD's *World Investment Report 2013* provides a concise definition: "GVCs are characterised by fragmented supply chains, with tasks and activities dispersed internationally and coordinated by a lead firm, typically a TNC (UNCTAD, 2013).

Research on GCCs and the initial work on GVCs was pivotal in shaping the development of Global Production Networks (GPN) 1.0 in the early 2000s. Some of the motivations behind this development mirrored those driving the shift from GCC to GVC analysis, such as the need for a deeper understanding of governance dynamics and a more comprehensive incorporation of multiple analytical scales beyond the global and national levels. However, other influences were more foundational, reflecting concerns about the metaphors and geographical perspectives underlying these theories. GPN 1.0 was also shaped by two additional theoretical perspectives gaining traction in the social sciences during this period. The first was actor-network theory (ANT), which emerged from studies in the sociology

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Economic Geography, 6(4), pp. 493–515, Rodríguez-Pose, A. and Storper, M. (2006) 'Better rules or stronger communities? On the social foundations of institutional change and its economic effects', *Economic Geography*, 82(1), pp. 1–25, and Yeung, H. W.-C. (2009) 'Regional development and the competitive dynamics of global production networks: an East Asian perspective', *Regional Studies*, 43(3), pp. 325–351.

of scientific knowledge. According to Smith (2014) and Pickles and Smith (2015) ANT emphasises that entities within networks are defined by their relationships with other entities and can only be understood in that context. It is important to note that GPN 1.0 does not fully embrace ANT. For example, it does not grant agency to non-human objects as ANT does, nor does it discard more structural notions of power that exist outside the network and influence the formation and functioning of production networks[5]. Nevertheless, ANT contributes valuable insights to the study of global production networks, both theoretically and methodologically. Concepts such as 'following the network' and recognising 'distributed agency' within the system are critical to GPN research. Additionally, ANT's focus on the interplay between local and global relationships provides a nuanced understanding of how networks operate in complex and interconnected ways.

Secondly, GPN 1.0 drew additional insights from research focusing on the unique characteristics of what is referred to as "varieties of capitalism," "national business systems," or "national systems of innovation." This perspective argues that societies differ significantly in their social and institutional structures due to variations in culture, political systems, education, financial regulations, and other factors. As a result, these differences manifest in distinct production and welfare regimes, labour market practices, and state economic management capacities, which in turn influence the firms originating from or operating within specific national contexts.

However, this approach has its drawbacks, such as a tendency to create overly simplistic and static typologies of national systems and a potential oversight of the variation within a single nation's political, institutional, and economic landscapes. From a GPN perspective, the significance of these institutional and territorial logics is emphasised—they are not merely a backdrop, as often implied in GCC/GVC analyses, but are crucial in shaping how actors within global production networks operate in specific locations. Furthermore, these different capitalist territorial formations are also shaped by the dynamics of global production networks, meaning that the developmental outcomes of these interactions must be considered. Therefore, it is essential to adopt an approach that balances the transformative effects of global production networks on the economies they operate within, while also recognising how national conditions influence the operations of these networks in particular countries and regions. The key analytical task is to unpack the mutual transformation between the firms/networks and the places in which they are embedded.

2.3 Regional Economic Development and GPN:

With the framework of GPN 1.0 established, we can now explore how these concepts illuminate patterns of uneven economic development in a globalised world. GPN analysis suggests that the sub-national region, rather than the national economy, is the primary focus for understanding economic development. Firms operate within specific locales, each with unique institutional conditions that shape their development processes. Therefore, regions serve as the fundamental geographical units for interpreting patterns of economic growth and decline. The GPN approach considers both internal growth factors within regions and the strategic imperatives of external actors, such as lead firms that coordinate global production networks. Regional development is thus seen as the result of complex interactions between localised networks and global production systems, influenced by evolving regional governance structures. These interactions, rather than inherent regional advantages or fixed global configurations, drive regional development. Despite the influence of historical trajectories, regional development is ultimately a contingent and unpredictable process.

While endogenous factors are crucial for regional growth, they alone are not sufficient in an increasingly global competitive environment. For development to occur, a region must capitalise on economies of scale and scope derived from its local human, technological, and institutional resources. These assets can generate two types of economies: economies of scale, which arise from the dense concentration of specific knowledge, skills, and expertise in a region, and economies of scope, which emerge when regions benefit from the intangible advantages of learning and collaboration within these agglomerations.

According to GPN analysis, these economies of scale and scope within specific regions are beneficial to regional development only when they align with the strategic needs of lead firms in global production networks. When such alignment, or strategic coupling, occurs, regional advantages can interact effectively with the needs of global production networks, driving regional development. This coupling process evolves over time, shaped by the changing strategic priorities of global production networks and the slower transformations in regional economies of scale and scope. Thus, regional development is contingent on the dynamic interaction between these local and global forces

The idea of strategic coupling is defined by three crucial characteristics. First, it is strategic because it requires deliberate and coordinated efforts from both regional institutions and dominant actors within global production networks to materialise. Second, it is contingent on specific temporal and spatial contexts, meaning that it is a dynamic, temporary partnership between local and external actors, subject to change over time. Third, it transcends geographical boundaries, involving interactions across different spatial scales, where key strategic decisions affecting regional coupling are often made by actors at the national or global levels, beyond the region itself. It is important to recognise that strategic coupling between local entities (such as firms and regional organisations) and global production network leaders is not a straightforward or inevitable process. The success of this coupling is not guaranteed, and it varies depending on the specific geographic and temporal context. This process needs careful examination because it evolves differently across regions and times. Furthermore, the accessibility to the tools and resources necessary for successful coupling can vary significantly between regions. Regional development, therefore, should be seen as an evolutionary process, characterised by phases of strategic coupling, followed by decoupling and potential recoupling.

The process of strategic coupling operates through value creation, enhancement, and capture. However, simply being integrated into a global production network does not automatically ensure positive developmental outcomes for a region. Local actors may contribute to value creation without fully maximising the region's economic potential. Regional assets can only drive regional development if they align with the strategic needs of global production networks. Achieving this alignment requires the presence of effective institutional structures that not only foster regional advantages but also facilitate the region's integration into global production networks. Importantly, the concept of regional institutions should encompass not just locally specific entities but also local branches of national or supranational organisations (such as trade union chapters) and external institutions that influence regional activities without a direct presence (like a national tax authority). These multi-scalar institutions are crucial because they help anchor global production networks within specific localities.

While greater integration into global production networks can enhance a region's ability to benefit from economies of scale and scope, it also reduces the region's ability to control its own development trajectory. In some cases, regional institutions can leverage their unique regional assets to negotiate with lead firms, creating a dynamic where power relations are not solely dominated by the latter. The bargaining power of these regional institutions is especially strong when their region-specific assets closely align with the strategic priorities of lead firms within global production networks.

2.4 GPN2.0: Developing a Dynamic Framework for Global Production Networks.

GPN 1.0, which builds on the Global Commodity Chain (GCC) approach and other related theories such as actor-network theory and the varieties of capitalism framework, emerged as a foundational model in economic geography and international political economy. This framework highlights the intricate networks of firms and territorial institutions that underpin economic activities and how these are structured both organizationally and geographically. GPN 1.0 has been effective in offering a flexible, geographically informed framework for analysing the evolving configurations of global production networks. However, despite its goal to offer a broadly applicable conceptualisation of GPNs, Henderson et al. (2002) state its significant influence as a heuristic tool in economic geography and the broader social sciences, GPN 1.0 remains underdeveloped in certain areas. Specifically, while it introduces the interconnected conceptual categories of value, embeddedness, and power, it falls short of explicitly defining the causal mechanisms that link these elements to the dynamic nature of global production networks. This conceptual limitation has led to critiques that existing approaches within GPN 1.0 are not sufficiently explanatory or causal to fully account for the complexities of global production networks.

With the increasing emphasis on global production networks in academic discourse and international policy, the time appears ripe for a more ambitious theoretical advancement. This progression aims to introduce significant new insights and to inform subsequent empirical research. By proposing GPN 2.0, this book seeks to catalyse a pivotal shift toward enhanced analytical clarity and greater explanatory depth in the study of global production networks. This development involves refining elements of the original framework to achieve better analytical precision, placing greater emphasis on previously underrepresented actors and influences in GPN 1.0, and providing a deeper exploration of the dynamic forces that shape the formation and functioning of global production networks. The final section of this introductory chapter outlines the key contributions and innovations that the following chapters intend to present. The primary objective is to enhance the GPN framework's capacity to explain the uneven patterns of territorial development in the global economy.

The approach taken in this analysis is focused on uncovering the causal links between the structural capitalist dynamics that drive global production network formation and the development outcomes observed in regional economies. These underlying dynamics include critical factors such as costs and capabilities, market forces, finance, and risk management, all of which encapsulate the core imperatives of modern global capitalism. These dynamics serve as key variables that influence how economic actors configure and reconfigure their global production networks, ultimately determining the developmental outcomes across various industries, regions, and countries. Despite their importance, these competitive dynamics have been relatively under-theorized in the existing GVC/GPN literature, which has typically concentrated more on the operation of production chains and networks once they are established. By identifying these causal drivers, the analysis can then explore how they shape the strategies of different firms within global production networks. Firms organise their activities through various configurations of intra-, inter-, and extra-firm relationships, and this framework conceptualises how these configurations are influenced by the underlying dynamics.

The consequences of these causal mechanisms—encompassing diverse dynamics and strategies—are then considered in terms of their impact on firms within global production networks. The concept of 'value capture trajectories' is introduced to examine how firms either succeed or fail in capturing the benefits from their involvement in global production networks. Lastly, the analysis explores how these firm-level value capture trajectories can aggregate in specific locations, forming dominant modes and types of strategic coupling, with varying potential for value capture at both regional and national levels.

The concept of GPNs forms the foundation for linking the various conceptual elements discussed, with the primary focus being on the different actors that compose these networks. Rather than presenting a rigid, deterministic view, this approach acknowledges the presence of feedback mechanisms and complex interactions among these elements. One of the strengths of the original GPN framework was its rejection of simple, linear causality, allowing for a more nuanced understanding of the multiple factors at play. However, to advance the explanatory capabilities in GPN 2.0, there is a need to identify key causal relationships that connect global production networks with territorial economic development. The extent to which these causal pathways are modified or contested in different regional and industrial contexts is an empirical issue that warrants further investigation.

Previous research has often focused on specific aspects of global production networks. GVC studies have predominantly examined the strategies of certain actors, particularly lead firms, and their ability to extract value from other participants, typically key suppliers. GPN 1.0 expanded this perspective by incorporating sensitivity to geographical and institutional contexts, offering a more nuanced understanding of governance, and beginning to explore the territorial development impacts of integration into global production networks through concepts like strategic coupling.

To advance to GPN 2.0, however, three key conceptual shifts are necessary. First, it is important to refine our understanding of the components and actors within a global production network, especially given the broad adoption of the GPN framework and the occasional misinterpretation of its key concepts. Second, the focus needs to shift from the traditional emphasis on inter-firm relationships to uncover the underlying forces driving the strategies and actions of different types of firms within these networks. Developing this dynamic analysis of network formation and evolution will enable a more effective explanation of the varied industrial and territorial outcomes resulting from these capitalist processes. Third, the analysis must extend beyond firm-level outcomes to further explore how these intersect with regional economies and their developmental impacts. This requires a more explicit conceptualisation of the inherent territorial aspects of global production networks

In summary, GPN 2.0 should not be viewed as a radical departure from GPN 1.0. It is built on the same ontological and epistemological foundations, continuing to employ an actor-centric approach that interprets the global economy as a complex network of value-generating activities performed by actors within organizationally intricate and territorially specific contexts. The focus remains on sectoral and geographical complexity, with a multi-scalar perspective aimed at understanding uneven geographical development at both national and sub-national levels within the global economy. The core concepts of value, power, and embeddedness continue to serve as foundational elements, though the interpretation of embeddedness evolves slightly through the idea of horizontal territorial interfaces. GPN 2.0 seeks to enhance conceptual development by moving beyond the initial heuristic framework to uncover the causal connections that underpin the analysis. The objective is to offer deeper analytical insights into the processes of network formation, coordination, and configuration, and to better understand their linkages to development. Achieving this shift from GPN 1.0 to GPN 2.0 requires a series of conceptual refinements, providing greater clarity and depth in analysing the dynamics at play.

A final caveat is necessary. It is important to emphasise that this section is primarily focused on conceptual development. The goal is to advance the theoretical framework of GPN analysis and provide a basis for future research, rather than offering a comprehensive geographical and sectoral overview of global production network structures and dynamics. Nor does this review attempt to cover the extensive body of empirical studies on specific industries and regions that have utilised the GCC, GVC, and GPN frameworks since the mid-1990s. Instead, the use of empirical evidence in this review is deliberately selective and serves mainly to illustrate and contextualise the abstract concepts discussed. When appropriate, endnotes are used extensively to direct readers to the broader literature and to highlight studies that have been particularly insightful in terms of analytical contributions, especially those that advance conceptual development rather than simply applying existing frameworks

It is essential to recognise that much of the current empirical literature, with a few notable exceptions referenced in this review, tends to exhibit a 'production' focus, concentrating predominantly on manufacturing industries. This focus may be amplified by the term 'production' within GPNs. However, as will be elaborated further, the concept of production within GPNs is far broader, encompassing a diverse array of value-generating activities such as commodity inputs, research and development, producer services, distribution, and beyond. While this review might reflect this bias due to the literature it draws upon, it is important to stress that GPN analysis should extend to all sectors of the global economy. Business services, including finance, logistics, IT services, and human resource management, are not just critical inputs into various global production networks; they are also structured as global production networks themselves. Furthermore, the literature has relatively few studies that explore the impact of consumer dynamics, indicating a gap that warrants further exploration.

3. State Capitalism

3.1 Overview

Since the late 1970s, market-oriented reforms have led to a large-scale wave of privatisations in numerous countries, resulting in the retreat of the state from the economic arena in both developed and developing economies. In industrialised countries, the privatisation and deregulation reforms initiated by leaders such as Ronald Reagan in the United States and Margaret Thatcher in the United Kingdom marked a significant shift in economic governance. According to Sheshinki and Lopez-Calva (2003), these reforms, by one estimate, reduced the output of state-owned enterprises (SOEs) as a percentage of gross domestic product (GDP) from 6% in 1980 to 4% by 1999. Similarly, in less developed countries, the structural adjustments and stabilisation programs imposed by international donors, coupled with the fall of communism, led to a dramatic decrease in the share of SOEs in GDP, falling from over 10% to less than 4% within the same timeframe (Sheshinki and Lopez-Calva,2003). This shift indicated a global trend towards diminishing the role of the state in direct economic management, aligning with the broader neoliberal agenda that prioritised market mechanisms and private sector-led growth.

However, despite this widespread privatisation, the concept of state capitalism has persisted and even strengthened in certain regions. In the context of GPNs, state capitalism represents a strategic approach by which states retain control over key economic sectors and enterprises, using them to influence global production and trade.

State capitalism, in the context of GPNs, refers to an economic system where governments exert significant control over key industries and enterprises, often through state-owned enterprises (SOEs) or sovereign wealth funds (SWFs). This strategic approach allows states to manage critical economic sectors, influence global production, and shape trade flows to advance national interests. Unlike traditional capitalism, where market forces primarily guide economic activity, state capitalism involves direct government intervention in economic decision-making.

This concept gained prominence in the early 21st century, particularly with the rise of emerging economies such as Russia, Brazil, and the Gulf states, which maintained substantial state involvement in their economies even as they became more integrated into global markets. The resurgence of state capitalism has been framed as a response to neoliberal economic models, offering a way for states to mitigate external risks, secure strategic assets, and maintain domestic control in the face of globalisation's competitive pressures.

State capitalism, as it intersects with GPNs, highlights how states can leverage their control over key industries to integrate more strategically into global production networks, balancing the imperatives of global economic participation with domestic political objectives. This form of capitalism challenges the idea that economic globalisation leads to a diminished role for the state, showing instead that states can adapt to and shape global production processes.

This model of governance is particularly evident in countries such as China, where state-owned enterprises continue to play a crucial role in both domestic and international markets, integrating into GPNs while still under state control. The persistence of state capitalism in some regions highlights the complex and uneven nature of globalisation, where the state continues to play a significant role in economic activities, particularly in strategic industries. In these cases, rather than fully retreating, the state has adapted its role, focusing on guiding and managing the integration of its economies into global production networks. This approach allows states to exert influence over the flow of goods, capital, and technology within these networks, ensuring that national interests are safeguarded while participating in the global economy.

This discussion of state capitalism provides a crucial contrast to the more market-driven approaches observed in other regions and underscores the diversity of strategies that states employ within the globalised economy. It also sets the stage for understanding how different states navigate their roles within GPNs, either by relinquishing control through privatisation or by maintaining a strong state presence in key sectors to steer their integration into the global economic order.

According to Musacchio and Lazzarini (2014), in the twenty-first century, there has been a notable resurgence of state capitalism, where the state actively participates in the economy through ownership and investments. This trend is particularly pronounced in the developing world, especially within the BRIC nations (Brazil, Russia, India, and China). In these countries, state capitalism has become deeply embedded in their domestic markets. State-owned enterprises now represent a significant portion of stock market capitalisation—ranging from 34% to 70%—and their revenues contribute between 14% and 30% to the national GDP. Moreover, the oil-rich monarchies of the Arab Gulf Cooperation Council (GCC) have effectively managed several market-oriented and successful state-owned enterprises (SOEs). Examples include Batelco in Bahrain, Saudi Basic Industries Corporation (SABIC) in Saudi Arabia, and Etisalat in the United Arab Emirates (Hertog, 2010). State-owned enterprises (SOEs) have become increasingly influential in the global economy. The number of SOEs on the Fortune Global 500 list rose from 49 in 2005 to 114 in 2014, with their share of global assets expanding from 8.9% to 23.0% (Kwiatkowski and Augustynowicz, 2015). Beyond managing SOEs, states have also increasingly relied on sovereign wealth funds (SWFs) as a key instrument for controlling large amounts of capital. Initially pioneered by Arab Gulf states and Singapore, SWFs saw significant growth in the 2000s, with total assets surging from under US$1 trillion in 2000 to about US$6 trillion by 2012 (Clark et al. 2013).

The resurgence of state capitalism has significantly reshaped the global economic and geopolitical landscape. But why has state capitalism regained popularity over the past decade and a half, rather than fading into history? The endurance of state capitalism is both surprising and intriguing, especially given the substantial body of empirical research demonstrating that state-owned enterprises (SOEs) generally perform less efficiently than their privately owned counterparts (Megginson and Netter, 2001). The literature on the challenges faced by SOEs highlights issues such as "soft budget constraints," principal-agent problems, unclear property rights, and conflicting objectives—factors that have historically hindered the profitability of

SOEs (Boardman and Vining, 1989 and Kornai, Maskin, and Roland, 2003; de Silanes and La Porta, 1999; and Waterbury, 1993).

To understand this phenomenon, it is crucial to recognise that modern state capitalism is primarily motivated by political objectives rather than economic ones. When viewed through a political lens, the resurgence of state capitalism becomes more understandable—it is entrenched because it serves as a critical tool for the survival of regimes and individual leaders, particularly in countries with flexible rules that allow political elites significant discretion. Although scholars like Bremmer (2010) have rightly highlighted that state capitalism is fundamentally political, this study seeks to further delineate the various ways in which political leaders leverage SOEs to sustain their regimes and consolidate power. While numerous factors contribute to the resilience of state capitalism, this analysis zeroes in on the role of politics. Even if SOEs are economically inefficient, leaders in regimes with weak institutions have compelling reasons to protect and nurture state capitalism, as it can be more easily controlled through existing political mechanisms and is essential for advancing political agendas.

Firstly, one essential role of state capitalism is the ability to mobilise and direct economic resources during times of significant external pressure, allowing governments to respond effectively to crises. In such moments, the coordination between political elites and state-owned enterprises (SOEs) is facilitated through top-down formal institutions and informal networks. Financial crises, particularly in the context of global financial liberalisation, are among the most severe shocks states face. This study examines the late-2000s financial crisis, revealing through cross-national analysis that countries with extensive state involvement in economic activities before the crisis experienced less severe financial impacts.

Within GPN framework, this state-led economic strategy highlights how governments can reorient production networks to safeguard key industries during crises. SOEs, as integral components of these networks, are leveraged to stabilise regional economies by maintaining production and supply chains, thereby minimising disruptions. This strategic role of SOEs in global networks underscores the importance of state capitalism in navigating external economic challenges.

Secondly, the control of SOEs provides political leaders with a tool for consolidating power by expanding their influence and enhancing their role in policy formation. In resource-dependent economies, for instance, political leaders often use control over sectors such as energy or infrastructure to strengthen their political networks and economic alliances. From the GPN perspective, such actions align with the strategic coupling of regional economic assets to global production networks, where control over key industries enhances both political leverage and economic stability, reinforcing a leader's hold on power.

However, the use of SOEs for political purposes does not guarantee long-term regime stability. Although state capitalism allows regimes to respond to external threats and helps leaders maintain control, it carries risks, particularly when political agendas conflict with economic objectives. This internal tension can lead to inefficiencies within SOEs, undermining their contribution to both the economy and the political system. In the context of GPNs, such misalignments can disrupt the strategic partnerships that sustain political and economic power, weakening the state's position in the global network (Sun, et.al 2015).

In this section, state capitalism is understood as the state's direct involvement in shaping economic activities within capitalist frameworks. This extends the role of the state beyond its conventional duties of fiscal management, regulation, social welfare, and security. The state takes on an active role as an economic agent, influencing firms and markets through formal channels—such as ownership stakes, financial support, and regulatory advantages—as well as through informal means of influence. This understanding builds on recent literature such as Musacchio and Lazzarini (2014); Wood and Wright (2015), and (Wright et al., 2021). on state capitalism and resonates with the broader discussions around Global Production Networks, where the state's involvement is not limited to policy-setting but extends to direct participation in economic processes.

The literature on state capitalism provides a multifaceted view of how states actively intervene in and shape capitalist economies. Rather than focusing solely on traditional roles—such as fiscal oversight or regulatory functions—the state is increasingly seen as an active participant in economic activity. Recent studies, including Musacchio and Lazzarini (2014), Wood and Wright (2015), and Wright et al. (2021), have examined the different mechanisms by which states exert influence over markets and firms. These range from direct ownership and management of enterprises to more subtle forms of control, such as preferential access to resources, financial backing, or political leverage.

This literature highlights a key conclusion: state capitalism is not uniform. It manifests differently across various national contexts and industries, with distinct consequences for both global markets and domestic economies. The state’s economic agency can foster development and innovation, but it can also perpetuate inefficiencies and lead to rent-seeking behaviour, particularly where political interests dominate economic priorities.

One major focus in the literature is the dual role of the state: both a stabilising force during crises and a potential agent of distortion when used to consolidate political power. Musacchio and Lazzarini (2014) demonstrate how states have leveraged their involvement in SOEs to guide economic development while mitigating external shocks. Similarly, Wright et al. (2021) discuss how state intervention can exacerbate market inefficiencies, particularly in cases where oligopolistic firms benefit from state backing, blurring the line between public and private interests.

In the context of global production networks, this active role of the state takes on added significance. The GPN framework focuses on how global economic activities are organised and managed across national boundaries, with attention to the flow of goods, services, and capital. Within GPNs, the state is not merely a policy-maker; it also becomes a participant, directly shaping production and trade networks through state-owned enterprises and sovereign wealth funds This aligns with the broader discussions on state capitalism, where states do not just regulate but actively engage in economic processes, influencing global markets and transnational production.

The literature also calls attention to the strategic coupling of states with key global cities. These cities, as noted by Sassen and others, serve as nodes of control and innovation in the global economy. In this sense, global cities are the spatial manifestation of state capitalism's influence on global markets. They offer physical spaces where state-driven economic initiatives intersect with global flows of capital, labour, and technology. Thus, understanding the state's role within both GPNs and global cities is essential for grasping the complex dynamics of contemporary state capitalism.

Future research may need to explore the tensions between state-driven economic strategies and global market forces. While state intervention can drive development, particularly in emerging economies, the long-term sustainability of such strategies remains a critical area for inquiry. Moreover, comparative studies on the effectiveness of state capitalism across different regions and sectors could provide a deeper understanding of how states can balance political and economic imperatives within the global capitalist framework.

By integrating state capitalism into the GPN framework, we see how state-driven interventions influence the organisation of production networks, guiding the flow of resources and shaping market dynamics. The state's ability to wield such influence through a combination of formal and informal mechanisms highlights its crucial role in global economic interactions, especially in countries where state capitalism is more pronounced. These interventions are not just tools for economic management but also strategic levers that position states within the hierarchical structure of global production networks, enabling them to navigate and respond to the challenges posed by globalisation. Some scholars view the relationship between the state and capitalism as fundamentally conflicting. Traditional economic theories often present capitalism, or the market, as an "invisible hand" that efficiently allocates resources, whereas the state is seen as the "visible hand" that intervenes to correct market failures. However, capitalism does not always equate to market supremacy. There are numerous instances of imperfect markets where state intervention is necessary to achieve efficient outcomes. As Adam Smith warned in *The Wealth of Nations*, economic actors tend to seek ways to limit competition. Similarly, (Braudel,1992) economic histories reveal how the formation of oligopolies and monopolies has frequently marked capitalist development.

In the context of non-competitive markets and externalities, government intervention is often deemed essential to ensure market efficiency. The assumption that free markets automatically prioritise public interests over private ones does not always hold true, as evidenced by cases where deregulation and state intervention coexist (Wood, 2019). This dynamic becomes even more complex within GPNs, where state actions can be seen as necessary to manage the risks of global competition and ensure that national interests are safeguarded. In such networks, the state's role shifts from simply correcting market inefficiencies to actively shaping the flows of value and resources within the global economy. Moreover, the literature on state capture highlights that state intervention does not always prioritise the public good. States can be co-opted by private interests, as demonstrated by (Polanyi, 1944), who observed how states might serve narrow interests rather than broader societal welfare. This tension is critical to understanding how state capitalism operates within GPNs, where the boundaries between public and private interests often blur, further complicating the state's role in the global economic hierarchy.

While scholars such as Adam Smith (1776) textbooks often present the government as an impartial regulator ensuring fair competition, real-world scenarios frequently reveal significant imperfections in government intervention. These imperfections do not merely arise from the state's limited capacity to monitor and enforce market regulations effectively. They also stem from the influence that corporate interests wield in shaping the very creation of those regulations. In many capitalist economies, governments actively promote the interests of powerful, well-connected firms and industries, particularly in sectors where oligopolies dominate. A clear manifestation of this dynamic can be seen in the UK and the US, where governments have nurtured and supported oligopolistic structures in strategic industries such as defence. Additionally, state functions, including aspects of healthcare, aged care, and prison services, have been outsourced to private actors (Wood and Wright, 2015). The rise of dominant technology platforms is another example, reflecting not just regulatory oversight but also the considerable political influence these firms exert, both directly and through the passive support they receive from consumers (Culpepper and Thelen, 2020).

Beyond regulation, governments can directly intervene in economic activities through state-owned enterprises. Although these firms are nominally owned by the citizens, they are effectively controlled by politicians and, in many cases, are operated to serve political interests rather than public welfare (Cuervo-Cazurra et al., 2014). SOEs often face significant agency problems that can manifest in various ways, from inefficiencies in representing the public interest to advancing the political ambitions of government officials. This can also extend to serving the personal interests of politicians, senior civil servants, and their associates at the expense of broader societal welfare. Meanwhile, some private enterprises that are closely tied to the state can leverage the government's extensive economic and political resources for their benefit, yet they also become dependent on political influence. This creates a complex dynamic in which firms gain advantages from their connections to the state but are simultaneously subject to the motivations and objectives of politicians. Such relationships can be driven by broader societal goals or by self-serving rent-seeking behaviour (Sun, Mellahi, and Wright, 2012; Sun, Mellahi, Wright, and Xu, 2015).

Although SOEs are nominally owned by the citizens, their actual control often lies in the hands of politicians and government officials, who may prioritise political over economic or public welfare objectives (Cuervo-Cazurra et al., 2014). This is because, in many cases, politicians and bureaucrats have direct oversight over SOEs, enabling them to exert influence in ways that align with their own political or personal goals. For example, SOEs may be used to create employment opportunities or fund social programs that help politicians maintain popular support or shore up their power base, even if these actions do not necessarily align with broader economic efficiency or public interest.

Agency problems are a recurring issue in SOEs. These occur when the interests of those managing the enterprise (politicians or appointed officials) conflict with the interests of the actual owners, i.e., the public. Such issues can result in inefficiencies that range from underperformance due to lack of market competition to outright mismanagement. In some instances, SOEs are used as vehicles to pursue the political ambitions of government officials, such as awarding contracts or positions within the enterprise to loyal supporters, contributing to political patronage systems rather than serving the collective welfare of society (Kornai, Maskin, & Roland, 2003). This can lead to ineffective governance, where the focus shifts from delivering public services to consolidating political power.

This phenomenon often extends to serving the personal interests of politicians, senior civil servants, and their associates, who may use their influence over SOEs for personal gain. This could involve awarding lucrative contracts to friends or family members, using SOEs as platforms for personal enrichment, or engaging in corrupt practices such as kickbacks and bribes. The misallocation of resources that results from such actions detracts from the broader societal welfare, leading to inefficiency and mismanagement within the enterprise (Boardman & Vining, 1989).

On the other hand, some private enterprises that are closely tied to the state gain significant advantages through government support, including subsidies, preferential access to resources, or regulatory leniency. These firms can leverage the government's political and economic resources to outcompete rivals or expand more easily. However, this close relationship creates a dependency on political influence, leaving the firms vulnerable to changes in political leadership or shifts in policy direction. Such a dynamic often ties private firms to the motivations of political elites, which may involve making concessions to remain in favour or engaging in rent-seeking practices, where both parties benefit at the expense of the public (Shleifer & Vishny, 1994).

In this context, rent-seeking behaviour refers to the practice where businesses and political elites exploit their relationship to extract economic rent without contributing to overall productivity or societal welfare. While this may be motivated by broader goals, such as supporting national industries or preserving political stability, it often devolves into self-serving strategies that prioritize short-term gains for a select group over long-term national development (Sun, Mellahi, & Wright, 2012; Sun, Mellahi, Wright, & Xu, 2015).

In essence, state capitalism is a mixed phenomenon that carries both benefits and costs. Capitalism is not always defined by the dominance of markets; indeed, some market actors have become increasingly dependent on state intervention, a trend that has intensified during subsequent crises. Similarly, state intervention is not always aligned with the public good. In some cases, the state may undermine collective welfare by transferring functions to firms that are more focused on extracting rents from the state than on societal well-being. As a result, state capitalism has taken on various forms across the globe, making it a critical area of study that resists simple, fixed ideological assumptions. The relationship between state and market is not unidirectional—just as modern states rely on markets for their survival, markets increasingly depend on state intervention for their continued operation (Wright et al., 2021).

3.2 Conceptualising of State Capitalism

The conceptualisation of state capitalism has undergone significant evolution, reflecting changing perspectives on the roles of government and markets in the global economy. During the period of post-war economic growth in the 1950s and 1960s, there was a prevailing sense of responsibility within corporations. Managers and investors viewed the sustainability of the corporation itself as a worthwhile objective, emphasising resource stewardship and cautious borrowing practices (Toms and Wilson, 2012). This approach often extended to an implicit commitment to a broader community of stakeholders (Post, Preston, and Sauter-Sachs, 2002). However, from the 1970s onwards, such views became less prevalent in countries like the US and the UK. The corporation began to be seen primarily as a nexus of contracts, a tool for maximising returns to investors—who were considered the residual claimants (Jensen and Meckling, 1976). Under this new paradigm, the potential demise of a corporation was seen as unfortunate but acceptable, as it allowed for the reallocation of capital to more productive areas.

The 2008 financial crisis prompted renewed scrutiny of this model (Mader, Mertens, and van der Zwan, 2020). Despite this, the post-crisis recovery, bolstered by bailouts, seemed to exacerbate the problem, creating a moral hazard that led to even greater excesses. In the lead-up to the crisis, there was a noticeable lack of empathy or duty towards other stakeholders, with many corporations exhibiting little regard for the wider societal or governmental responsibilities (Krauss et al., 2012). This excessive focus on shareholder returns, coupled with debt-funded share buybacks and dividends, left many firms ill-prepared to withstand the shocks of economic crises (Driver et al., 2020). The COVID-19 pandemic further exposed these vulnerabilities, as over-leveraged firms, including those backed by private equity and hedge funds, once again turned to the state for financial rescue (Wiggens, van der Velde, and Wigglesworth, 2020). In essence, the state assumed the role of lender of last resort, reviving firms that had taken on excessive debt to reward shareholders. However, the decisions regarding which firms to bail out were politically informed, reflecting strategic priorities in reshaping national economies in the aftermath of the crisis.

Another way to approach the theorisation of state capitalism is by examining how it varies across different regions and contexts. Comparative institutional analysis has increasingly become a valuable tool for exploring these differences (Allen et al., 2020 and Hall and Soskice, 2001 and Jackson and Deeg, 2008 and Ciftci et al., 2019). This approach goes beyond merely analysing formal regulations, instead delving into the informal norms, practices, and the intricate web of relationships between key actors that shape economic systems. This perspective reveals that no singular formula exists for balancing the roles of state and market, as multiple configurations can foster economic growth. The necessity for state intervention, particularly during times of crisis when the state often assumes the role of an active economic player, suggests that the question is less about whether state involvement is desirable and more about how its scope and form align with the specific needs of a given context.

A third way to approach the study of state capitalism is by examining the factors that drive its development within individual nations. The concept of institutional entrepreneurship highlights how certain actors can actively work to reshape or resist institutional rules to serve their own goals (Becker-Ritterspach, Lange and Becker-Ritterspach, 2017). These efforts might be aimed at levelling the playing field, securing favourable treatment, or even diverting state resources for personal gain—often at the expense of broader societal welfare. Such actions contribute to the ongoing transformation of state capitalism. While states can exploit the private sector, the reverse scenario is also true, as private entities can manipulate state structures to their advantage (Galbraith, 2006).

This dynamic results in various dysfunctions within state capitalism. On one hand, state resources may be captured by powerful insiders, such as political elites or local oligarchs. On the other hand, misguided attempts at national development through ill-suited strategies may also emerge (Hyden, 1983). These two issues often intersect. While state-business entanglements are frequently attributed to emerging economies, evidence suggests that this problem is not confined to them. For instance, in developing markets, states may be weakly embedded within society (Hyden, 1983), whereas in more advanced economies, it is often the business and investor elites who lack societal integration (Krauss et al., 2012). In both contexts, state capitalism can result in wealth being concentrated among a privileged few, rather than promoting inclusive economic development.

It is important not to oversimplify the issue by assuming that mature capitalist economies are immune to state capitalism or have perfected the balance between state and market involvement. Similarly, emerging economies cannot be uniformly characterised by state failure. In fact, a key distinction lies between states that manage to play an effective developmental role and those that struggle to do so (Evans, 1995 and Woo-Cumings, 1999). This divergence often stems from deep-rooted institutional legacies, sometimes influenced by former colonial powers (Acemoglu et al., 2017), as well as the specific configuration of domestic institutions and interest groups that shape the effectiveness of state policies (Allen et al., 2020 and Sun, 2007). Furthermore, external influences, such as foreign governments, multinational corporations, and other global actors, often play a role in shaping the trajectory of state capitalism by introducing systems aligned with their own interests (Koning et al., 2018). In both advanced and developing markets, economic returns can be generated in two primary ways: through the production and sale of goods and services or through predatory value extraction, which involves capturing and reallocating existing wealth (Lazonick and Shin, 2019 and Sun et al., 2016). State-owned enterprises, like private firms, can generate wealth through either path, often leading to the enrichment of political elites, government officials, and connected individuals (Sun et al., 2010).

Understanding state capitalism requires a deeper exploration of how elites actively shape the state's role as an economic player. Rather than viewing the state as merely acting on its own accord or being driven solely by institutional traditions (Evans, 1995 and Sun, 2019), it is necessary to consider how specific actors secure the power to exert influence over policy and institutional structures. These actors often position themselves to control policy outcomes and reshape institutions to their advantage. This reflects the broader tendency toward oligarchy, a dynamic that exists across all societies (Mayville, 2018). These tendencies tend to be more prominent in systems that struggle to align economic growth with widespread societal improvements or even maintain the living conditions of the broader population. Institutional change is often assumed to occur when these systems fail to generate inclusive growth or reconcile conflicting interests. However, such systems may continue to function effectively for a small group of insiders, maintaining their power and wealth (Wood and Frynas, 2006). As a result, the focus often shifts to preserving the aspects of the system that benefit these insiders, even at the expense of broader social welfare or democratic principles.

The rise of populist movements in advanced economies reveals that stable democratic institutions are not necessarily aligned with economic development. The critical factor is whether these institutions can sustain a foundational social contract (Cumming et al., 2020).

Additionally, if the actions of elites reflect their interests, ideologies, and power, the relationship between structure and action becomes more complex than simple cause and effect, as structuration theory suggests (Giddens, 1991). A third dimension to consider is the role of external events, whether they are the unintended outcomes of previous decisions or reactions to broader environmental shifts, such as economic cycles or political backlash (Wood, 2018). The expansion of state capitalism can often be traced back to previous decisions, like corporate overleveraging, which, when combined with external disruptions, shape the state's evolving role.

3.3 Expanding the Reach of State Capitalism Across Borders

State capitalism has traditionally been viewed as a phenomenon contained within a nation's borders, shaped by the policies and actions of its government. However, the increasing global expansion of state-owned enterprises (SOEs) and sovereign wealth funds (SWFs) is redefining this concept. Today, SOEs are evolving into multinational corporations with diverse goals, from acquiring strategic resources and generating profits to advancing their home country's diplomatic influence (Cuervo-Cazurra, 2018a and Cuervo-Cazurra et al., 2014). This internationalisation of SOEs brings both challenges and benefits, as state ownership can create additional scrutiny from host countries while simultaneously offering advantages, such as governmental support (Kalasin, Cuervo-Cazurra, and Ramamurti, 2020).

On one hand, state-backed companies often face stricter regulations or even outright rejection in foreign markets (Cuervo-Cazurra, 2018b). On the other hand, they may leverage their home government's diplomatic efforts to secure favourable terms, such as reduced customs duties on imports (Li et al., 2013). When these enterprises enter new markets, they must adapt their strategies to local conditions, which can range from direct competition with local firms to forming collaborative relationships (Guo et al., 2016). Unlike private multinational corporations, state-owned firms often integrate more deeply into local economies, sometimes even importing labour to manage significant portions of their operations, as seen with certain Chinese firms in Africa (Cooke et al., 2015). In addition to direct foreign operations, state capitalism extends its global influence through sovereign wealth funds, which serve as tools for managing national wealth and securing long-term financial stability. Funded primarily by revenues from natural resources like oil and gas, these funds allow governments to make strategic investments abroad. The objectives of SWFs range from maximising returns to acquiring strategic assets, promoting diplomatic goals, and exporting the values of their home countries (Cumming et al., 2017). SWFs also provide a discreet means for governments to influence policies in the countries where they invest, aligning financial power with broader political aims (Cuervo-Cazurra et al., 2022).

An example of this influence is Norway's Government Pension Fund Global (NGPF-G), one of the world's largest SWFs, which holds approximately 2.5% of all publicly traded shares globally (NBIM, 2021). What sets NGPF-G apart is its commitment to promoting ethical business practices that are aligned with Norwegian values. The fund actively engages in shareholder activism to encourage responsible corporate behaviour, choosing investment targets based on ethical standards (Vasudeva et al., 2018). Despite external pressure, such as from the United States, to change its approach, NGPF-G has continued to pursue its goals and has made a tangible impact on the conduct of companies in which it invests (Goergen et al., 2018).

State capitalism can extend its global influence not only through direct state-owned enterprises but also through private firms that receive covert or overt government support. These firms, often operating in industries where state functions have been outsourced, expand their reach into international markets. As they grow, they often become essential players in controlling critical resources, knowledge, and data, making them difficult to replace even when their services are expensive or inefficient (O'Keefe, 2011 and Foreman-Peck, 2022). Governments frequently provide diplomatic backing to these firms, helping them secure advantageous deals abroad and maintain their influence in foreign markets. This indirect form of state capitalism is particularly visible in sectors like defence and security. Historically, maintaining a monopoly on the use of force was a core function of the state, but this role has increasingly been delegated to private security companies. Domestically, these firms manage responsibilities such as prison security, while internationally, private military companies—often closely linked to their home governments—use state support to obtain contracts overseas. These companies are hired to reduce the human costs of military interventions, assist allied regimes, or oppose foreign movements (Tonkin, 2011).

The relationships between private defence firms and state institutions are often shaped by informal networks, typically comprising former military officers and security officials. These connections allow companies to survive scandals by rebranding and reemerging under different names. Therefore, the ties between these firms and their parent governments cannot be understood purely as organisational arrangements; they are also influenced by the actions of entrepreneurial individuals who seek to maximise personal gains. In turn, these individuals often push the state, or key figures within it, towards adopting more active roles in economic activities.

3.4 Exploring New Directions for Research on State Capitalism and Corporate Interaction

State intervention in markets can take many forms, from creating regulatory frameworks and managing monetary policy to directly influencing market operations as both a producer and employer. State capitalism refers to the state actively participating in economic activities motivated by a mix of goals, including efficiency, national development, political ideology, and patronage. In this role, the state doesn't just oversee markets; it engages as a crucial actor, sometimes supporting private monopolies, other times competing directly with private enterprises, or supplementing their efforts. The relationship between state and market in these systems is far from static—it evolves continuously, with both entities shaping each other in complex ways. State capitalism often reconfigures markets, mitigating or worsening structural issues depending on the context and the objectives of the political elite.

When viewed through the lens of Global Production Networks (GPNs), the state's role extends beyond regulatory oversight to become a central force in shaping global economic patterns. GPNs encompass the global web of production and distribution processes that span across industries and borders, and within this framework, state capitalism can exert significant influence. State-owned enterprises (SOEs) and state-backed corporations frequently play pivotal roles in these networks, their success bolstered by the state's direct and indirect support. Through mechanisms such as state ownership, subsidies, or diplomatic backing, governments can alter the course of global supply chains, affecting everything from market access to the resilience of production networks.

The recent COVID-19 pandemic has made the role of state capitalism even more pronounced, as governments around the world have stepped in to stabilise economies. These interventions highlight the dual nature of state capitalism: while it can provide critical support during crises, it also reflects the broader agendas of political leaders. These leaders may prioritise regime stability, economic development, or personal gain, and their decisions have direct implications for the configuration of GPNs. As state intervention grows more complex and far-reaching, firms operating within these networks must adapt their strategies to navigate the evolving landscape of state capitalism. For companies, understanding the institutional foundations of state capitalism is essential for formulating effective non-market strategies. Although existing research on non-market strategies (Gao et al., 2022 and Mellahi et al., 2016) offers valuable insights, a deeper engagement with the specific features of state capitalist regimes is necessary. As government involvement in economic activities increases, especially in the wake of global crises like COVID-19, firms must develop integrated strategies that address the complex demands of state institutions and other key stakeholders. This involves not only responding to government regulations but also proactively engaging with the political and social dimensions of state capitalism, as these factors increasingly influence corporate decision-making and competitive positioning.

While state capitalism is often discussed in the context of comparative capitalism it is crucial to recognise that the relationship between state and market is not one of opposition but of interdependence (Hall and Soskice, 2001). Capitalism relies on the state for its development, just as the state leverages capitalism to achieve broader socio-political goals (Durand and Vergne, 2012 and Ferguson, 2012). In this sense, state capitalism is integral to the functioning of GPNs, with governments using their influence to shape global production systems, whether through direct control of economic assets or more subtle forms of intervention. This interconnectedness underscores the importance of state capitalism in the governance of the global economy, where states and markets continuously interact in ways that redefine the boundaries of economic power and control.

Looking ahead, research must continue to explore the diverse expressions of state capitalism across different national and regional contexts. The idea of a "double movement" between states and markets, as articulated by Polanyi (1944), remains relevant but must be understood in a more nuanced way. Instead of a simple back-and-forth between state control and market freedom, contemporary economies present a complex spectrum of state-market interactions. The degree of success in these interactions often depends on the historical and institutional context, where long-standing collaborations between state and market actors can smooth the integration of state capitalism into the broader economy (Dolfsma and Grosman, 2019). In regions where such collaboration is less established, efforts to expand state control or renationalise industries can face significant obstacles. Future studies should investigate how these interactions evolve in different institutional settings and explore the indirect ways that states influence economies beyond direct ownership or control of assets.

Additionally, the growing role of the state in traditionally market-driven sectors in advanced economies complicates the conventional understanding of state capitalism. Recent developments, such as the rise of state-supported monopolies in sectors like defence, energy, and technology (Wood and Wright, 2015), illustrate that state capitalism is not limited to emerging markets. In these instances, the state acts as an active economic player, but often in ways that prioritise private interests over public welfare. As advanced economies adopt characteristics typically associated with crony capitalism, it becomes increasingly important to examine how these dynamics reshape institutional systems and affect global production networks.

Another pressing issue is the influence of technological giants, which are redefining contemporary capitalism. These companies, often operating beyond the reach of individual states, leverage their economic power to secure favourable conditions such as tax breaks, subsidies, and strategic locations. Their growing influence within GPNs raises questions about the future role of states in regulating these firms and managing their long-term impact on the global economy. Future research should investigate how these privately owned multinationals might steer economic systems in ways that challenge the traditional dominance of states.

As we transition to the next section, which explores the role of global cities in the global economy, it is essential to understand how these urban centres act as focal points for both state intervention and global production networks. Global cities are not only crucial nodes within GPNs, facilitating the flow of capital, labour, and goods, but they are also key arenas where state capitalist strategies play out. Governments use these cities to implement policies that shape the structure and functioning of global production networks, making them critical to understanding the spatial dimensions of state capitalism. By examining the role of global cities within this framework, we can gain deeper insights into how state-market interactions influence economic outcomes in today's interconnected world.

4. Global cities and globalisation

4.1 Overview

In the 1990s, the theoretical landscape of globalisation evolved rapidly, driven by the acceleration of global economic integration and the rise of new technological advancements in information and communications. These shifts not only deepened the complexity of global economic relations but also amplified the strategic significance of global cities, which became central to scholarly discussions. Global cities were increasingly seen as critical nodes in the vast and intricate network of transnational flows, forming the backbone of what scholars have identified as global production networks. These urban hubs act as material and strategic points, enabling the circulation of goods, capital, people, and knowledge across interconnected geographies.

The concept of GPNs ties directly into the processes of globalisation, as these networks exemplify how production and economic activities are organised across multiple territorial scales. Global cities serve as vital nodes within these networks, facilitating the flow of resources and coordination between multinational corporations, state-owned enterprises, and other key actors. In this regard, state capitalism plays a significant role as well, particularly in countries where the state actively intervenes in markets to support economic activities through SOEs or sovereign wealth funds. State-led strategies often rely on global cities as platforms for integrating their national economies into broader GPNs, harnessing the infrastructure, financial markets, and human capital concentrated in these urban centres.

Global cities have become essential to the mechanisms of globalisation, acting as the arteries through which transnational flows move. Whether through the movement of capital, the exchange of goods and services, or the transfer of ideas and innovation, global cities serve as points of articulation within the global economy. This interaction between cities and global flows highlights the dynamic relationship between GPNs and state capitalism. In state capitalist regimes, where the government plays an active role in economic management, global cities often function as key platforms for both state and market actors to navigate the global economy. This creates a feedback loop: as global cities anchor GPNs, they also become sites where state capitalism and global markets intersect, creating complex patterns of governance and economic activity.

Furthermore, global cities do not merely passively reflect globalisation; they actively shape its trajectory. These cities act as strategic sites for states to assert influence over GPNs and global markets. In cases of state capitalism, governments leverage global cities to project economic power, whether through the internationalisation of SOEs, strategic investments, or the cultivation of public-private partnerships. For example, many state-owned enterprises and multinational corporations headquartered in global cities use their location as a base for expanding their influence across global production networks.

In connecting GPNs, state capitalism, and the phenomenon of global cities, we see how these urban centres facilitate and are shaped by the broader processes of globalisation. Global cities not only mediate the flows central to GPNs but also serve as key sites where the strategies of state capitalist economies unfold. As such, global cities are both products of and contributors to the hierarchical and uneven nature of globalisation, providing insight into the evolving relationship between states, markets, and the global economy.

In this section of the chapter, the discussion will delve deeper into the critical role global cities play in shaping global economic governance and how their position within GPNs influences the future trajectory of globalisation. These cities are central to understanding how states, especially within state-capitalist frameworks, contend with and harness the opportunities presented by the increasingly interconnected global economy.

The urban sociologist Saskia Sassen (1991) became a leading figure in the discussions around the role of cities in globalisation, with her seminal work *The Global City* providing a critical theoretical framework. Influenced by Friedmann's world systems theory, Sassen delved deeper into the evolving relationships between major cities and the global economy, offering a sophisticated analysis of how these cities are transformed by economic globalisation. Her work went beyond simply focusing on economic dependency and instead highlighted how digital networks were creating new functions for specific cities, establishing them as pivotal nodes in the global economy.

Sassen also emphasised the uneven development that results from the rise of global cities. As cities integral to the command and control of the global economy grow wealthier, others within the same country—especially former industrial hubs—experience economic decline. This duality reflects a new urban geography, where success is increasingly tied to a city's ability to integrate with transnational economic flows. Sassen's "global city thesis" thus redefined how we understand the organisation of the world, revealing how certain cities gain prominence while others are marginalised. A significant aspect of Sassen's contribution is her focus on how the globalisation of economic activities is creating not just winners and losers among nations but also among cities within the same national space. Many industrial cities, once the engines of national economies, have struggled as manufacturing has shifted to other regions or countries. In contrast, cities with strong transnational connections—those deeply embedded in the networks of global finance, services, and technology—continue to thrive.

This section also draws attention to the physical and social changes within these global cities. Sassen's work, for instance, accounts for the transformations in the urban fabric—be it through new infrastructural developments, changes in population dynamics, or shifts in labour markets—as these cities adapt to their roles in global networks. The contrast between these thriving urban centres and declining industrial cities exemplifies the uneven nature of globalisation's impact on urban spaces. Sassen's analysis provides a useful entry point for exploring the next section on global cities and their role in the contemporary global economy. As strategic sites for globalisation, these cities are central to understanding the intersection of economic, political, and social forces on a global scale, and they provide a foundation for examining how states and markets navigate the complexities of a globalised world.

Sassen's (1991), *The Global City* presented extensive empirical evidence to support the theoretical framework of the "global city." Importantly, Sassen's model of the global city does not encompass every aspect of a city's economy. Instead, it serves as a heuristic tool designed to uncover the processes through which certain cities become integrated into the global market. As Sassen emphasises, the development of global city functions and the incorporation of global economic dynamics into the urban space is a significant but not all-encompassing phenomenon (Sassen 1991).

This selective process underscores that not all urban areas within a city may benefit equally from globalisation. Some sectors and districts may be heavily involved in transnational flows, while others may remain peripheral or disconnected. This distinction within cities mirrors the uneven integration of global production networks (GPNs) on a broader scale, where certain actors or regions gain prominence while others are marginalised. Understanding the global city as a partial but strategic process offers valuable insights into how urban spaces are transformed in relation to global economic forces. This perspective provides a bridge into the discussion of global cities' evolving roles in globalisation, as their participation in these processes is uneven and influenced by both local and global dynamics.

Sassen’s exploration seeks to understand the spatial, economic, and social transformations occurring in cities globally in response to the forces of globalisation. Her analysis of cities like London, New York, and Tokyo shows that, despite their differing histories and cultures, these cities have experienced parallel developments due to shared responses to global processes. By the 1990s, a seemingly paradoxical trend had emerged: economic activity was dispersing across the world, particularly with manufacturing relocating to regions with lower labour costs, while the global economy was becoming increasingly integrated. This dual process of dispersion and integration can be attributed to the rise of multinational corporations, digital networks, and new forms of economic organisation.

These shifts have decentralised production and undermined the traditional organising role of the state. Simultaneously, they have created a need for strategic coordination, a role increasingly filled by global cities. These urban centres provide the decentralised decision-making capabilities that can match the speed and flexibility of global economic flows, something that centralised state institutions often struggle to achieve. The ability of global cities to manage these flows underlines their pivotal role in shaping contemporary economic governance. By linking transnational markets to local spaces, these cities become key players in the processes of globalisation. This sets the stage for the next section, which will examine the evolving role of global cities in a world defined by increasing interconnectedness and complexity.

Sassen highlights the novelty of contemporary urban developments by arguing that certain cities have adopted four new functions beyond their historical roles as nodes in international trade and finance. Firstly, they serve as strategic command and control centres for global economic activities. Secondly, they have become key hubs for financial and specialised service firms, which have replaced manufacturing as the primary drivers of value creation and innovation. The third and fourth functions of these cities are as production sites and markets for these services, further solidifying their position in the global economy. As multinational corporations operate global networks with dispersed manufacturing sites, offices, and sales outlets, there is an increasing need for centralised command structures. The competitive pressures of capitalism, combined with the rise of networking as a business model, have led to the outsourcing of key operations. This, in turn, has made corporations dependent on what Sassen refers to as 'advanced producer services,' such as management consulting, legal services, financial services, and public relations. These firms tend to cluster in global city centres, revitalising these areas as hubs of creativity driven by the innovation that comes from close, face-to-face interactions.

The concentration of these services has fuelled significant demand for high-end office spaces, luxury shopping centres, and hotels, contributing to the vertical growth of these cities and the gentrification of formerly neglected urban areas. The influx of skilled professionals with high salaries has reshaped the social and economic landscape of these cities. However, the rise of these global centres has also created a demand for low-paid, unskilled labour to support the operations of these elite firms. This duality has intensified economic polarisation, making inequalities highly visible within the urban space.

This urban transformation, Sassen argues, emphasises not only the cities themselves but also the actors actively producing globalisation—the international corporate elites, as well as the migrants and workers who contribute to the changing cultural and social dynamics of these cities. The new global city functions serve as a lens through which the spatial and social effects of globalisation are made visible, preparing for a deeper exploration of the interconnectedness between cities and global flows in the next sub-section.

Sassen highlights that the emergence of global city functions across several cities worldwide does not necessarily indicate direct competition between them. Instead, these cities often take on complementary roles, adapting to the evolving demands of the global economy. In particular, Sassen points to the triadic trans-territorial marketplace formed by London, New York, and Tokyo. Each city plays a distinct part: Tokyo is a hub for export capital, London focuses on capital processing, and New York operates as a receiver of capital and a centre for investment decision-making and production innovation (Sassen 1991).

In Sassen's view, global cities embody a new form of territorial centralisation, which is suited to an era where technological advancements are redefining time and space. These cities serve as crucial nodes, channelling and articulating the flows of the global economy. This perspective contrasts with much of the globalisation literature, which tends to neglect the geographical specificity of globalisation. For example, Thomas Friedman's metaphor of a 'flat' world overlooks how globalisation operates through specific urban centres. The infrastructure supporting the information age is firmly rooted in cities, which serve not only as physical hubs for technology but also as production sites for the information and communications sectors (Castells 2001).

By emphasising these roles, Sassen underscores the importance of global cities in shaping global economic processes, positioning them as essential actors within the larger framework of globalisation. This sets the stage for the following section, which will delve deeper into the role of global cities and their influence on the global network. Sassen conceptualises the world economy as marked by distinct periods, each shaped by a unique configuration of geography, industry, and institutional structures. In the present era, this combination is characterised by the impact of market deregulation and liberalisation, which have fostered new forms of transnational economic spaces. These include offshore export processing zones, offshore banking hubs, and global cities, which function as interconnected locations for conducting complex international economic transactions. This trans-territoriality introduces new perspectives that challenge some of the competitive and hierarchical notions carried over from the earlier urban studies tradition of global cities.

Although Sassen's earlier work still reflects remnants of the "hierarchy fetish" from the urban studies tradition, where New York, London, and Tokyo are seen as dominant global centres, while cities like Chicago, Frankfurt, Paris, Amsterdam, Hong Kong, Sydney, and São Paolo occupy a second tier (Taylor 2003), more recent interpretations of global cities have shifted away from rigid hierarchies. Instead, scholars now adopt a more relational approach, focusing on the dynamic, networked relationships that define the functioning of these modern urban forms.

This shift in perspective aligns with broader debates on globalisation, where the focus is increasingly on the interconnectedness and relational dynamics between cities, as opposed to merely ranking them within competitive hierarchies. Global cities are thus not only central to economic activities but also embody evolving forms of transnational governance and global flows. This relational view paves the way for understanding how these cities interact within the framework of global production networks (GPNs) and their role in shaping state capitalism in today's world.

4.2 Exploring the Network and Relational Dynamics of Global Cities

Early studies on global cities often emphasised their economic functions, but recent research has expanded to consider the broader social networks and infrastructures that link these cities in the global system. Scholars such as Manuel Castells (2011), and Doreen Massey (1979) have shifted the focus, challenged traditional geographical models of urban space and revealed the emergence of a more fluid and interconnected global urban landscape.

Rather than perceiving cities as isolated or locked within a rigid hierarchy, the relational approach views them as key nodes within vast global networks. These cities are bound by complex flows—of people, resources, ideas, and technologies—that redefine their roles and functions within the international sphere. This perspective transcends conventional hierarchies by exploring the dynamic and interdependent relationships that constitute global city networks. In this framework, global cities are seen not only as centres of economic power but also as cultural and social hubs that foster global connections. The relational approach allows for a deeper understanding of how these cities, through their interconnectedness, shape global processes and influence urban development. Cities are increasingly functioning as parts of a larger, global system where their influence and growth are defined not solely by their internal characteristics but by their place within a network of transnational flows and interactions.

This conceptual shift underscores the role of global cities in producing and sustaining globalisation. It invites scholars to investigate how these urban centres act as both influencers and products of global networks, reconfiguring traditional understandings of geography, space, and power. Furthermore, the relational approach highlights how these cities, through their interconnectivity, challenge old notions of territoriality and hierarchy, instead promoting a vision of the world that is shaped by networks of influence and exchange.

In the sections that follow, we will delve deeper into how global cities drive and are shaped by contemporary globalisation, with attention to the political, economic, and social implications for urban spaces across the world.

Castells' concept of the "network society" has been foundational for scholars exploring the interconnectedness of global cities. His work, influenced by his early career as an urbanist, delves into the transformative role that technological advancements in information and communications have had on both society and urban spaces. Castells (1989) argues that these technologies are reshaping the material fabric of society by decoupling the traditional link between space and time. Unlike earlier periods, where interactions required shared physical space, modern information technologies allow individuals and institutions to interact simultaneously across vast distances, altering the very nature of spatial and temporal relations.

Building on this, Castells provides a nuanced examination of how these networked social relations are facilitated by technological infrastructure, which supports and sustains global city networks. His analysis aligns with earlier discussions of "space-time compression" a concept that captures how globalisation and technology are shrinking distances and accelerating interactions across time and space (Giddens, 1990). Castells' work is key to understanding how global cities function as critical nodes in these networks, where flows of capital, information, and people converge and are managed in real time. This conceptualisation is vital in explaining the increasing interdependence and connectivity that define global urban systems today.

Castells' formulation of the 'network society' provides a comprehensive, multi-layered framework for understanding global cities within the broader context of globalisation. This model consists of three interrelated layers. The first is the infrastructural backbone—encompassing electronic devices, digital communications, and transportation technologies—that supports the flow of information, goods, and people. The third layer, on the other hand, is made up of the spatial organisation of economic elites and their associated networks, including where they live and conduct business. Positioned between these two layers, global cities represent the middle layer, functioning as the key sites where social, economic, and cultural activities converge and connect localities to the larger global networks.

Global cities, in this framework, become the nodes and hubs where strategic activities are executed, serving as vital links between local contexts and global systems. This perspective retains earlier insights about the role of global cities in controlling key aspects of the global economy, but it shifts focus away from rigid urban hierarchies. Instead, Castells introduces a more fluid, networked understanding of how power and influence are exercised within interconnected urban centres. The emphasis here is not on ranking cities but on the dynamic and evolving nature of their connections and the activities that occur within them.

This shift towards seeing global cities as parts of broader networks rather than isolated entities offers a more nuanced view of how urban spaces interact within the global economy.

As we continue to explore the relationship between globalisation and urbanisation, this networked approach provides a vital lens for understanding the evolving roles of cities in shaping the economic, social, and political landscapes of the 21st century. In the following sections, we will explore how these shifts relate to the emerging significance of global cities in mediating flows and shaping the contours of global governance.

Castells aimed to demonstrate how the material digital infrastructure that supports new forms of social and economic activity is deeply rooted within global cities. These cities do not merely benefit from post-industrial shifts but are crucial to the development and longevity of globalisation. They serve as essential components of the physical and economic structure that underpins the global economy. This relationship is particularly evident in the geographical distribution of the Internet's technical infrastructure and the production of its content.

A major point of contention in the global city literature is whether the term "global city" refers to a distinct set of urban centres or whether all cities are subject to globalising forces in similar ways. This reflects a fundamental issue about defining the boundaries and character of cities. The difficulty in characterising a city as a fixed entity is similar to the challenge of defining a "global city." As some scholars argue, it may be more accurate to think of cities not as static, enclosed places but as fluid processes that are continually reshaped by external pressures and internal dynamics. According to Taylor (2008) all cities are responding to global pressures in varying degrees, integrating parts of their infrastructure and economic systems into global networks, while other areas are excluded from such processes. This perspective suggests that cities are better understood as ongoing and dynamic systems, constantly changing in response to global flows of capital, labour, technology, and information. The notion of fixed boundaries is thus less relevant in a world where cities are deeply interconnected through globalisation.

While much of the relational analysis of global cities has concentrated on their economic roles, the broader material, social, and cultural flows they manage must also be considered. As Massey (2007), points out in her exploration of London's status as a global city, these centres exert influence well beyond their geographical limits. The global city is not just a participant in global economic networks; it is a hub of influence, radiating effects that shape global dependencies and relationships.

In this sense, global cities function similarly to strategic nodes in global production networks. Like GPNs, these urban centres do not merely participate in global flows; they are instrumental in controlling, managing, and redistributing these flows. This perspective also invites a discussion about how global cities play a key role in systems of state capitalism, where certain states exert control over economic activities in ways that are centralised in these urban hubs. This sets the stage for further discussion about how global cities not only facilitate but also shape the global economy.

4.3 The concept of "flows" in global cities

In examining the form of cities, a fundamental distinction arises between what can be termed the 'space of flows' and the 'space of places'. The space of flows refers to the electronic interconnections that link disparate locations across various geographic contexts, facilitating the movement of people, activities, and information. These flows—such as financial networks, international production chains, and media networks—are inherently territorial, anchored in specific regions but connected electronically. These territories gain meaning and functionality through their connections rather than existing as isolated entities. Thus, while electronic networks serve as the backbone of these connections, they are intrinsically linked to particular places, creating a hybrid spatial form—the space of flows. Conversely, the space of places is concerned with organising human experiences and activities within local, physical boundaries. What defines modern cities is the simultaneous structuring and restructuring by these two competing forces—the virtual space of flows and the tangible space of places. Rather than dissolving into virtuality, cities evolve through a dynamic interaction between electronic networks and physical spaces. This process reshapes cities but does not result in a complete integration of the two dimensions; instead, cities remain a mix of both global flows and local interactions.

When we examine urban structure, the concept of global cities takes on a complex and nuanced form. Instead of viewing global cities as hierarchical entities, where one city is superior to another—as was the case with Friedmann's idea of a 'world city', Friedmann (1986)—global cities today represent nodes within larger, interconnected networks. For instance, the financial centres of New York, London, and Tokyo are not isolated but operate as parts of the same global system. These financial hubs are linked in real time, working symbiotically to facilitate global capital flows. Additionally, cities such as Frankfurt and Amsterdam also play significant roles in this global financial network. However, it is not just major cities: even smaller cities like Dublin or Singapore contribute to this network through specialised services like tax structuring or technology investments. This means that 'global city' does not refer to the whole city but to specific districts or industries within cities that are part of this transnational infrastructure. Importantly, most of these global cities also remain deeply local. For example, parts of London, such as Camden or Brixton, have retained their distinct neighbourhood character, while in New York, areas like Queens are characterised by highly localised immigrant communities. Thus, global cities simultaneously reflect global integration and local specificity, representing a dynamic blend of the ‘space of flows’—the global networks of finance, media, and production—and the ‘space of places,’ the deeply rooted local cultures and traditions.

In terms of urban experience, this tension between global flows and local rootedness is increasingly shaped by technology. As cities become hubs for digital communication and interaction, the way we experience them is evolving. Bill Mitchell’s concept of an ‘e-topia’ Mitchell (1995) captures this shift, where cities are transforming into digitally integrated environments. Take Tokyo’s Shibuya district as an example, where smart technology and public Wi-Fi systems seamlessly connect pedestrians to global networks, or New York’s Hudson Yards, where advanced digital infrastructure supports both local businesses and global enterprises. In cities like these, people move through physical spaces while simultaneously interacting with online networks, blurring the line between digital and physical realms.

This convergence creates a new layer of urban experience. In places like Seoul, urban life is embedded with advanced smart-city technologies, where everything from transport systems to street lighting is digitally controlled. Similarly, in Dubai’s Business Bay, electronic communication interfaces are used to facilitate trade, real estate, and even everyday consumer interactions, transforming the urban landscape into a high-tech space where both local and international activities coalesce.

Yet, this embedding of global digital networks into local urban life also generates friction. While smart technologies might improve efficiency and connectivity, they also create social divisions. In cities like San Francisco, where the tech industry dominates, high-income tech workers live in the same city as lower-income service workers, but their lives are shaped by different economic realities. The rapid gentrification of neighbourhoods, driven by the demands of global capital and technology industries, pushes out local communities, creating stark socio-economic disparities.

Therefore, cities are becoming increasingly complex arenas where global networks and local realities intersect. The global city is not just a place of transnational flows but also a space of local struggles, where the balance between the global and the local plays out daily, through everything from housing and employment to cultural expression. The global city, as a concept, thus reveals a deeper tension: while cities facilitate the flow of global capital and information, they remain embedded in local geographies, histories, and social structures. This dual nature of cities—as nodes in global networks and as localised places of human activity—shapes the modern urban experience, making cities critical arenas for understanding globalisation's impact on everyday life.

The issue of social integration has become increasingly central in the theory of cities within the network society. Modern global cities operate as integrated, interconnected systems while simultaneously experiencing significant cultural fragmentation. These urban agglomerations function as unified economic entities but give rise to diverse and often conflicting value systems due to their varied populations. In earlier models, cities possessed dominant urban cultures that absorbed rural or international migrants. However, in contemporary global cities, there is no longer a single dominant culture capable of assimilating newcomers. Instead, cities are now marked by multiculturalism without assimilation. Communities within cities maintain distinct values, and individuals pursue personal objectives, creating a complex urban tapestry. This fragmentation challenges traditional notions of a cohesive urban identity and raises critical questions about how these varying cultural systems interact and coexist within shared spaces.

The role of media-driven culture in this context is noteworthy. Unlike the more rigid, value-based cultures of the industrial era, the dominant culture today is market-oriented and fluid, evolving to cater to various consumer niches. This adaptability contrasts sharply with past models, where urban culture demanded shared values and belief systems. Today, cities are shaped by functional integration within their economic systems, but cultural and social fragmentation persists, creating new challenges for cohesion. For example, in cities such as New York or London, the economic activities of a corporate professional and an immigrant vendor may be integrated into the same urban space, but they operate within entirely different cultural frameworks. The interaction between these diverse actors reflects the complex and fragmented nature of modern urban life, which differs markedly from the socially unified cities of earlier periods. The evolving structure of cities thus mirrors broader global trends, where functional integration coexists with fragmented identities.

Communalism, as described, is the collective individualisation of groups within society, where individuals and their groups retreat into their own cultural enclaves, separate from the broader community. This reflects a growing crisis in urban spaces where fragmentation, rather than integration, is the defining feature. Unlike the crises of previous eras, which were concerned with integrating migrants or addressing urban isolation in industrial cities, this contemporary fragmentation occurs across multiple levels: spatial, occupational, cultural, and political. As a result, the core function of the city as a communicative space is undermined, giving rise to what might be termed an "urbanised world without cities."

The essential challenge posed by this form of urban fragmentation is how to foster coexistence in an environment where communication itself has broken down. It is not merely a matter of disagreement or conflict—such as in the historical context of class struggle—but of a fundamental inability to understand one another's values and perspectives. The result is alienation, where individuals and groups withdraw into their own spheres, isolated from broader social interaction. This creates a situation where different urban groups coexist without meaningful communication, intensifying divisions.

The solution to this, as proposed, involves developing new communication protocols, a concept borrowed from information technology. These protocols would enable different groups to engage with one another meaningfully, bridging the gaps created by cultural, political, and social fragmentation. This re-establishment of communication within cities is seen as a crucial step toward overcoming the crisis of urban alienation and fragmentation. The specific nature of these protocols would involve finding common frameworks for dialogue and interaction, essential for rebuilding social cohesion in increasingly diverse and divided urban spaces.

5. Summary

This literature review has traced the evolving dynamics of global production networks (GPNs), state capitalism, and global cities, underscoring the intricate relationships between states, markets, and urban spaces in a globalising world. By examining these distinct but interrelated phenomena, several key themes emerge the transformation of economic governance, the shifting role of the state as an economic agent, and the spatial reconfiguration of urban centres as command nodes in global networks.

The discussion on GPNs highlights the ways in which lead firms orchestrate and shape production networks that span national borders. The GPN framework underscores the capacity of global firms to navigate economic opportunities, connect diverse regions, and influence regional development through strategic coupling. Crucially, the territorial logics of GPNs demonstrate how globalisation is inherently uneven, producing differentiated growth trajectories in both advanced and emerging economies. This process has led to the rise of new forms of governance and economic organisation that transcend traditional nation-state boundaries, positioning firms and regions as key actors in the global economy. GPNs represent an economic system where power is diffused across networks, yet remains concentrated within the hands of lead firms, which drive the flow of value and production across borders.

Parallel to the expansion of GPNs, the resurgence of state capitalism offers a contrasting yet complementary view of global economic governance. In state-capitalist regimes, the state reasserts itself as a direct economic actor, using tools such as state-owned enterprises (SOEs) and sovereign wealth funds (SWFs) to influence domestic and global markets. This reconfiguration challenges the neoliberal orthodoxy that once predicted the diminishing role of the state in the global economy. Instead, state capitalism has emerged as a mechanism for countries to secure strategic assets, manage economic risks, and maintain political power in an era of heightened competition. As illustrated, state capitalism also brings its own complexities, where the state's involvement can sustain private oligopolies, and political interests often intertwine with economic objectives. The interplay between GPNs and state capitalism thus reveals a dynamic tension in which states and firms are both collaborators and competitors, navigating the delicate balance between global economic integration and domestic political imperatives.

The final element of this literature review, the global city, serves as a spatial lens through which these economic processes are materialised and experienced. Global cities such as London, New York, and Tokyo emerge as critical nodes in both GPNs and state-capitalist frameworks. They operate as centres of command and control for the global economy, housing the advanced producer services that facilitate the management and coordination of complex global networks. At the same time, global cities embody the tensions of globalisation: while they are sites of wealth generation and cultural innovation, they also highlight the uneven spatial distribution of resources, social fragmentation, and economic inequality. The rise of global cities reflects the growing centrality of urban spaces in the management of global flows, yet also points to the challenges of sustaining social cohesion and inclusivity in highly stratified environments.

In synthesising these themes, it becomes clear that globalisation is not a monolithic process, but rather a multifaceted and hierarchical phenomenon that produces divergent outcomes for different regions, states, and cities. GPNs, state capitalism, and global cities each represent distinct facets of this globalising world, yet they are interconnected in their roles as agents and spaces of economic, political, and social transformation. Understanding these connections offers a comprehensive framework for analysing how globalisation is reshaping not only the world economy but also the governance structures and spatial forms that underpin it.

Looking forward, future research must continue to explore how these dynamics evolve in response to ongoing global challenges such as climate change, technological disruption, and political volatility. The interplay between firms, states, and cities will remain central to this analysis, particularly as new forms of governance, production, and urbanisation emerge to address the complex demands of an increasingly interconnected world. Through this lens, the study of GPNs, state capitalism, and global cities provides a rich analytical foundation for understanding the present and future of global economic and political systems

Chapter 3: Scholarly Approaches to State Responses in the Context of Accelerating Global Flows

1. State capitalism

1.1 Introduction

State capitalism, characterised by substantial government intervention and ownership of key economic sectors, forms the bedrock of Saudi Arabia's economic and development strategy. This model involves the state playing a dominant role in steering economic activities, controlling major industries, and making strategic investments to foster growth and diversification. For Saudi Arabia, state capitalism has evolved as a response to both internal and external pressures, including the necessity to manage its vast oil wealth, address demographic challenges, and position itself as a hub for global economic flows.

Saudi Arabia's global strategic importance is largely due to its status as one of the leading oil producers in the world. The discovery of oil in the 1930s transformed the country from a largely agrarian society into a wealthy nation with significant geopolitical influence. This newfound wealth enabled the Saudi state to invest heavily in infrastructure, education, and healthcare, fostering rapid modernisation and urbanisation. However, this heavy reliance on oil revenues also made the Saudi economy highly susceptible to fluctuations in global oil prices.

To mitigate these risks and ensure sustainable long-term growth, the Saudi government has adopted a model of state capitalism aimed at diversifying the economy and reducing its reliance on oil. Key elements of this strategy include developing non-oil sectors, attracting foreign investment, and integrating the Saudi economy into the global market. The Vision 2030 initiative, launched by Crown Prince Mohammed bin Salman, encapsulates these efforts, setting ambitious goals for economic diversification, private sector growth, and social reform.

This literature review explores the historical development of state capitalism in Saudi Arabia, the implementation and impact of economic policies, the effects on employment and social structures, and the broader implications for international relations and strategic positioning. By analysing a range of academic sources, this review aims to provide a comprehensive and cohesive understanding of how state capitalism has shaped Saudi Arabia's economic landscape and its role in the global economy.

2. Historical Context of State Capitalism in Saudi Arabia

To understand the evolution of state capitalism in Saudi Arabia, it is crucial to examine the historical context in which it developed. The formation and consolidation of the Saudi state in the early 20th century were pivotal. From 1916 to 1936, Ibn Saud expanded his control across the Arabian Peninsula with significant backing from Britain. The strategic use of oil revenues played a crucial role in establishing a centralised state apparatus capable of effectively managing and distributing resources (Kostiner, 1993).

The discovery of oil in 1938 marked a turning point in Saudi Arabia's economic history. The subsequent alliance with the United States further entrenched the state's role in the economy. This strategic partnership provided Saudi Arabia with the necessary political and economic support to leverage its oil wealth, enabling the state to undertake ambitious infrastructure projects and social programs. This period saw the consolidation of the state's control over the economy, laying the groundwork for the state-capitalist model that would define Saudi Arabia’s economic strategy for decades to come (Sullivan, 1970). Saudi Arabia’s economic policy in the mid-20th century focused on utilising oil revenues to build a modern state. The government embarked on a series of development plans that aimed to create infrastructure, improve education and healthcare, and build a diversified economy. The oil boom of the 1970s provided the financial resources necessary to accelerate these efforts, leading to rapid modernisation and urbanisation (Nilblock 2015).

The establishment of state-owned enterprises (SOEs) during this period was pivotal. These SOEs, involved in sectors such as oil and gas, petrochemicals, mining, telecommunications, and transportation, ensured state control over critical industries and channelled revenues into national development projects. The dominance of SOEs underscored the centrality of state capitalism in Saudi Arabia’s economic strategy (Nilblock 2015).

This historical context highlights the critical role of oil revenues in shaping Saudi Arabia's economic policies and development strategy. The establishment of SOEs allowed the state to control key sectors and direct economic growth, laying the foundation for the state capitalism model that continues to influence the country’s economic policies today.

3. Economic Policies and Diversification Efforts

Building on the historical context, it is essential to examine the specific economic policies and diversification efforts that have defined Saudi Arabia’s approach to state capitalism. Saudi Arabia’s heavy reliance on oil revenues has been both a source of immense wealth and economic vulnerability. Recognising the need to diversify its economy, the Saudi government has implemented a series of policies aimed at reducing its dependency on oil and fostering growth in other sectors.

One of the most significant policy shifts was the introduction of the foreign investment law in 2000, which allowed for 100% foreign ownership of projects. This law was part of a broader strategy to attract international investors and diversify the economy by developing sectors such as tourism, education, and healthcare. The law marked a departure from the traditional oil-centric economic model, signalling a move towards greater economic liberalisation and integration with the global market (Rice, 2004).

Vision 2030 initiative, launched Crown Prince Mohammed bin Salman, represents the most ambitious diversification effort to date. Vision 2030 aims to transform the Saudi economy through substantial investments in non-oil sectors, the development of a robust private sector, and the enhancement of public services such as health, education, and infrastructure. This strategic framework underscores the government's commitment to creating a sustainable and diversified economy that can withstand global economic fluctuations (Sohail, 2012). The Saudi government has taken several steps to achieve the goals set out in Vision 2030. One key initiative is the privatisation of state-owned enterprises. By selling stakes in these enterprises to private investors, the government aims to reduce its direct involvement in the economy and encourage private sector growth (Ulrichsen and Ulrichsen, 2016). The most high-profile example of this privatisation effort is the planned initial public offering (IPO) of Saudi Aramco, the state-owned oil company, which was one of the largest IPOs in history (Mehrez et al., 2020).

Saudi Aramco’s initial public offering (IPO) in 2019 marked a significant step in Saudi Arabia's Vision 2030, aimed at diversifying the kingdom's economy away from oil dependence. The IPO raised $29.4 billion, becoming the largest in history at the time. By selling 1.5% of its shares on the Tadawul, Saudi Arabia’s stock exchange, Aramco was positioned as a critical driver in mobilising funds to support new sectors such as technology, tourism, and renewable energy. This move also attracted foreign investors, enhancing Saudi Arabia’s financial standing globally and reducing its vulnerability to fluctuations in oil prices (Reuters, 2020)

In 2022, Saudi Arabia planned a multi-billion-dollar share sale of Aramco, which was expected to raise around $10 billion, according to (Reuters,2024). This would mark one of the region's biggest stock deals. The sale was seen as a part of Saudi Vision 2030's broader strategy to diversify the economy and invest in non-oil sectors, such as infrastructure and renewable energy. Preparations for this offering were ongoing, signalling the kingdom's continued efforts to secure capital for long-term growth and reduce reliance on crude oil revenues while leveraging Aramco’s dominance in the global energy market. Aramco’s focus on expanding its downstream and petrochemical capacities also reflected the kingdom’s broader goal of transitioning to a more sustainable economy. These efforts show a strategic push to secure long-term economic growth and decrease reliance on crude oil revenue while capitalising on the country’s vast energy resources in innovative ways.

Another important aspect of the Vision 2030 initiative is the development of the tourism sector. The government has launched several projects aimed at promoting Saudi Arabia as a tourist destination, including the creation of new tourist attractions, the development of infrastructure to support tourism and the relaxation of visa restrictions for international visitors. These efforts are aimed at creating new sources of revenue, reducing the economy’s reliance on oil, and generating employment opportunities (Rice, 2004).

The connection between these policies and historical economic strategies is evident. The focus on developing new sectors such as tourism and attracting foreign investment aligns with the earlier emphasis on using oil revenues to build a diversified economy. Studies examining the relationship between government spending and non-oil GDP in Saudi Arabia have found that increases in government spending have a positive and significant long-run effect on economic growth. Interestingly, current expenditures on administration and support for purchasing power have had a more pronounced impact on growth compared to capital expenditures on infrastructure and productive capacity. This suggests that while infrastructure development is important, the efficient administration and operational support of government entities play a crucial role in driving economic growth (Joharji and Starr, 2011).

4. Impact on Employment and Social Structure

Building on the economic policies, it is crucial to explore the impact of state capitalism on employment and social structures in Saudi Arabia. The Saudi labour market has been shaped by reliance on foreign labour, a situation the government has sought to address through the Saudisation policy. This policy aims to reduce the country's dependence on foreign labour by replacing expatriates with Saudi nationals, thereby addressing unemployment and creating job opportunities for the growing Saudi population (Madhi and Barrientos, 2003). Despite these efforts, the implementation of Saudisation has faced several challenges, particularly in the private sector. The private sector has traditionally relied heavily on expatriate labour due to cost advantages and the availability of skilled foreign workers. The transition to a predominantly Saudi workforce has been slow and fraught with difficulties, including resistance from employers and a mismatch between the skills of Saudi workers and the needs of the private sector. This has highlighted the need for significant reforms in education and training to better align the skills of Saudi workers with market demands (Rajhi et al., 2012).

The rapid economic development driven by state capitalism has also led to significant social changes. The traditional social structures and lifestyles have been transformed as the country has modernised. The Saudi government has invested heavily in education, health, and social services, aiming to improve the quality of life for its citizens and prepare the workforce for a diversified economy. However, these changes have also brought about social tensions, as modern values and lifestyles sometimes clash with traditional cultural and religious norms (Madani et al., 2000). Vision 2030 initiative also emphasises social reforms aimed at enhancing the quality of life for Saudi citizens and fostering a more inclusive society. These reforms include significant investments in healthcare, education, and social welfare programs. The government has also launched initiatives to promote cultural activities, sports, and entertainment, which are seen as essential for improving the overall well-being of the population and creating a more vibrant society (Al-Rasheed, 2005).

One of the most notable social reforms has been the lifting of the ban on women driving, which came into effect in 2018. This policy change is part of a broader effort to increase women's participation in the workforce and promote gender equality. The government has also implemented policies to support women in education and employment, recognising their critical role in the country's economic and social development (Sohail, 2012).

These social reforms are interconnected with the economic policies aimed at diversification. For instance, increasing female participation in the workforce directly supports the goal of developing a robust private sector by expanding the labour pool and fostering a more inclusive economy. The Saudi government has also made efforts to reform the education system to better align it with the needs of a modern economy. This includes updating curricula, investing in vocational training, and encouraging research and innovation. The goal is to create a workforce that is equipped with the skills necessary to compete in the global market and drive economic growth (Niblock, 2015).

The government's efforts to promote social change are also evident in its initiatives to support young people. With a significant proportion of the population under the age of 30, the Saudi government recognises the importance of providing opportunities for youth to participate in the economy and society. This includes investments in education and training, as well as initiatives to support entrepreneurship and innovation. Programs such as the MISK Foundation, established by Crown Prince Mohammed bin Salman, aim to empower young Saudis by providing them with the skills and resources needed to succeed in a rapidly changing world (Sullivan, 1970).

5. Relations and Strategic Opportunities

Saudi Arabia's model of state capitalism extends beyond its borders, influencing its international relations and strategic positioning. The kingdom has leveraged its oil wealth to gain geopolitical influence and foster strategic alliances. Historically, the relationship with the United States has been central to Saudi Arabia's foreign policy, providing the kingdom with security guarantees and political support in exchange for a stable oil supply (Sullivan, 1970). In recent years, Saudi Arabia has sought to diversify its international partnerships and reduce its reliance on any single ally. This is evident in its increasing engagement with China and other emerging economies, which are seen as crucial markets for Saudi oil and potential sources of investment and technology transfer (Mohammadzadeh, 2020).

Additionally, Saudi Arabia has developed strategic niches within the framework of state capitalism to enhance its regional and global influence. The government has concentrated on developing expertise in specific sectors such as petrochemicals, finance, and tourism, which are seen as critical to the kingdom's long-term economic strategy. This approach has been particularly successful in smaller Gulf states like Qatar and the UAE, where young rulers have adopted executive leadership styles to implement state capitalism effectively. However, in larger states like Saudi Arabia, the presence of multiple competing factions within the ruling family has made it more challenging to replicate these successes (Ulrichsen and Ulrichsen, 2016).

The advent of digital capitalism has also presented new challenges and opportunities for Saudi Arabia. The government's ability to adapt to technological changes while maintaining control over information flows has been tested. For example, the controversy surrounding the removal of a critical episode of the satirical show "Patriot Act with Hasan Minhaj" from Netflix in Saudi Arabia highlighted the kingdom's efforts to balance censorship with the need to engage in the global digital economy (Khalil and Zayani, 2021).

Saudi Arabia has also focused on expanding its influence through investments in strategic sectors overseas. The Saudi sovereign wealth fund, the Public Investment Fund (PIF), has made significant investments in various industries around the world, including technology, entertainment, and infrastructure. These investments are aimed at generating returns that can support the Saudi economy and creating strategic partnerships that enhance the kingdom's global influence (Al-Rasheed, 2005).

The international aspect of Saudi Arabia’s state capitalism model is crucial for understanding its broader strategic goals. The diversification of international partnerships aligns with domestic economic diversification efforts, as both aim to reduce dependency on a single resource or partner and create a more resilient economic structure. The focus on strategic niches, such as digital capitalism, highlights the kingdom’s adaptive strategies to maintain its global relevance.

6. Broader Economic and Social Reforms

Beyond the immediate economic policies and diversification efforts, Saudi Arabia has embarked on broader reforms aimed at reshaping its socio-economic landscape. The Vision 2030 initiative encapsulates this broader agenda, aiming to reduce the state’s role in the economy and enhance the private sector's contribution. This includes privatising key industries, reducing subsidies, and improving the business environment to attract foreign investment (Sohail, 2012). One critical aspect of these reforms is the development of the non-oil sector, particularly through the promotion of small and medium-sized enterprises (SMEs). SMEs are seen as vital for job creation and economic diversification. The government has implemented various programs and initiatives to support SME development, including access to financing, regulatory reforms, and entrepreneurial training (Al Rajhi et al., 2012).

The push for economic diversification is also evident in Saudi Arabia’s efforts to develop its tourism sector. The government has invested heavily in promoting the country as a tourist destination, highlighting its cultural heritage and natural attractions. This is part of a broader strategy to create new sources of revenue and reduce the economy's reliance on oil. The development of the tourism sector is expected to create jobs, stimulate investment, and contribute to the country's overall economic growth (Rice, 2004).

The education sector is another critical area of focus under the Vision 2030 initiative. The Saudi government recognises that a well-educated workforce is essential for the country's long-term economic success. To this end, the government has launched several initiatives aimed at improving the quality of education, including reforms to the curriculum, investments in teacher training, and the promotion of research and innovation. These efforts are aimed at equipping Saudi citizens with the skills and knowledge necessary to compete in the global economy (Nilblock, 2015). These broader reforms are interconnected with the earlier discussed economic and social policies. For instance, the promotion of SMEs and the tourism sector complements the privatisation and foreign investment initiatives, as both aim to create a more dynamic and diversified economy. The education reforms are crucial for supporting these economic changes by ensuring that the workforce is prepared for new and emerging industries.

7. Social Reforms and Cultural Shifts

The Vision 2030 initiative also emphasises social reforms aimed at enhancing the quality of life for Saudi citizens and fostering a more inclusive society. These reforms include significant investments in healthcare, education, and social welfare programs. The government has also launched initiatives to promote cultural activities, sports, and entertainment, which are seen as essential for improving the overall well-being of the population and creating a more vibrant society (Al-Rasheed, 2005). One of the most notable social reforms has been the lifting of the ban on women driving, which came into effect in 2018. This policy change is part of a broader effort to increase women's participation in the workforce and promote gender equality. The government has also implemented policies to support women in education and employment, recognising their critical role in the country's economic and social development (Sohail, 2012).

These social reforms are integral to the broader economic and cultural shifts envisioned in Vision 2030. The emphasis on gender equality and the inclusion of women in the workforce aligns with the goals of economic diversification and private sector growth. The promotion of cultural activities and entertainment not only aims to improve quality of life but also to attract tourism and foster a more open and globally connected society. The Saudi government has also made efforts to reform the education system to better align it with the needs of a modern economy. This includes updating curricula, investing in vocational training, and encouraging research and innovation. The goal is to create a workforce that is equipped with the skills necessary to compete in the global market and drive economic growth (Nilblock, 2015).

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8. Challenges and Criticisms

Despite the ambitious reforms and diversification efforts, Saudi Arabia's model of state capitalism faces several challenges and criticisms. One significant challenge is the sustainability of economic growth in the face of fluctuating oil prices. While the government has made strides in diversifying the economy, oil revenues still play a crucial role in funding public expenditures and social programs (Joharji and Starr, 2011). Moreover, the pace of social and economic reforms has been criticised for being too rapid, potentially leading to social unrest and resistance from conservative segments of society. The balance between modernisation and preserving traditional values is delicate, and the government must navigate this terrain carefully to avoid alienating key constituencies (Madani et al., 2000). For instance, while the lifting of the ban on women driving has been widely celebrated, it has also faced opposition from conservative factions that see it as a departure from traditional norms. The implementation of the Vision 2030 initiatives has also faced bureaucratic hurdles and resistance from established interests within the government and private sector.

The success of these reforms will depend on the government's ability to overcome these obstacles and build a consensus around the need for change (Sohail, 2012). Effective governance and transparency are critical to ensure that the objectives of Vision 2030 are met and that the benefits of economic growth and diversification are widely shared across society. Another challenge is the need to address income inequality and ensure that the benefits of economic growth are distributed equitably. While Saudi Arabia has made significant investments in social programs and public services, disparities in income and access to opportunities remain. Addressing these disparities is essential to maintaining social cohesion and ensuring that all segments of society benefit from the country's economic development (Nilblock, 2015).

Environmental sustainability is another critical issue that Saudi Arabia must address as it pursues economic diversification and development. The country's reliance on oil has significant environmental impacts, and there is a growing recognition of the need to develop more sustainable energy sources and reduce the carbon footprint of economic activities. Initiatives such as the Saudi Green Initiative and investments in renewable energy projects are steps in the right direction, but more comprehensive policies and actions are needed to achieve long-term environmental sustainability (Ulrichsen and Ulrichsen, 2016).

The international geopolitical landscape also poses challenges for Saudi Arabia's state capitalist model. The kingdom's strategic alliances and its role as a major oil producer mean that it must navigate complex international relations and geopolitical tensions. This includes managing its relationships with major powers such as the United States and China, as well as addressing regional conflicts and instability in the Middle East (Sullivan, 1970).

In Summary, Saudi Arabia’s model of state capitalism is characterised by significant government involvement in the economy, strategic use of oil revenues, and efforts to diversify its economic base. The historical context of state formation, strategic alliances, and economic policies have all contributed to the development of this model. While the government has made significant strides in diversifying the economy and improving public services, challenges remain in the areas of employment, social integration, and international relations. Vision 2030 initiative represents a comprehensive strategy to address these challenges and create a sustainable, diversified economy. However, the success of these reforms will depend on the government's ability to balance modernisation with the preservation of traditional values, manage economic volatility, and foster a more inclusive society.

The future of state capitalism in Saudi Arabia will likely be shaped by the country's ability to navigate these complex challenges and leverage its strategic advantages in a rapidly changing global economy. Continued research and analysis will be essential to understand the evolving dynamics of state capitalism in Saudi Arabia and its implications for the broader Middle East region.

9. Global Production Network and Saudi Arabia's aim to establish itself as a hub for global flows:

9.1 Introduction

Global Production Networks have become a critical framework for analysing contemporary economic globalisation. They represent the complex web of production and distribution processes that span multiple countries and regions, facilitated by advancements in technology, transportation, and communication. These networks enable firms and non-firm institutions to collaborate across borders, optimising the production and distribution of goods and services on a global scale.

GPNs are characterised by their interconnected nature, where value is created, distributed, and captured through a series of interconnected nodes and links. Each node represents a specific function or activity within the production process, such as manufacturing, assembly, logistics, or marketing. The links represent the flow of goods, services, information, and finance between these nodes. This interconnectedness allows for greater efficiency, flexibility, and responsiveness to market demands, as firms can leverage resources and capabilities from different parts of the world.

For Saudi Arabia, integrating into these global production networks offers a pathway to diversify its economy, which has historically been heavily reliant on oil exports. By becoming an integral part of GPNs, Saudi Arabia can reduce its dependence on oil, mitigate the risks associated with oil price volatility, and foster sustainable economic development. This integration can help the country tap into new markets, attract foreign investment, and enhance its competitiveness in various sectors.

Saudi Arabia's Vision 2030, a strategic framework aimed at transforming the kingdom's economy, underscores the importance of economic diversification and integration into the global economy. Vision 2030 outlines several key initiatives and projects designed to develop new sectors such as tourism, entertainment, technology, and renewable energy. These initiatives align with the principles of GPNs, emphasising the need for strategic investments, infrastructure development, and regulatory reforms to facilitate seamless integration into global production networks.

This section of the literature review delves into the conceptual foundations of GPNs, exploring the theories and frameworks that underpin their operation. It examines the dynamic nature of GPNs, highlighting the competitive dynamics and risk environments that shape these networks. By understanding these foundational concepts, policymakers and business leaders in Saudi Arabia can make informed decisions to position the country within GPNs effectively.

It also explores the operational mechanisms of GPNs, focusing on the integration of finance, governance, and regulation. It discusses the role of financial networks in supporting GPNs, the importance of governance mechanisms in ensuring fair labour practices, and the regulatory frameworks that facilitate seamless integration. These operational aspects are crucial for Saudi Arabia as it seeks to attract foreign investment, enhance its financial infrastructure, and improve labour conditions to align with global standards.

Furthermore, it examines the impacts of GPNs on economic development, with a particular focus on developing countries. It outlines how GPNs create development and employment opportunities, enabling countries to bypass the need to build value chains from scratch. By participating in GPNs, developing countries can leverage existing networks to foster industrialisation and economic growth. For Saudi Arabia, this means capitalising on its strategic initiatives to create jobs, stimulate economic activity, and reduce regional disparities.

Emerging trends and future research directions are also explored in this review. The growing importance of digital information in GPNs is highlighted, emphasising the need for Saudi Arabia to invest in digital infrastructure and technologies. The review also discusses recent conceptual developments in GPN theory, identifying key domains such as state, finance, labour, environment, and development that require further integration for a comprehensive understanding of GPNs. By linking these aspects to Saudi Arabia's strategic initiatives and economic landscape, this literature review provides a comprehensive understanding of how the country can integrate into global production networks. It offers insights into the steps Saudi Arabia can take to leverage its strategic advantages, address existing barriers, and implement policies and initiatives that foster sustainable economic growth and global competitiveness.

9.2 Conceptual Foundations of GPNs

Global Production Networks offer a robust framework for analysing the complexities of contemporary economic globalisation. By examining the interconnected processes of production and distribution, GPNs provide insights into how value is created, transformed, and captured across different regions and industries. This section delves into the dynamic theory of GPNs, particularly the GPN 2.0 framework proposed by (Yeung and Coe 2015), and explores its relevance to Saudi Arabia's economic diversification efforts under Vision 2030.

Yeung and Coe (2015) propose a dynamic theory of GPNs, known as GPN 2.0, which emphasises the competitive dynamics and risk environments that shape these networks. They argue that understanding GPNs requires a focus on the cost-capability ratios, market imperatives, and financial discipline that influence the configuration of these networks. This approach underscores the importance of these factors in determining the regional and national developmental outcomes of GPNs (Yeung and Coe, 2015). GPN 2.0 represents an evolution from earlier conceptualisations of GPNs and Global Value Chains (GVCs), which often focused primarily on governance typologies and analytical categories such as power and embeddedness. Yeung and Coe's framework seeks to offer novel theoretical insights into why and how the organisation and coordination of global production networks vary significantly within and across different industries, sectors, and economies. This actor-centred approach systematically conceptualises the causal drivers of GPNs in terms of their competitive dynamics and risk environments, highlighting how these factors shape the strategies adopted by economic actors in configuring their production networks (Yeung and Coe, 2015).

Saudi Arabia's Vision 2030 aims to transform the economy by reducing dependence on oil and increasing the contribution of non-oil sectors. This transformation aligns with the principles of GPN 2.0, where strategic initiatives such as developing renewable energy sources and enhancing the petrochemical industry reflect an understanding of cost-capability optimisation and market imperatives. The kingdom's investments in sectors like solar energy and advanced manufacturing technologies are prime examples of how it is positioning itself within global production networks.

One of the key components of Saudi Arabia's Vision 2030 is the development of renewable energy sources, particularly solar energy. The kingdom's significant solar radiation resources make it an ideal location for solar energy projects. The Saudi government has launched several initiatives to develop solar power infrastructure, aiming to generate a substantial portion of its energy from renewable sources. Projects such as the Sakaka photovoltaic plant and the planned NEOM city, which aims to be powered entirely by renewable energy, showcase Saudi Arabia's commitment to sustainable development and integration into the global renewable energy network (Zell et al., 2015). These initiatives are consistent with the GPN 2.0 framework's emphasis on optimising cost-capability ratios and responding to market imperatives. By investing in renewable energy, Saudi Arabia not only addresses global environmental concerns but also creates new economic opportunities in technology and green industries. The strategic focus on renewable energy positions the kingdom as a key player in the global energy transition, enhancing its competitiveness and resilience in the face of changing global energy dynamics.

The petrochemical industry is another critical sector where Saudi Arabia is leveraging its strategic advantages to integrate into GPNs. The kingdom has established itself as a leading producer of various petrochemical products, integral to global supply chains. Companies like Saudi Aramco and SABIC (Saudi Basic Industries Corporation) play pivotal roles in these networks by producing and exporting a wide range of petrochemical products used in industries worldwide. The expansion of the petrochemical sector into downstream activities, such as the production of plastics and chemicals, enhances Saudi Arabia's integration into GPNs and adds value to its exports (Krane, 2015). The development of large-scale petrochemical projects, such as the Sadara Chemical Company—a joint venture between Saudi Aramco and Dow Chemical—illustrates how Saudi Arabia is positioning itself within global production networks. These projects not only boost domestic production capabilities but also strengthen Saudi Arabia's role in global petrochemical supply chains. By focusing on value-added products and enhancing its production capabilities, the kingdom is optimising its cost-capability ratios and responding to global market demands.

Integrating into GPNs requires Saudi Arabia to navigate competitive dynamics and risk environments effectively. According to Yeung and Coe (2015), firms and economies must continually adapt to changes in market conditions, technological advancements, and geopolitical developments. This involves not only optimising production processes and capabilities but also managing financial discipline and mitigating risks (Yeung and Coe, 2015).

Saudi Arabia's Vision 2030 emphasises the importance of financial discipline and strategic investments to achieve economic diversification. The establishment of the Public Investment Fund (PIF), which invests in various sectors including technology, infrastructure, and entertainment, exemplifies this approach. The PIF's investments are aimed at fostering innovation, creating jobs, and enhancing the kingdom's global economic standing. By strategically allocating resources and managing financial risks, Saudi Arabia is positioning itself to navigate the competitive dynamics of GPNs effectively (Yeung and Coe, 2015). Furthermore, initiatives such as the development of smart cities and the expansion of high-speed internet access are designed to enhance the digital economy and integrate Saudi Arabia into the global digital landscape. The National Digital Transformation Program aims to promote the use of digital technologies in various sectors, thereby enhancing efficiency, productivity, and global connectivity. These efforts align with the GPN 2.0 framework's emphasis on optimising cost-capability ratios and responding to market imperatives through technological innovation.

The dynamic theory of GPNs proposed by Yeung and Coe (2015) provides a comprehensive framework for understanding the competitive dynamics and risk environments that shape global production networks. For Saudi Arabia, integrating into these networks offers a pathway to diversify its economy, reduce dependence on oil, and foster sustainable economic development. The kingdom's strategic initiatives under Vision 2030, including investments in renewable energy, the petrochemical industry, and digital infrastructure, reflect an understanding of cost-capability optimisation and market imperatives. By leveraging its strategic advantages and navigating the competitive dynamics of GPNs, Saudi Arabia can enhance its global economic standing and drive long-term economic growth.

9.3 Integration of Finance

The integration of finance into GPNs is a critical component that significantly influences the dynamics and sustainability of these networks. Coe et al., (2014) discuss the essential role of finance within GPNs, highlighting how financial networks and globalisation co-evolve (Coe et al., 2014). They emphasise that incorporating financial analysis into GPN studies can enrich both conceptual and empirical research, offering a deeper understanding of the interplay between finance and production networks (Coe et al., 2014). Financial networks, often more globalised and interconnected than production networks, play a pivotal role in the functioning and expansion of GPNs. Advanced business services, world cities, and offshore jurisdictions form the core of these global financial networks (GFNs). The interactions between GPNs and GFNs involve the financing and financialising of production networks, where globalisation and financialisaton co-evolve, shaping economic activities and outcomes across regions.

Finance serves as a backbone for the operations of GPNs by providing the necessary capital for production, expansion, and innovation. The globalisation of finance has led to the development of sophisticated financial instruments and markets that facilitate the smooth operation of GPNs. This includes the availability of credit, investment funds, and financial services that support the various stages of production and distribution within GPNs. Financial networks also enable firms to manage risks associated with currency fluctuations, market volatility, and other uncertainties inherent in global trade (Henderson et al., 2002). In their analysis, Coe, Lai, and Wójcik (2013) argue that integrating finance into GPN research entails more than a simple extension of the approach; it enriches the framework conceptually, methodologically, and empirically. The integration of finance into GPNs not only provides the capital required for production but also influences the strategic decisions of firms regarding where to locate production facilities, how to manage supply chains, and how to respond to competitive pressures. This financialisaton of production networks involves leveraging financial markets and instruments to optimise operations and enhance profitability.

For Saudi Arabia, financial integration is a pivotal component of its economic diversification strategy. The development of robust financial institutions and markets is crucial for attracting foreign investment and facilitating capital flows necessary for integrating into GPNs. The Saudi Stock Exchange (Tadawul) and the Saudi Arabian Monetary Authority (SAMA) are instrumental in creating a stable and transparent financial environment, which is essential for the kingdom's economic transformation. The Saudi Stock Exchange (Tadawul) has evolved to become one of the largest and most liquid stock markets in the Middle East. It provides a platform for local and international investors to trade equities, bonds, and other financial instruments. Tadawul's role in facilitating capital formation is crucial for funding new ventures, expanding existing businesses, and supporting infrastructure projects. By providing a well-regulated and efficient marketplace, Tadawul attracts foreign investment, enhances market liquidity, and supports the integration of Saudi firms into GPNs (Dörry, 2015).

The Saudi Arabian Monetary Authority (SAMA) oversees monetary policy, financial stability, and the regulation of the banking sector. SAMA's efforts to maintain a stable macroeconomic environment are crucial for fostering investor confidence and ensuring the smooth operation of financial markets. By implementing sound monetary policies and regulatory frameworks, SAMA helps mitigate risks associated with inflation, currency fluctuations, and financial crises, thereby creating a conducive environment for integrating into GPNs (Ng, 2018).

The Public Investment Fund (PIF) plays a strategic role in Saudi Arabia's economic diversification efforts. As the kingdom's sovereign wealth fund, PIF is tasked with investing in a wide range of sectors, including technology, renewable energy, infrastructure, and entertainment. These investments are aimed at reducing the economy's reliance on oil revenues and fostering sustainable economic growth. PIF's investments in technology and innovation are particularly relevant for integrating into GPNs. By funding projects in sectors such as information technology, renewable energy, and advanced manufacturing, PIF is helping to create new industries and enhance Saudi Arabia's competitive capabilities. For example, PIF's investments in renewable energy projects, such as the Sakaka photovoltaic plant and the planned NEOM city, align with global trends towards sustainability and technological advancement (Gupta, 2017). Moreover, PIF's role in infrastructure development supports the creation of an enabling environment for GPN integration. Investments in transportation, logistics, and digital infrastructure enhance connectivity and efficiency, making it easier for Saudi firms to participate in global production networks. By improving infrastructure, PIF helps reduce costs, streamline operations, and attract international businesses, thereby facilitating the kingdom's integration into GPNs (Wogan et al., 2019).

Integrating finance into Global Production Networks is crucial for understanding the dynamics of global economic activities and regional development. The role of finance in GPNs extends beyond providing capital; it influences strategic decisions, optimises operations, and enhances profitability. For Saudi Arabia, financial integration is a cornerstone of its economic diversification strategy. The development of robust financial institutions, such as Tadawul and SAMA, and strategic investments by the PIF are essential for creating a conducive environment for GPN integration. These efforts align with global trends and enhance Saudi Arabia's competitiveness, positioning the kingdom as a significant player in global production networks.

9.4 Governance and Regulation

Governance mechanisms within GPNs are crucial for determining the structure, operation, and sustainability of these networks. Effective governance involves a multi-faceted approach, encompassing labour practices, employment relationships, environmental standards, and economic policies. These mechanisms are essential for managing the interactions between various stakeholders, including firms, states, and non-state actors, to ensure compliance with standards and promote equitable development.

Thomas (2020) explores the intricate governance mechanisms within GPNs, particularly focusing on labour governance and its significant impact on employment relationships. He underscores the importance of workers' agency in improving their positions within GPNs, highlighting the role of governance in ensuring fair labour practices and sustainable economic development (Thomas, 2020). Governance in GPNs involves a complex interplay between firms, states, and non-state actors, each contributing to the regulation and coordination of production activities across global networks. Effective governance structures enhance the stability and efficiency of GPNs, foster innovation, and promote sustainable development. Coe and Yeung (2019) argue that governance mechanisms are critical for understanding how value is created, captured, and distributed within GPNs, influencing the developmental outcomes of different regions and industries (Yeung and Coe, 2015).

These governance structures are shaped by competitive dynamics, risk environments, and strategic interactions between firms and states. Governance mechanisms must address the varying needs and priorities of different stakeholders, balancing economic efficiency with social and environmental responsibilities. This multi-scalar approach to governance, which includes both vertical (firm-level) and horizontal (state and non-state actors) interactions, is essential for the effective functioning of GPNs.

Thomas (2020) elaborates on the importance of labour governance, emphasising the regulation of labour practices and the protection of workers' rights within GPNs. He highlights the role of lead firms and state institutions in ensuring fair labour practices, promoting workers' agency, and facilitating participation in decision-making processes. These efforts are crucial for achieving equitable labour conditions and enhancing the overall sustainability of GPNs (Thomas, 2020).

Labour governance within GPNs is critical for ensuring that production activities adhere to fair labour practices and international labour standards. This includes regulating wages, working conditions, and employment contracts and addressing issues such as child labour, forced labour, and discrimination. Effective labour governance mechanisms can significantly improve labour conditions, enhance productivity, and contribute to the overall sustainability of GPNs.

One of the key challenges in labour governance is the fragmentation of production processes across multiple geographic locations and legal jurisdictions. This fragmentation often leads to variations in labour practices and standards, creating opportunities for exploitation and abuse. To address these challenges, lead firms and state institutions must collaborate to establish robust governance mechanisms that ensure compliance with labour standards across all stages of production.

Alexander (2020) discusses the role of lead firms in promoting sustainable practices within GPNs, particularly in buyer-driven industries. She highlights how lead firms are increasingly adopting governance approaches that involve vertical buyer-seller links and horizontal relationships with lower-tier suppliers to address sustainability challenges and improve labour practices. These governance approaches can significantly enhance the social and environmental performance of GPNs, making them more resilient and sustainable (Alexander, 2020).

Similarly, Alford et al. (2017) emphasise the role of multi-scalar labour agencies in GPNs, which involves leveraging both global commercial and government actors to enable unorganised community-based labour to bargain for better pay and conditions. They argue that while local initiatives can achieve some improvements, more systemic strategies are required to challenge the underlying global commercial logic and achieve significant changes in labour governance (Alford et al., 2017).

Saudi Arabia’s Vision 2030 aims to enhance the employment landscape by improving labour laws, enhancing workers’ rights, and increasing female participation in the workforce. These reforms are crucial for aligning with global standards and ensuring that the kingdom can integrate seamlessly into GPNs. The Saudi government's commitment to improving labour governance is evident in several key initiatives and regulatory frameworks. One of the cornerstone initiatives under Vision 2030 is the Wage Protection System (WPS), which aims to ensure timely and accurate payment of wages to workers. The WPS monitors wage payments through an electronic system, thereby reducing wage disputes and enhancing transparency in labour transactions. This system is critical for protecting workers' rights and ensuring fair labour practices within the kingdom's production networks (Ng., 2018).

Another significant initiative is the Nitaqat program, which incentivises the employment of Saudi nationals in the private sector. The program categorises companies based on their compliance with nationalisation targets, encouraging firms to hire more Saudi nationals and reduce dependence on expatriate labour. By promoting local employment, the Nitaqat program aligns with global labour standards and enhances the kingdom's capacity to participate in GPNs. This initiative not only helps create more job opportunities for Saudi citizens but also ensures a stable and skilled workforce, which is essential for the sustainable growth of GPNs (Ng., 2018).

Increasing female participation in the workforce is another critical aspect of Saudi Arabia's labour reforms under Vision 2030. The government has implemented various policies to remove barriers to female employment, including reforms in the guardianship system, increased support for working mothers, and initiatives to promote female entrepreneurship. These efforts aim to enhance gender equality and empower women to contribute to the economy. By improving labour laws and enhancing workers' rights, Saudi Arabia is creating a more inclusive and equitable labour market. These reforms are essential for aligning with global labour standards and ensuring that the kingdom can integrate seamlessly into GPNs. Enhanced labour governance not only improves working conditions but also enhances the kingdom's attractiveness as a destination for foreign investment. These efforts demonstrate Saudi Arabia's commitment to fostering a diverse and inclusive workforce, which is a critical component of sustainable economic development and integration into GPNs.

Governance and regulation within GPNs are critical for ensuring fair labour practices, protecting workers' rights, and promoting sustainable economic development. Effective governance mechanisms involve collaboration between firms, states, and non-state actors to establish standards and ensure compliance across all stages of production. For Saudi Arabia, labour reforms under Vision 2030 are pivotal in enhancing the employment landscape, improving labour laws, and increasing female participation in the workforce. These initiatives demonstrate the kingdom's commitment to aligning with global standards and integrating seamlessly into GPNs, thereby fostering sustainable economic growth and global competitiveness. The integration of robust governance mechanisms and regulatory frameworks is essential for Saudi Arabia to capitalise on its strategic initiatives and economic reforms. By addressing labour governance challenges and promoting inclusive and fair labour practices, the kingdom can enhance its participation in GPNs, attract foreign investment, and drive long-term economic growth. Through these comprehensive reforms, Saudi Arabia is poised to become a significant player in global production networks, contributing to a more sustainable and equitable global economy.

9.5 Impacts on Economic Development

GPNs play a crucial role in shaping countries' economic development by creating both opportunities and challenges. These networks facilitate the integration of local economies into global markets, enabling countries to participate in international trade and attract foreign investment. However, the benefits of GPNs are not evenly distributed, often leading to regional disparities and social inequalities.

GPNs create significant development and employment opportunities, particularly in developing countries. By participating in GPNs, these countries can bypass the need to build entire value chains from scratch, leveraging existing networks to foster industrialisation and economic growth. Gupta (2017) highlights that GPNs enable developing countries to integrate into global markets, enhancing their industrial capabilities and boosting economic growth. This integration can lead to substantial economic benefits, including increased employment, improved productivity, and higher incomes (Gupta, 2017).

For Saudi Arabia, economic diversification is a central component of its Vision 2030 strategy, which aims to reduce the kingdom's dependence on oil and develop new sectors such as tourism, entertainment, technology, and renewable energy. By integrating into GPNs, these sectors can access global markets, attract foreign investment, and stimulate economic growth. For example, the development of mega projects like the Red Sea Project and Qiddiya Entertainment City is designed to position Saudi Arabia as a global tourism and entertainment hub. These projects leverage GPNs to attract international visitors and investors, creating jobs and promoting technological transfer and local skill enhancement, thus contributing to the broader economic development goals of Vision 2030.

The Red Sea Project aims to transform a vast area along the Saudi coast into a luxury tourism destination, creating thousands of jobs in tourism and supporting industries such as construction, hospitality, and transportation. By attracting international tourists and investors, the project stimulates local economic growth and diversifies the Saudi economy beyond oil. Similarly, Qiddiya Entertainment City is envisioned as a major entertainment, sports, and cultural destination, expected to attract millions of visitors annually. This project will create substantial employment opportunities and promote the development of a vibrant entertainment industry in Saudi Arabia. In addition to tourism and entertainment, Saudi Arabia's focus on developing its technology and renewable energy sectors aligns with the global shift towards sustainable and knowledge-based economies. By investing in high-tech industries and renewable energy projects, the kingdom aims to create new economic opportunities and reduce its dependence on fossil fuels. Projects such as NEOM, a futuristic city that aims to integrate advanced technologies and renewable energy sources, exemplify Saudi Arabia's commitment to innovation and sustainability. NEOM is designed to be a hub for innovation, attracting global talent and investment in sectors such as artificial intelligence, biotechnology, and clean energy.

The integration of Saudi Arabia into GPNs also facilitates knowledge transfer and skill development. By participating in global networks, Saudi firms and workers can access cutting-edge technologies and best practices from around the world, enhancing local capabilities and fostering innovation. For example, the Saudi Arabian General Investment Authority (SAGIA) actively promotes foreign direct investment (FDI) in sectors such as manufacturing, healthcare, and education. By attracting multinational companies to invest in Saudi Arabia, SAGIA facilitates the transfer of advanced technologies and management practices to local firms, enhancing their competitiveness and integrating them into global production networks.

While GPNs can drive regional development and create economic opportunities, they also contribute to uneven geographical development, exacerbating disparities between different regions. Kelly (2013) highlights the uneven development resulting from GPNs, using the example of Cavite, Philippines. He argues that while GPNs can bring economic benefits to certain regions, they can also obscure social and environmental impacts, leading to uneven development. This unevenness manifests in various forms, including regional income disparities, environmental degradation, and social inequalities (Kelly, 2013).

GPNs often lead to the concentration of economic activities and benefits in regions or cities with better infrastructure, more skilled labour, and favourable regulatory environments. Consequently, these regions experience rapid economic growth and development, while less developed areas lag behind. Addressing the potential for uneven development is critical for ensuring inclusive growth. In Saudi Arabia, Vision 2030 includes initiatives aimed at reducing regional disparities by investing in infrastructure and economic development across all regions of the kingdom. Projects such as the Al-Ula development and the Jazan Economic City are examples of efforts to promote balanced regional development. These initiatives aim to distribute economic benefits more evenly and ensure that all regions can participate in and benefit from the kingdom’s integration into GPNs.

The Al-Ula development project focuses on transforming the north-western region of Saudi Arabia into a cultural and tourism hub. By restoring historical sites and creating new tourism infrastructure, the project aims to attract tourists from around the world, creating jobs and stimulating local economic activity. This initiative not only promotes cultural heritage preservation but also fosters regional development and reduces disparities.

Jazan Economic City (JEC) is another strategic initiative aimed at promoting balanced regional development. Located in the southwestern region of Saudi Arabia, JEC is designed to become an industrial and logistics hub. The project includes the development of industrial parks, a port, and residential areas, attracting both local and foreign investment. By creating jobs and stimulating economic activity in the region, JEC aims to reduce regional disparities and promote inclusive growth.

Addressing social and environmental impacts is also crucial in ensuring sustainable development. Werner (2016) examines the dynamics of uneven development through the lens of GPNs, emphasising the processes of devaluation, disinvestment, and exclusion. She argues that the restructuring of supply chains, particularly after economic crises, often leads to the marginalisation of certain regions and communities. This marginalisation is a critical issue that needs to be addressed through targeted policies and interventions that promote inclusive growth and equitable development (Werner., 2016).

In Saudi Arabia, Vision 2030 emphasises the importance of sustainable development, which includes addressing social and environmental impacts. The kingdom has implemented various initiatives to ensure that economic development does not come at the expense of social and environmental well-being. These initiatives include environmental regulations, social impact assessments, and community engagement programs.

To conclude, GPNs have a significant impact on economic development, offering both opportunities and challenges. While they can drive industrialisation, create jobs, and boost economic growth, they also contribute to uneven development and social inequalities. For Saudi Arabia, integrating into GPNs is a strategic priority under Vision 2030. The kingdom's efforts to diversify its economy, invest in infrastructure, and promote regional development are critical for achieving inclusive and sustainable growth. By leveraging the opportunities offered by GPNs and addressing the challenges of uneven development, Saudi Arabia can enhance its economic competitiveness and ensure that the benefits of growth are shared across all regions. This comprehensive approach to economic development aligns with the principles of GPNs, emphasising the importance of strategic investments, effective governance, and inclusive growth in driving long-term economic prosperity.

Saudi Arabia's Vision 2030 is a transformative agenda that seeks to transition the kingdom from an oil-dependent economy to a diversified, knowledge-based economy. The integration into GPNs is central to this vision, as it allows Saudi Arabia to tap into global markets, attract foreign investment, and foster innovation. The kingdom's strategic initiatives, such as the development of renewable energy, petrochemicals, and high-tech industries, are designed to position it as a key player in global production networks.

Despite these opportunities, GPNs also present challenges, particularly in terms of uneven development. Addressing regional disparities is essential for ensuring that all regions of Saudi Arabia benefit from economic growth. Initiatives like the Al-Ula development and the

Jazan Economic City aim to promote balanced regional development, distributing economic benefits more evenly across the kingdom. These projects create jobs, stimulate local economies, and reduce regional disparities, contributing to more inclusive growth.
Emerging trends, such as digital integration, also play a crucial role in Saudi Arabia's strategy. The National Digital Transformation Program aims to enhance the kingdom's digital infrastructure, promoting efficiency, productivity, and global connectivity. By investing in digital technologies, Saudi Arabia can further integrate into GPNs, leveraging the benefits of the digital economy to drive innovation and growth.

In summary, Saudi Arabia's integration into Global Production Networks under Vision 2030 offers a pathway to diversify its economy, reduce dependence on oil, and foster sustainable economic development. By strategically investing in key sectors, enhancing financial integration, and promoting inclusive governance, the kingdom can navigate the complexities of GPNs and achieve long-term economic prosperity. The comprehensive approach to economic development, grounded in the principles of GPNs, positions Saudi Arabia as a significant player in the global economy, capable of driving innovation, attracting investment, and promoting inclusive growth**.**

10. Global Finance and Saudi Arabia

10.1 Introduction

The global financial system is a complex and interconnected network that encompasses the flow of capital, financial services, and investments across international borders. This system plays a pivotal role in shaping the economic dynamics of countries worldwide, influencing everything from macroeconomic stability to individual business operations. Saudi Arabia, with its vast oil reserves and strategic economic position, is a crucial player in this global financial landscape. The Kingdom's economic policies, financial development initiatives, regulatory practices, and efforts towards diversification have far-reaching implications, both domestically and internationally. Understanding the multifaceted relationship between global finance and Saudi Arabia is essential for comprehending the broader impacts on global economic stability and growth.

The purpose of this section is to provide a comprehensive review of the existing literature on global finance as it relates to Saudi Arabia. By examining various aspects of this relationship, this chapter aims to highlight the critical areas of impact and development. Specifically, this review seeks to analyse the impact of financial development on Saudi Arabia's economic growth, investigate the environmental consequences of financial activities within the country, and evaluate the effectiveness of regulatory practices in combating financial crimes such as money laundering and terrorist financing. Additionally, this chapter will assess the effects of global financial crises on Saudi Arabia's economy, explore efforts towards economic diversification and enhancing international competitiveness, and understand the role and growth of Islamic finance in the Kingdom. Furthermore, it will review the influence of foreign investment laws and economic policies on economic development, discuss the role of monetary policy and exchange rate management in maintaining economic stability, and investigate the adoption and impact of International Financial Reporting Standards (IFRS) on Saudi businesses.

Financial development is a cornerstone of economic growth, providing the necessary capital and financial services to drive business expansion and innovation. In Saudi Arabia, financial development has been shown to have a positive impact on the non-oil sector, fostering economic diversification. Marashdeh and Al-Malkawi (2014) demonstrated a positive long-term relationship between financial deepening—measured by the monetisation ratio (M2/GDP)—and economic growth (Marashdeh and Al-Malkawi, 2014). This relationship underscores the importance of a robust financial sector in promoting sustainable economic development. Conversely, Samargandi et al. (2014) noted that while financial development supports the growth of the non-oil sector, its overall impact on GDP growth is mixed, highlighting the complex dynamics within a resource-dominated economy like Saudi Arabia (Samargandi et al., 2014).

The environmental impacts of financial development are increasingly relevant as countries strive for sustainable growth. In Saudi Arabia, financial development has been linked to environmental degradation, particularly through increased CO2 emissions. Xu et al. (2018) found that financial development contributes significantly to CO2 emissions, exacerbating environmental challenges (Xu et al., 2018). This finding emphasises the need for integrating sustainable practices within the financial sector to mitigate adverse environmental impacts.

Regulatory practices in Saudi Arabia have evolved to align with international standards, particularly in combating money laundering and terrorist financing. Naheem (2019) analysed Saudi Arabia's approach to anti-money laundering and counter-terrorist financing (AML/CTF), highlighting that the country complies with international standards and has strengthened its regulatory framework over the past two decades (Naheem, 2019). These efforts are crucial for maintaining the integrity and stability of the financial system. The 2008 financial crisis underscored the vulnerability of global economies, including Saudi Arabia. The crisis prompted a shift in economic policy focus from inflation control to restoring confidence in the financial sector. Gauri (2012) discussed the challenges faced by Saudi Arabia during this period, including reduced oil revenues and the necessity for economic diversification (Gauri, 2012). This period highlighted the importance of developing robust financial systems and diversifying economic activities to mitigate the impacts of global financial disruptions.

Efforts towards economic diversification and enhancing international competitiveness are key goals for Saudi Arabia. Razek and Mcquinn (2021) discussed how Saudi Arabia's competitiveness is largely driven by exogenous factors such as global oil demand and geopolitical risks. They emphasised the need for diversification and investment in human capital to sustain long-term growth. These efforts are aligned with Saudi Arabia’s Vision 2030, which aims to reduce dependency on oil and promote sustainable economic development (Razek and McQuinn, 2021).

Islamic finance, which adheres to Sharia principles, is a growing sector in Saudi Arabia. The country's significant role in the global Islamic finance market underscores its potential for driving economic growth and attracting international investments. Batorshyna et al. (2021) highlighted the development of Islamic finance in Saudi Arabia and its positive impact on economic growth, particularly in the context of global financial markets (Баторшина et al., 2021). Saudi Arabia's foreign investment laws and economic policies aim to attract international capital, diversify the economy, and reduce dependency on oil. Rice (2004) discussed the impact of these policies on economic development, emphasising the importance of foreign investment in achieving sustainable growth. These policies are vital for creating a conducive environment for international investors and promoting economic stability (Rice, 2004).

The banking sector is a cornerstone of Saudi Arabia's financial system, playing a significant role in economic development. Al-Dukheil (1995) and Zehri (2015) discussed the performance and stability of the Saudi banking sector, particularly in the wake of global financial crises. The banking sector’s resilience and adaptability are critical for maintaining economic stability and fostering growth (Al-Dukheil,1995). Monetary policy and exchange rate management are essential tools for maintaining economic stability. Razek and Mcquinn (2020) analysed the role of these policies in enhancing Saudi Arabia’s international competitiveness and economic stability. Effective monetary policy and exchange rate management are crucial for mitigating the impacts of external economic shocks and promoting sustainable growth (Razek, 2020).

The adoption of International Financial Reporting Standards (IFRS) is a significant step towards enhancing financial transparency and consistency. Alsuhaibani (2012) examined the expected impact of IFRS adoption on Saudi businesses, highlighting its importance in the context of globalisation and its implications for financial reporting. The adoption of IFRS is expected to improve the quality of financial information and facilitate international investment (Alsuhaibani, 2012).

10.2 Financial Development and Economic Growth

Financial development in Saudi Arabia has shown both positive and negative impacts on the economy. The relationship between financial development and economic growth has been extensively studied, revealing a complex interplay that varies across different sectors and time periods. Marashdeh and Al-Malkawi (2014) found a positive long-term relationship between financial deepening—measured by the monetisation ratio (M2/GDP)—and economic growth. Their study employed time series data from 1970 to 2010 and utilised the autoregressive distributed lag (ARDL) approach to co-integration. They concluded that financial deepening spurs economic growth, supporting the supply-leading hypothesis that financial development leads to economic expansion (Marashdeh and Al-Malkawai, 2014). However, the impact of financial development is not uniformly positive across all sectors. Samargandi et al. (2014) investigated the effects of financial development on both the oil and non-oil sectors of the Saudi economy. Using the ARDL Bounds test technique, they found that financial development positively impacts the growth of the non-oil sector but has either a negative or insignificant impact on the oil sector and total GDP growth. This suggests that the relationship between financial development and growth may be fundamentally different in resource-dominated economies like Saudi Arabia (Samargandi et al., 2014).

Further studies have examined the nuances of this relationship. Ibrahim (2013) used the fully modified ordinary least squares (FMOLS) approach to investigate the relationship between financial development and economic growth from 1989 to 2008. He found that domestic bank credit to the private sector has a significant and positive effect on economic growth in the long run, but an insignificant and negative effect in the short run. On the other hand, the stock market index had an expected positive but insignificant effect in the long run and an unexpected and insignificant effect in the short run. These findings highlight the varying impact of different components of financial development on economic growth (Ibrahim, 2013).

Haque (2020) focused on the growth of the private sector and its relationship with financial development. The study found that the private sector's GDP has a negative relationship with the supply of money, a positive relationship with bank credit to the private sector, and no significant relationship with stock market capitalisation. Additionally, government expenditure, investment, and trade openness were positively and significantly related to private sector growth. This study underscores the importance of financial sector services and the need for supportive government policies to enable significant contributions from the private sector to economic growth (Haque, 2020).

Bogari (2019) assessed the effects of financial development and financial institutions' quality on economic growth using the generalised method of moments (GMM) with a dynamic panel framework. The study found a positive and significant relationship between financial development and economic growth. It also highlighted the crucial role of financial institutions' quality, including socioeconomic conditions, investment profiles, law and order, corruption, external conflicts, and democratic accountability. The findings suggest that enhancing the quality of financial institutions is essential for stimulating economic growth (Bogari, 2019).

Rehman (2018) investigated the linkage between financial development and economic growth from 1985 to 2016 using Vector Auto Regression (VAR). The study found no long-run co-integration among the selected variables but reported a bi-directional linkage between economic growth and financial development measured by broad money to GDP. The study emphasised the need for financial reforms in Saudi Arabia to drive economic growth (Rehman, 2018). Masih et al. (2009) tested the possible directions of causality between financial development and economic growth in Saudi Arabia using error correction and variance decomposition techniques. Their findings suggested that the direction of causation is supply-leading rather than demand-following, implying that financial development drives economic growth. This study highlights the importance of proactive policies to enhance financial sector growth to stimulate overall economic development (Mashil et al., 2009).

Alshammary (2014) explored the long-term and short-term relationships between capital market development and economic growth. Using a wide range of vector autoregression (VAR) models, the study found a positive and significant long-term causal relationship between capital market development and economic growth. Granger causality tests indicated that economic growth Granger-causes capital market development and vice versa, suggesting a bidirectional relationship. This finding underscores the importance of a well-developed capital market in fostering economic growth (Alshammary, 2014). Aljebrin (2020) examined the impact of saving and bank claims on the private sector on economic growth. The study found a positive and significant relationship between real GDP, real domestic savings, and real bank claims on the private sector in both the short and long run. This suggests that increasing domestic savings and bank lending to the private sector can significantly enhance economic growth in Saudi Arabia (Aljebrin, 2020). The study by Abdulaziz (2021) used an ARDL model to explore the short- and long-term effects of financial sector development on economic growth. The study found significant relationships in both the short and long term, indicating that financial development positively impacts economic growth over various time horizons. The study also emphasised the role of control variables like trade openness, gross fixed capital formation, and the labour force in influencing this relationship (Osman et al., 2020).

Financial development in Saudi Arabia plays a crucial role in economic growth, with significant impacts on both the non-oil sector and overall GDP growth. While financial deepening and capital market development generally foster economic expansion, the effects can vary across different sectors and time periods. The relationship is complex, with various studies highlighting the importance of targeted financial policies, regulatory quality, and supportive government initiatives to maximise the benefits of financial development. These findings underscore the need for continuous reforms and strategic planning to harness the full potential of financial development in driving sustainable economic growth in Saudi Arabia.

10.3 Regulatory Practices and Global Standards

Saudi Arabia has made significant strides in aligning its regulatory practices with global standards, particularly in combating money laundering and terrorist financing. Naheem (2019) analysed Saudi Arabia’s approach to Anti-Money Laundering and counter-terrorism financing (AML/CTF), highlighting that the country complies with international standards and has strengthened its regulatory framework over the past two decades. This compliance with global standards is crucial for maintaining the integrity and stability of the financial system, fostering investor confidence, and promoting economic growth (Naheem, 2019).

Financial development and regulatory practices are intrinsically linked, as effective regulation is necessary to ensure that financial development leads to sustainable economic growth. The positive impacts of financial development on the non-oil sector and overall economic growth, as discussed earlier, depend significantly on a robust regulatory framework. Effective regulation helps mitigate the risks associated with financial development, such as money laundering and financial crimes, which can undermine economic stability and growth. Saudi Arabia's efforts to combat money laundering have been multifaceted and comprehensive. The Saudi Arabian Monetary Authority (SAMA) has been proactive in improving the regulatory environment to ensure financial stability and foster economic growth. This includes stringent AML/CTF regulations that align with international standards set by organisations like the Financial Action Task Force (FATF). According to Naheem (2019), Saudi Arabia's AML/CTF measures are designed to prevent the misuse of the financial system for money laundering and terrorist financing, thereby enhancing the country's economic resilience and attractiveness to international investors.

The Kingdom's AML/CTF strategy includes legislative, regulatory, and implementation stages. The legislative stage involves enacting laws that provide the legal foundation for AML/CTF measures. The regulatory stage involves developing and enforcing regulations that ensure compliance with these laws. The implementation stage involves practical measures such as monitoring financial transactions, reporting suspicious activities, and prosecuting offenders. Naheem (2019) found that Saudi Arabia has significantly strengthened its AML/CTF-related legislation and regulation over the past two decades, ensuring compliance with international standards (Naheem, 2019). In addition to AML/CTF measures, Saudi Arabia has also been active in implementing global financial reporting standards. The adoption of International Financial Reporting Standards (IFRS) is a significant step towards enhancing financial transparency and consistency. Nurunnabi et al. (2020) examined the implementation of IFRS in Saudi Arabia, finding that while the transition is complex and resource-intensive, it leads to higher-quality financial reporting, greater transparency, and improved comparability with other businesses. These benefits are crucial for attracting international investment and integrating Saudi Arabia into the global economy (Nurunnabi et al., 2020).

Saudi Arabia's commitment to AML/CTF measures is also reflected in its regulatory approach to non-profit organisations (NPOs). Alowaymir (2021) explored the role of NPOs in AML/CTF with specific reference to the Saudi Arabian context. The study highlighted the importance of a balanced regulatory approach that protects the economic and social benefits of NPOs while mitigating risks of misuse for money laundering and terrorist financing. This regulatory balance is crucial for maintaining the trust and integrity of the NPO sector while ensuring compliance with global AML/CTF standards (Alowaymir, 2021). Furthermore, Saudi Arabia has focused on cybersecurity as part of its broader regulatory strategy. Almomani et al. (2021) proposed a Cybersecurity Maturity Assessment Framework (SCMAF) for higher education institutions in Saudi Arabia. This framework aims to align with local and international security standards, ensuring data and infrastructure security across IT-based systems. Such regulatory measures are essential for protecting financial systems from cyber threats, which are increasingly relevant in the digital age (Almomani et al., 2021).

Saudi Arabia's regulatory efforts also extend to fostering innovation in financial technology (FinTech). Sarabdeen (2023) analysed the adequacy of the legal framework for Regulatory Technology (RegTech) in Saudi Arabia. The study found that while the current laws address some issues related to RegTech, additional guidelines and amendments could enhance the regulatory environment and support the adoption of innovative financial technologies (Sarabdeen, 2023). The interconnection between regulatory practices and financial development is evident in the efforts to combat financial crimes and enhance transparency. Effective AML/CTF measures and the adoption of international standards like IFRS contribute to a stable and attractive investment climate. These regulatory practices ensure that the positive impacts of financial development on the non-oil sector and overall GDP growth, as discussed earlier, are realised without exposing the economy to undue risks.

Saudi Arabia's regulatory practices and adherence to global standards are critical for fostering financial development and ensuring sustainable economic growth. By strengthening the regulatory framework, particularly in areas such as AML/CTF and financial reporting, Saudi Arabia enhances its economic stability and attractiveness to international investors.

These efforts are integral to the broader goal of economic diversification and reducing dependency on oil, ultimately contributing to the Kingdom's long-term economic resilience.

10.4 Impact of Global Financial Crises

The 2008 financial crisis underscored the vulnerability of global economies, including Saudi Arabia. The crisis prompted shifts in economic policy, focusing on financial sector stability and economic diversification. Saudi Arabia, like many other countries, faced significant challenges due to the global economic downturn, which affected various aspects of its economy and financial sector.

Golam Solaiman et al. (2017) examined the impact of the 2008 financial crisis on bank efficiency in Saudi Arabia. Using data envelopment analysis (DEA) from 2006 to 2014, the study assessed scale efficiency, technical efficiency, and productivity of eleven commercial banks. The results revealed that Saudi banks were not immune to the global financial crisis, displaying inefficiencies in both technical and scale efficiency during the period. This inefficiency highlighted the need for better risk management practices and more robust regulatory frameworks to withstand such economic shocks (Solaiman et al., 2017). Farah Naaz Gauri (2012) focused on the broader economic implications of the 2008 financial crisis for Saudi Arabia. The study emphasised that the crisis shifted economic policy from controlling inflation to restoring confidence in the financial sector. The reduction in oil revenues led to the end of significant budget and current account surpluses, highlighting the necessity for economic diversification. Gauri noted that the crisis encouraged the Saudi government to invest in upstream hydrocarbon projects and diversify the economy away from petroleum products to achieve sustainable growth (Gauri, 2012). Further analysis by Benlagha and Charfeddine

(2021) investigated the economic impact of the 2009 European debt crisis on Saudi Arabia. Using a structural vector autoregressive model (SVAR), the study found that shocks to European imports from Saudi Arabia significantly impacted the real effective exchange rate, inflation rate, and economic growth. This analysis underscores the interconnectedness of global economies and the ripple effects that financial crises in one region can have on others, including major oil-exporting countries like Saudi Arabia (Benlagha and Charfeddine, 2021).

The banking sector, a cornerstone of financial stability, was significantly impacted during the crisis. As highlighted by Ramady (2010), Saudi banks, due to their conservative banking practices and proactive measures by the Saudi Arabian Monetary Authority (SAMA), were relatively unscathed compared to their international peers. Despite some banks needing to take large loan loss reserves to cover possible defaults, the overall banking sector remained stable. This stability can be attributed to the effective regulatory practices and financial sector reforms that were already in place (Ramady, 2005). The crisis also underscored the importance of economic diversification. With lower oil revenues affecting government budgets, there was a renewed focus on diversifying the economic base. This involved significant investments in non-oil sectors and efforts to enhance private sector participation in the economy. This strategy aimed to reduce the country's vulnerability to oil price fluctuations and create a more resilient and diversified economic structure.

This ties back to the financial development and economic growth section, where financial development positively impacted the non-oil sector, fostering economic diversification. The diversification efforts, such as investing in upstream hydrocarbon projects and promoting sectors like tourism and entertainment, align with the objectives of Vision 2030, Saudi Arabia's long-term strategy to reduce its dependence on oil. The regulatory framework in Saudi Arabia played a crucial role in mitigating the adverse effects of the financial crisis. Effective regulation, as discussed in the regulatory practices and global standards section, ensured that financial development was not undermined by financial crimes and systemic risks. The adherence to global standards, such as the adoption of International Financial Reporting Standards (IFRS) and stringent Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) measures, contributed to the stability and resilience of the financial sector. These regulatory measures provided a robust foundation that supported economic recovery and sustainable growth during and after the crisis.

Furthermore, the crisis highlighted the need for continued improvements in financial sector infrastructure and governance. Enhancing the quality of financial institutions, as emphasised by Bogari (2019), is essential for sustaining economic growth. This includes improving risk management practices, enhancing transparency, and fostering innovation in financial technology (FinTech). The focus on regulatory technology (RegTech) and cybersecurity, as discussed by Sarabdeen (2023) and Almomani et al. (2021), is also critical for safeguarding the financial system against future crises.

The 2008 financial crisis had a profound impact on Saudi Arabia, prompting significant shifts in economic policy and highlighting the importance of financial sector stability and economic diversification. The crisis underscored the interconnectedness of global economies and the need for robust regulatory frameworks to mitigate risks. By strengthening its regulatory practices, enhancing financial sector resilience, and focusing on economic diversification, Saudi Arabia has taken essential steps to ensure sustainable economic growth and mitigate the impact of future financial crises. These efforts are integral to the broader goal of economic resilience and aligning with global financial standards, ultimately contributing to the Kingdom's long-term economic stability and growth.

10.5 Economic Diversification and Competitiveness

Reducing dependency on oil and enhancing economic competitiveness are key goals for Saudi Arabia. Efforts include investing in human capital, encouraging private sector growth, and promoting sustainable financial practices. This strategic shift is essential for ensuring long-term economic stability and resilience, especially in the face of fluctuating oil prices and global economic uncertainties.

Economic diversification has been a central theme in Saudi Arabia's development plans since the 1970s. Albassam (2015) examined the government's efforts to diversify the economy through various development plans, analysing variables such as the oil share of GDP, private sector share of GDP, oil exports as a percentage of total exports, and oil revenues as a percentage of total revenues. The study concluded that despite these efforts, oil remained the primary driver of the economy. The paper emphasised the need for more robust and effective diversification strategies to achieve better governance and sustainable economic growth (Albassam, 2015).

Euchi et al. (2018) analysed the pillars of economic diversification in Saudi Arabia, focusing on investment in education, entrepreneurship, international tourism, and oil production. Their findings indicated that while oil production remains a significant contributor to economic growth, sectors like tourism and entrepreneurship also play crucial roles. However, the contribution of education was found to be positive but insignificant, highlighting the need for enhanced investment in human capital to support diversification efforts (Euchi et al., 2018).

Tourism, particularly religious tourism, has been identified as a key sector for diversification. Mir and Kulibi (2023) explored Saudi Arabia's tourism strategy and marketing initiatives, emphasising tourism's potential as a significant non-oil revenue generator and a major job creator. The study highlighted the government's efforts to promote tourism as a means to mitigate the "resource curse" and foster long-term economic prosperity (Mir and Kulibi, 2023).

The Vision 2030 initiative represents a comprehensive plan to transform Saudi Arabia’s economy. Guendouz and Ouassaf (2020) investigated the major macroeconomic factors affecting economic diversification under Vision 2030. They found a direct correlation between the economic diversification index and GDP, gross fixed capital formation, and foreign direct investment (FDI). However, the contribution of non-oil GDP to GDP and non-oil government revenues showed a negative correlation, indicating challenges in achieving diversification. The study recommended policies to enhance private sector efficiency and attract international companies (Guendouz and Ouassaf, 2020). Investment in human capital is another critical aspect of economic diversification. Yamada (2018) discussed the challenges of developing a skilled workforce in Saudi Arabia, noting the need for integrating school systems and training programs. The study emphasised that overcoming institutional fragmentation and the legacy of rentierism is essential for building a labor-intensive sector for local citizens (Yamada, 2018).

Banafea and Ibnrubbian (2018) assessed the effectiveness of Saudi Arabia’s nine development plans in promoting economic diversification. Their research concluded that while recent plans have shown more success, the process remains slow and requires further governmental intervention to improve legislative environments, competition, and attract large international companies. This will enhance the efficiency of the private sector and reduce reliance on the oil sector (Banafea and Ibnrubbian, 2018). The competitive advantages of Saudi Arabia have also been analysed using Porter's model. Jasimuddin (2001) highlighted that while Saudi Arabia benefits from significant oil resources, efforts to diversify through industrialisation have led to the production of a range of manufactured goods. The study suggested that enhancing competitive advantages through innovation and improving business environments are vital for global competitiveness (Jasimuddin, 2001).

Economic diversification efforts in Saudi Arabia are deeply intertwined with the broader objectives of financial development and regulatory practices. The stability and growth of the financial sector, as discussed in previous sections, are essential for supporting diversification initiatives. Effective regulatory frameworks ensure that financial development translates into sustainable economic progress, while initiatives like AML/CTF measures and the adoption of IFRS contribute to a stable and attractive investment climate. Al Naimi (2021) highlighted that Saudi Arabia's diversification strategy under Vision 2030 focuses on building a knowledge-based economy, emphasising quality education and research to improve human capital. Despite the challenges posed by oil price fluctuations and traditional educational systems, there is a clear path towards achieving sustainable growth through diversification (Al Naimi, 2022). Reducing dependency on oil and enhancing economic competitiveness are critical goals for Saudi Arabia. By investing in human capital, promoting private sector growth, and implementing sustainable financial practices, the Kingdom aims to create a resilient and diversified economy. These efforts, supported by robust regulatory frameworks and strategic economic policies, are integral to achieving the objectives outlined in Vision 2030 and ensuring long-term economic stability and prosperity.

10.6 Islamic Finance

Islamic finance, which adheres to Sharia principles, is a growing sector in Saudi Arabia. The country's significant role in the global Islamic finance market underscores its potential for driving economic growth and attracting international investments. The development of Islamic finance in Saudi Arabia has been a pivotal part of the nation's broader economic strategy, complementing efforts toward economic diversification and enhancing competitiveness.

Islamic banking in Saudi Arabia is gaining momentum due to its political and economic conditions. Lone and Alshehri (2015) highlighted Saudi Arabia as a pioneer in Islamic banking, noting that the banking sector in the Kingdom is flexible and encourages the implementation of Islamic banking. They emphasised that Saudi banks, including the notable example of Al Rajhi Bank, have created a robust and secure environment for Islamic finance, which bodes well for its future growth and stability (Lone and Alshehri, 2015). Batorshyna et al. (2021) examined the interplay between global Islamic finance and the economic growth of Muslim countries, including Saudi Arabia. Their study found a positive relationship between GDP and Islamic financial assets such as bank and sukuk (Islamic bonds). This underscores the potential of Islamic finance to contribute significantly to the economic growth of countries that adopt these financial instruments (Баторшин et al., 2021).

Islamic finance operates based on several key principles that distinguish it from conventional finance. These include the prohibition of interest (riba), the avoidance of excessive uncertainty (gharar), and the prohibition of gambling (maysir). Choudhury and Al-Sakran (2001) explained how the adoption of Islamic law (Sharia) affects political economy and requires the abolition of interest rates as a price for money. They highlighted that equity financing, including non-interest-bearing government bonds, has helped finance growth and insulated the stock market from speculative financing (Choudury and Al-Sakran, 2001). Aldarabseh (2019) investigated the factors associated with taking out personal finance from Islamic banks in Saudi Arabia. The study revealed that adherence to Islamic principles, satisfaction levels, and various socio-demographic factors influenced customers' decisions to choose Islamic banking. This reflects the growing consumer trust and preference for Sharia-compliant financial products (Aldarabseh, 2019).

The study by Lone et al., (2017) using the CARTER model, which assesses various dimensions of customer satisfaction, indicated that customers are generally satisfied with Islamic banking in Saudi Arabia. However, the study noted that the compliance dimension, which distinguishes Islamic banks from conventional ones, needs further attention to enhance customer trust and satisfaction (Lone et al., 2017).

10.1.1 Impact on Financial Stability and Economic Growth

Islamic finance has been shown to contribute to financial stability, particularly during economic crises. Derbel, Bouraoui, and Dammak (2011) used a VAR model to compare the impact of financial shocks on markets using Islamic finance versus conventional finance. They found that Islamic finance markets were less affected by global financial crises, suggesting that Islamic financial principles could offer a more stable alternative during economic downturns (Derbel et al., 2011).

Zehri (2015) also highlighted that Islamic banks in Saudi Arabia were more financially secure and stable compared to conventional banks during the global financial crisis. This stability is attributed to the risk-sharing principles and the prohibition of excessive speculation inherent in Islamic finance (Zehri, 2015). Islamic finance's stability and resilience are crucial in the context of financial crises, as discussed in the previous section on the impact of global financial crises. The ability of Islamic finance to weather economic downturns reinforces the importance of developing a robust Islamic financial sector in Saudi Arabia. This stability not only attracts international investments but also supports domestic economic stability and growth.

10.1.2 Challenges and Future Prospects

Despite the positive developments, there are challenges that Islamic finance must address to realise its full potential. For instance, Saleem (2008) discussed the disparities in the implementation of Sharia principles across different countries and the need for a more unified approach to enhance the global growth of Islamic finance. Standardisation and regulatory harmonisation are essential to overcome these challenges and facilitate smoother international transactions (Saleem, 2008). Maamor, Hasan, and Abdullah (2019) emphasised the importance of continuous development and innovation in Islamic financial products to meet the growing demand and enhance financial development. This involves addressing issues such as risk management, regulatory compliance, and customer education (Maamor et al., 2018). These challenges tie back to the broader objectives of financial development and regulatory practices discussed earlier. Effective regulatory frameworks and innovative financial products are essential for ensuring that Islamic finance contributes meaningfully to economic diversification and growth. This aligns with Saudi Arabia’s Vision 2030, which aims to develop a diversified and sustainable economy.

10.1.3 Integration with Economic Diversification Efforts

Islamic finance is integral to Saudi Arabia's efforts to diversify its economy. The emphasis on ethical investments and risk-sharing aligns with the broader goals of sustainable and inclusive economic growth. As discussed in the section on economic diversification and competitiveness, sectors such as tourism, education, and entrepreneurship play crucial roles in reducing the economy's dependency on oil. Islamic finance can provide the necessary capital and financial services to support these sectors, fostering a more resilient and diversified economic structure.

For instance, the growth of Islamic finance can support the tourism sector by funding infrastructure projects and promoting Sharia-compliant tourism services. Similarly, Islamic finance can facilitate investments in education and entrepreneurship, providing ethical and interest-free financing options that align with Islamic principles. This creates a conducive environment for sustainable economic growth, enhancing Saudi Arabia's competitiveness in the global market.

Islamic finance in Saudi Arabia is a significant and growing sector, contributing to the country's economic diversification and stability. The principles of Islamic finance, such as the prohibition of interest and risk-sharing, offer a robust framework for sustainable financial development. By continuing to invest in this sector, enhancing regulatory frameworks, and addressing existing challenges, Saudi Arabia can further solidify its position as a leader in the global Islamic finance market, driving economic growth and attracting international investments. These efforts are integral to the broader goals of financial development and economic diversification discussed in previous sections. The stability and resilience of Islamic finance support the overall stability of the financial sector, contributing to a more diversified and competitive economy. By aligning Islamic finance with the objectives of Vision 2030, Saudi Arabia can achieve long-term economic stability and prosperity, reducing its dependency on oil and enhancing its global economic standing.

11. Foreign Direct Investments (FDI)

Saudi Arabia's foreign investment laws and economic policies aim to attract international capital, diversify the economy, and reduce dependency on oil. These policies are vital for sustainable economic growth and stability, aligning with the broader goals of economic diversification, financial development, and regulatory reforms discussed in previous sections.

The Foreign Investment Law of 2000 significantly changed the rules for foreign investors in Saudi Arabia, permitting 100% ownership of projects and introducing a streamlined foreign investment application process with various incentives. This legislation, coupled with efforts by the Saudi Arabian General Investment Authority (SAGIA), has been pivotal in managing and regulating foreign direct investment (FDI). SAGIA's role is crucial in fostering a conducive environment for foreign investment, ensuring that regulatory frameworks align with the country's economic diversification goals. The creation of SAGIA was aimed at making Saudi Arabia a more attractive destination for foreign investors by simplifying procedures and providing incentives such as tax breaks and customs duty exemptions (Al Daffaa, 2018).

Foreign direct investment (FDI) is seen as a strategic move toward sustainable economic development. Abdulaziz Aldaarmi (2020) conducted an empirical investigation on the effects of fiscal and monetary policies on FDI in Saudi Arabia for the period 2010-2018. The study found that money supply, monetary cash reserve, capital government spending, and taxation positively affect FDI inflows. This underscores the need for a stable macroeconomic environment to attract and retain foreign investments. The results showed that these monetary and fiscal policy tools were significant in attracting FDI, suggesting that maintaining a stable and predictable economic policy environment is critical for sustaining foreign investor confidence (Aldaarmi and Adel, 2020).

An analytical study by El-Awady et al. (2020) highlighted the determinants of FDI in Saudi Arabia, emphasising the role of GDP growth, domestic investments, and natural gas reserves. The study noted that while there is an inverse relationship between government expenditure and inflation rate on the volume of FDI, improving the investment environment can help bridge the gap between current and desired FDI levels to achieve Vision 2030 goals. This study also pointed out that while FDI has been targeted as a means to boost economic diversification, there are still structural challenges that need to be addressed, including bureaucratic red tape and regulatory inconsistencies (El-Awady et al., 2020).

The integration of FDI with Saudi Arabia's Vision 2030 is crucial for economic diversification. Guendouz and Ouassaf (2020) investigated the macroeconomic factors affecting economic diversification, finding a direct correlation between the economic diversification index and GDP, gross fixed capital formation, and FDI. The study suggested that FDI significantly contributes to the diversification away from oil dependence. It emphasised the importance of aligning investment policies with broader economic goals to ensure that FDI contributes to sectors that can drive long-term growth, such as technology, renewable energy, and manufacturing (Guendouz and Ouassaf, 2020).

Challenges remain in fully leveraging FDI for economic growth. Albassam (2015) found that while FDI inflows contribute to controlling high unemployment rates, there is no significant relationship between FDI inflows and overall economic growth. This highlights the need for policies that ensure FDI not only enters the country but also effectively contributes to economic development. The study argued that for FDI to be truly effective, it needs to be coupled with domestic reforms that improve the overall business climate, such as reducing corruption and enhancing legal protections for investors (Albassam, 2015).

Haider Mahmood and Tarek Tawfik Yousef Alkhateeb (2020) noted that increasing domestic investment can sometimes reduce FDI inflows, suggesting that domestic investment can act as a substitute for FDI. They recommended promoting financial market development to support FDI inflows and diversify from oil dependence. Their research indicated that while domestic investments are critical, they should complement rather than compete with FDI. This involves creating a financial ecosystem that supports both local and foreign investors (Alkhathlan et al., 2020).

The legal framework for foreign investment plays a crucial role in attracting and retaining FDI. Al-Qahtani and Albakjaji (2023) provided a comprehensive assessment of Saudi Arabia's legal framework governing foreign investment. They highlighted the advancements in legislative reforms aimed at creating a competitive investment regime aligned with Vision 2030. These reforms are designed to offer an effective, predictable, and reliable investment environment. The National Investment Strategy issued in October 2022 represents a major accomplishment, aiming to align legal frameworks with the strategic goals of Vision 2030, ensuring that Saudi Arabia remains an attractive destination for international investors (Al-Qahtani and Albakjaji, 2023). The strategic move towards enhancing foreign investment aligns with the broader objectives of financial development and regulatory practices discussed earlier. Effective regulatory frameworks and innovative financial products are essential for ensuring that foreign investment contributes meaningfully to economic growth and diversification. This aligns with Saudi Arabia's Vision 2030, which aims to develop a diversified and sustainable economy. The successful implementation of these strategies requires continuous monitoring and adaptation to global economic trends, ensuring that Saudi Arabia remains competitive in attracting high-quality FDI.

Saudi Arabia's foreign investment laws and economic policies are integral to attracting international capital, diversifying the economy, and reducing dependency on oil. By continuing to reform these policies, enhancing the investment climate, and addressing existing challenges, Saudi Arabia can achieve long-term economic stability and growth. These efforts are essential for integrating foreign investment into the broader economic strategy, supporting financial development, and achieving the goals of Vision 2030. As the Kingdom continues to evolve its economic policies and regulatory frameworks, the effective integration of FDI will play a critical role in its journey towards a diversified and resilient economy.

12. Banking Sector Performance

The performance and stability of the Saudi banking sector have been pivotal in the Kingdom's economic development. Historically, the Saudi banking system has demonstrated resilience, particularly during global financial crises. This resilience is reflected in its strong financial performance metrics and its critical role in the economy.

The analysis by Al-Dukheil (1995) underscores the significant contribution of Saudi Arabia's banking system to economic development. The banks have provided essential financial infrastructure and services, which have been crucial in maintaining economic stability and supporting various sectors of the economy, especially during turbulent times (Al-Dukheil, 1995). A comprehensive study by Ahmed and Khababa (1999) indicates that the Saudi banking sector operates within a competitive yet concentrated market structure. This dual characteristic ensures that while banks strive for efficiency and profitability, the sector remains robust enough to weather economic shocks (Ahmed and Khababa, 1999).

Innovative approaches in financial performance assessment, such as the CAMEL model, have shown that the banking sector's financial health is influenced by capital adequacy, asset quality, and management efficiency. Dhawan and Nazneen (2021) highlight that capital adequacy and asset quality positively affect bank performance, while management efficiency and earning quality also play significant roles (Dhawan and Nazneen, 2021).

The Saudi banking sector's market structure, characterised by both competitive and concentrated elements, helps maintain stability. High concentration ratios mean that a greater proportion of total sales is controlled by a few large banks, which can lead to monopolistic practices. However, the sector's regulatory environment and market dynamics have generally prevented such outcomes, ensuring that banks remain efficient and profitable. A study examining the performance of Saudi banks from 2000 to 2011 found significant disparities in technical efficiency among banks. The study identified Banque Saudi Fransi as a benchmark for the industry, highlighting the varied performance levels across different bank types (Sillah and Khan, 2014).

Foreign ownership in Saudi banks has been shown to influence their performance metrics. While banks with foreign ownership tend to have more aggressive capital structures and loan portfolios, they do not always translate these into higher performance outcomes. This finding suggests that foreign ownership brings both opportunities and challenges for Saudi banks (Abraham, 2013). Corporate governance mechanisms significantly impact bank performance in Saudi Arabia. Studies have found that board size, independence, and audit committee characteristics affect return on assets (ROA) and return on equity (ROE). Effective governance practices are essential for maintaining high performance standards and ensuring financial stability (Almoneef and Samontaray, 2019).

The resilience of Saudi banks during economic crises has been a notable strength. The principles of Islamic finance, such as risk-sharing and the prohibition of excessive speculation, have contributed to the stability of Islamic banks in particular. This stability has been crucial in mitigating the adverse effects of economic shocks and ensuring continuous economic development (Zehri, 2015). The banking sector's performance is also influenced by the emotional intelligence of its employees. A study by Serhan and Gazzaz (2019) found that self-management, self-awareness, and relationship management positively impact employee performance in Saudi banks. This highlights the importance of human capital in maintaining high performance levels (Serhan and Gazzaz, 2019).

Looking forward, the Saudi banking sector is poised for further growth and development. However, it faces challenges such as the need for continuous innovation, effective risk management, and adaptation to regulatory changes. The ongoing reforms under Vision 2030 aim to enhance the banking sector's role in the economy, ensuring that it continues to support economic development and stability. The Saudi banking sector's performance and stability are critical to the Kingdom's economic development. Through robust financial performance, innovative assessment methods, effective corporate governance, and resilience during crises, the sector has maintained its pivotal role in the economy. As Saudi Arabia continues to evolve its economic policies and regulatory frameworks, the banking sector will remain a cornerstone of its economic strategy, contributing to long-term stability and growth.

12.1 Monetary policy and exchange rate

Monetary policy and exchange rate management play crucial roles in maintaining economic stability and international competitiveness in Saudi Arabia. The Kingdom operates a fixed exchange rate regime, pegged to the US dollar, which provides a stable anchor for monetary policy. This setup, while limiting monetary policy independence, helps stabilise the economy and ensure predictable financial conditions.

Razek and McQuinn (2020) analysed the role of monetary policy in Saudi Arabia, emphasising the importance of maintaining a stable exchange rate to control inflation and ensure economic stability. The Saudi Arabian Monetary Authority (SAMA) has deployed various tools, such as reserve requirements and prudential guidelines, to manage liquidity and ensure financial stability. Studies have shown that the fixed exchange rate regime, coupled with prudent fiscal policies, has helped mitigate the impact of global financial shocks on the domestic economy. This strategic approach ensures that Saudi Arabia remains competitive in the global market while maintaining internal economic stability Razek and McQuinn, 2020).

The fixed exchange rate regime, established in June 1986, has kept the spot USD/SAR exchange rate unchanged at 3.7500. This stability has been essential for maintaining investor confidence and providing a predictable economic environment. SAMA's discretionary and infrequent interventions in the foreign exchange market, primarily in the forward market, have been aimed at curbing speculative activities rather than broader economic objectives like controlling inflation or maintaining competitiveness. These broader objectives are addressed through fiscal measures rather than foreign exchange interventions (Al-Hamidy and Banafe, 2013).

The study by Almounsor (2015) assesses the stance of actual monetary policy in Saudi Arabia relative to a benchmark Taylor-rule calibration of short-term interest rates. The results indicate that the Saudi monetary authorities do not strictly follow the Taylor-rule, reflecting the limited autonomy of monetary policy under the fixed exchange rate regime. The Federal Funds Rate is the most significant factor affecting Saudi interest rates, given the peg to the USD. However, there is a modest accommodation of monetary policy to productivity growth, diversification efforts, and the need for increased financial intermediation over time (Almounsor, 2015).

Inflation mechanisms in Saudi Arabia are influenced by international prices and domestic supply-side factors, such as housing. The exchange rate anchor provides the long-term framework for monetary policy, limiting the scope for divergence from US interest rates. However, SAMA retains flexibility in deploying prudential guidelines, adjusting reserve requirements, and issuing SAMA bills to manage liquidity (SAMA, 2016).

Further research by Akikina and Al-Hoshan (2003) indicates that SAMA has limited control over its money supply, supporting the predictions of the Monetary Approach to the Balance of Payments (MABP) theory. This study also found that expected exchange rate depreciation has a significant impact on capital flight in Saudi Arabia, highlighting the challenges of maintaining monetary policy independence under a fixed exchange rate regime (Alkikina and Al-Hoshan, 2003).

The effects of oil price shocks on money demand in Saudi Arabia further complicate the monetary policy landscape. Positive oil price shocks have a significant long-run impact on money demand, suggesting that the fixed exchange rate regime might require adjustments to maintain economic stability during periods of volatile oil prices. Policymakers could either sustain the fixed exchange rate regime while pursuing economic diversification or switch to a flexible exchange rate regime to achieve price stability (Alsamara et al., 2017).

In conclusion, Saudi Arabia's monetary policy and exchange rate management play essential roles in maintaining economic stability and international competitiveness. The fixed exchange rate regime provides a stable anchor for monetary policy, limiting monetary policy independence but ensuring predictability and stability. SAMA's strategic use of reserve requirements, prudential guidelines, and discretionary foreign exchange interventions further supports this stability. These measures collectively help mitigate the impact of global financial shocks and maintain competitiveness in the global market.

Chapter 4: Theoretical framework

1. Introduction

This chapter builds on the previous discussion of Saudi Arabia’s efforts to position itself as a hub for global flows by examining the dual roles of religion and oil—two forces central to the Kingdom's global strategy. Saudi Arabia's unique position as both a major oil producer and the custodian of Islam's two holiest cities, Mecca and Medina, intertwines its religious authority with its political and economic aspirations. This duality challenges traditional secular frameworks in International Relations (IR) and underscores the necessity of an integrated approach that incorporates religion into International Political Economy (IPE).

The aim of this chapter is to address critiques within traditional IR, which frequently marginalise the role of religion in global politics. Drawing on Faiz Sheikh’s work, *Islam and International Relations: Exploring Community and the Limits of Universalism* (2016), the chapter engages with the notion that religion, particularly Islam, has been sidelined in mainstream IR theories. Sheikh calls for a more inclusive framework that acknowledges the profound influence religion exerts on global political dynamics. Building on this, my research extends Sheikh's analysis by applying it to the specific case of Saudi Arabia, showing how the Kingdom, as both a religious and political state, leverages its religious identity to pursue economic diversification beyond oil while maintaining its religious legitimacy.

The original contribution of this thesis lies in its exploration of how Saudi Arabia uses religion as both a political tool and an economic asset to establish itself as a hub for global flows of capital and influence. While Sheikh highlights the importance of religion in IR, this research advances the debate by showing how Saudi Arabia actively integrates religious authority with its global economic ambitions. In particular, the thesis demonstrates how religious tourism (e.g., Hajj and Umrah) and the Public Investment Fund (PIF) are strategically positioned to enhance Saudi Arabia’s role in the global economy, complementing its efforts to diversify beyond oil under Vision 2030.

By bridging the gap between IR and IPE, this chapter reintroduces religion as a crucial analytical element in discussions of global flows. This framework sets the stage for exploring how Saudi Arabia leverages its religious legitimacy in conjunction with its economic policies to achieve global prominence. Moreover, this analysis is grounded in the broader IR and IPE scholarship, engaging with earlier discussions on global production networks (GPNs), state capitalism, and global cities—three key concepts explored in the preceding literature review chapters.

In doing so, this research contributes new insights by examining how religious identity and economic strategy intersect in Saudi Arabia’s global positioning. The Kingdom offers a unique case study that advances scholarly discussions on the reintroduction of religion into IR, while also enriching the IPE discourse on global flows, particularly in the context of Saudi Arabia's strategic vision for economic diversification and global influence. This original analysis positions Saudi Arabia as a religious-political hybrid state, demonstrating the ways in which it navigates both Islamic norms and the secular global system to achieve its broader economic and political objectives.

2. Assumptions of Secularism in International Relations (IR)

2.1 Secularism

Building on the discussion of Saudi Arabia's unique combination of religious and economic authority, it is essential to examine how secularism shapes the broader frameworks of International Relations (IR). The term secularism, first coined by George Jacob Holyoake in 1851 (Holyoake, 1896), refers to the principle of separating religion from state governance. In traditional terms, secularism is characterised by three key principles that guide the interaction between religion and the state.

According to Freeman (2004), secularism advocates for the separation of religious institutions from state affairs, ensuring that political power remains independent of religious influence. This principle maintains that the state should not favour any religious institution in its political, legal, or administrative functions. Second, it promotes the protection of freedom of conscience and religion, allowing individuals the right to express or change their religious beliefs freely, as long as their actions remain within the bounds of public order and respect the rights of others. Finally, secularism ensures the equal treatment of all citizens, regardless of their religious or non-religious beliefs. This principle is aimed at preventing discrimination based on religious affiliation and ensuring that all citizens receive the same legal and political rights.

In its legal and political sense, secularism often manifests as the neutrality of the state in religious matters. A secular state typically promotes a legal system based on civil law, which applies equally to all citizens, rather than on religious principles (Zucca,2009). However, the role and application of secularism vary significantly across different contexts, particularly in Muslim-majority states like Saudi Arabia. In Saudi Arabia, religious law (Shariah) plays a central role in governance, intertwining religion with the legal and political systems in ways that challenge the traditional Western model of secularism. Therefore, while secularism provides a useful framework for understanding the separation of religion and state, its application in Saudi Arabia's unique political system requires careful consideration of the religious foundations that guide its governance.

The secular model assumes a sharp distinction between the religious and political spheres. In many contexts, this creates a system in which religion is relegated to the private sphere, whereas public life is governed by rational, civil principles. This is particularly true in Western secular democracies, where secularism is seen as a pillar of democratic governance, safeguarding universal human rights by preventing any one religion from dominating political life.

However, scholars such as Casanova (2011) and Hurd (2009) have pointed out that secularism is not simply a legal structure but an ideological formation that influences how modern societies perceive the relationship between religion and politics. Casanova argues that secularism contributes to the privatisation of religion, framing it as a largely personal and irrational belief system, detached from public life (Casanova, 2011). Hurd builds on this, noting that secularism produces "authoritative settlements" that define the boundaries between religion and politics, while paradoxically claiming to be neutral in this process (Hurd, 2009).

This secular perspective, which sees religion as a private affair, contrasts sharply with the Saudi Arabian model, where religion is not only public but integral to state identity and global strategy. Saudi Arabia's religious authority, as the custodian of Mecca and Medina, gives it a distinct role in global flows, particularly religious tourism, which challenges secular assumptions that religion should remain in the private sphere. This chapter draws on these critiques of secularism to explore how Saudi Arabia positions itself as a religious and political state within the global order, highlighting the limitations of secularism in understanding non-Western state models.

3. Secularism in International Relations (IR)

Having established secularism's role in framing domestic governance, it is crucial to understand how these principles influence International Relations (IR) as a discipline. IR scholarship, shaped by secular assumptions, has historically marginalised religion's role in global politics. Despite the centrality of religion in shaping political systems throughout history, mainstream IR has often failed to account for its continued influence in non-Western contexts. Scholars such as Asad (2003), Casanova (2011), Gutkowski (2014), Hurd (2008), Lynch (2011), Mavelli (2012), and Wilson (2012) argue that secularism has become a structural element in defining identity, power, and exclusion in the global order.

Hurd (2008) identifies two primary paths that secularism takes in international relations:

1. **Laicism, which views religion as an obstacle to modernisation, progress, and rational governance.**
2. **Civilisational unity, which considers religion as a source of identity and potential conflict between cultures and civilisations.**

In both cases, secularism tends to restrict religion to the margins of political life, framing it as an irrational or private matter with little relevance to global political structures. This approach underlies much of IR theory, which assumes that secular states are the norm and that religion, when relevant, is a source of conflict or backwardness rather than a central component of state identity or strategy.

However, as Hurd (2004) argues, secularism plays a significant role in shaping the normative frameworks of IR by defining what qualifies as religion and determining its place in global affairs. Secularism influences how states manage religious diversity, construct national identities, and engage in international cooperation or conflict.

The case of Saudi Arabia illustrates the limitations of this secular framework in IR. As a state that combines religious authority with political and economic strategy, Saudi Arabia challenges the secular assumption that religion and politics should be separate. The Kingdom's role in religious flows—particularly through the annual pilgrimages of Hajj and Umrah—demonstrates how religion can serve as a central pillar of a state's global strategy, blending religious legitimacy with economic and political ambitions. This is particularly evident in Saudi Arabia's Vision 2030, which seeks to diversify the economy while maintaining its central religious role in the Muslim world.

In this context, Saudi Arabia serves as a case study for understanding how religious identity can shape global flows, offering a counterpoint to the secular assumptions that dominate IR theory. The next section will further explore how post-secular theories have begun to challenge the traditional secular frameworks in IR, opening space for a more nuanced understanding of religion's role in global political economy.

4. The Post-secular in International Relations: Bringing Religion Back In

4.1 Emergence of Post-secularism in International Relations

Building on the limitations of secularism in IR, this section explores the emergence of post-secularism, a theoretical shift that seeks to bring religion back into global political discussions. As questions about the relationship between religion and politics are reconsidered, post-secularism has important implications for citizenship, public debate, and the governance of faith-based states such as Saudi Arabia. In contrast to the secular model that largely excludes religion from political life, post-secularism opens space for understanding how religious values and institutions shape global politics.

The debate around the ‘return of religion’ in IR is driven by scholars such as Haynes (2011), Toft et al. (2011), Hanson (2006), Elshtain and Mitchell (2003), Fox and Sandler (2005), Hurd (2012), who emphasise the need to integrate religion into existing conceptual and political frameworks. These scholars explore how religion contributes to modernisation, democratisation, peacebuilding, and other processes that have historically been framed in secular terms. As global dynamics evolve, particularly with the rise of faith-based states like Saudi Arabia, post-secularism calls for a reassessment of how religion interacts with global governance.

While the initial focus of this debate has been on incorporating religion into traditional IR frameworks, post-secularism introduces a more radical transformation. Rather than simply adjusting secular theories to accommodate religion, post-secularism seeks to move away from the secular-religious divide that has shaped modern political thought. This transformation questions the existing structures of power and knowledge in political communities, challenging the secular bias that often marginalises religion in global affairs.

One of the core assumptions of secular modernity—that religion is irrelevant to international law and politics—has come under increasing scrutiny, particularly in the twenty-first century. Events such as the Iranian Revolution and 9/11 have highlighted the ongoing influence of religion in the global political sphere. In response, post-secular theorists argue that religion must be re-examined and re-contextualized in global affairs, particularly in cases like Saudi Arabia, where religious authority plays a central role in the state's global positioning.

Before these pivotal events, IR scholars largely agreed that religion should remain marginal to the study of global politics, with states dealing with religious issues internally. However, two key exceptions emerged following these events: 1) dangerous religion, where religion is seen as relevant when it escapes state control and poses a threat, requiring international intervention to contain or discipline it. 2) peaceful religion where religion is considered relevant when it contributes to the global good, such as through humanitarian efforts, human rights campaigns, or peacebuilding initiatives.

As Tony Blair has pointed out in (Hurd, 2015), these two sides of religion—dangerous and peaceful—are often framed as competing forces in global politics, with IR scholars and practitioners seeking to empower peaceful religion while marginalising dangerous forms. This perspective underscores how IR has traditionally managed religion, often focusing on containing threats while neglecting the broader ethical and political contributions that religious traditions can offer.

To better understand the post-secular transformation, Agrama (2010) work on secularism provides valuable insights. Agrama challenges the idea that secularism simply separates religion from politics, arguing instead that secularism involves an ongoing interlocking of religion and politics, particularly in efforts to secure liberal rights and freedoms. This view highlights how secularism, rather than distancing religion from political life, continues to regulate and define its place in global governance.

Habermas (2008) further develops this idea, suggesting that post-secularism represents a 'change in consciousness' in traditionally secular societies, particularly in Europe. Habermas argues that the rise of pluralistic societies, where diverse religious beliefs coexist, calls for new frameworks that integrate both secular and religious perspectives in public life. Moreover, the crisis of secularism, marked by the fragmentation of values and the rise of neoliberal globalisation, has led to a reassessment of how religion can contribute to addressing urgent ethical and political challenges.

Habermas's vision of post-secularism positions religion as a reservoir of ethical resources that can complement secular frameworks. In this view, religion is no longer excluded from political debate but contributes to broader discussions about justice, equality, and inclusion. This approach challenges the notion that secularism alone can provide a comprehensive framework for democratic participation and global governance, particularly in a world where religious diversity plays an increasing role in shaping political identities.

The emergence of post-secularism can also be seen as a form of resistance to the pathologies of neoliberal globalisation. Scholars such as Barbato (2013) and Cloke and Beaumont (2013) describe post-secularism as a challenge to the injustices associated with global capitalism, offering a hopeful vision of a more just and inclusive global order. By drawing on the semantic potential of religious traditions, post-secularism seeks to create alternative frameworks for addressing social and economic inequalities.

This post-secular framework has significant implications for how religious affairs are supervised, managed, and transformed by secular authorities at the international level. As Agrama (2010) notes, the principle of secular power remains the state's authority to define and regulate religion, determining where and how religion can influence public life. In the post-secular context, this authority extends beyond the state to include transnational actors, such as international organisations, supreme courts, and advocacy groups, which play a role in managing religion on the global stage.

For Saudi Arabia, a state that combines religious legitimacy with political and economic power, the post-secular approach offers a critical lens for understanding its role in global flows. The Kingdom's religious authority—particularly its custodianship of Mecca and Medina—challenges the secular IR frameworks that have traditionally marginalised religion, highlighting the need for new models that account for religion's central role in global governance.

5. Islam (Re)enters International Relations Theory

The Peace of Westphalia (1648) is often credited with shaping the modern international order, providing a framework for sovereignty and secularism that continues to influence International Relations (IR) theory. As Kayaoglu (2010), the "Westphalian narrative" posits that these treaties marked the beginning of the state-centric system that underpins IR, establishing principles such as the monopoly of violence within state territories, control over foreign policy, and political tolerance between states. Central to this narrative is the notion of secularism, which is seen as a key outcome of Westphalia, reducing the influence of religious authorities—especially the Catholic Church—and confining religion to the private sphere. This Westphalian system has been idealised as the engine that transformed Europe into a community of sovereign states, promoting peaceful coexistence through mutual respect for sovereignty and religious tolerance. As this framework expanded through European colonisation, it came to dominate the global understanding of international politics, as noted by Bull (1984).

However, in the context of Islam, the application of Westphalian principles requires a critical re-evaluation. Contemporary discussions between the Muslim world and the West are shaped by political and historical constraints that must be considered in any international relations theory. The global distribution of Islamic civilisation, as well as its rich intellectual and political history, challenges the secular assumptions inherent in Western IR theories. There is a pressing need to diversify the discipline by incorporating the experiences and intellectual traditions of non-Western regions, particularly Islam, which offers alternative perspectives on the relationship between religion and global politics.

Mirbagheri (2010) argues that Islamic thought offers its own understanding of human nature and governance, much like Western political philosophy. Islam, by addressing the needs and demands of humanity, provides a distinct theoretical framework for analysing relations between Muslim and non-Muslim states, which remains underexplored in mainstream IR.

According to Acharya and Buzan (2009), there are three key sources within the Islamic world that shape debates about how Islam interacts with international relations. These sources provide alternative frameworks for understanding global politics, particularly in contrast to the Westphalian model.

The first source is Classical Islamic Sources, which include the Qur'an, Hadith (sayings of the Prophet), Sunnah (the conduct of the Prophet), and ijtihad (interpretation). These foundational texts offer a comprehensive system of thought that guides Muslim interactions with other states and peoples. This framework reflects what Acharya and Buzan call classical ideas and traditions that contribute to localist exceptionalism in international relations. By drawing on these texts, Islamic political thought can be viewed as grounded in religious principles, offering an alternative to the secular principles of the Westphalian system.

The second source is Rebellions Against Prevailing Orthodoxies, which corresponds to what Acharya and Buzan describe as 'rebellions against prevailing orthodoxies. These debates often arise in response to Western modernity, with some Islamic thinkers rationalising Islam as part of a modern project, while others take a more fundamentalist stance, reacting against modernity. Despite their differing approaches, both perspectives are responses to the dominance of Western paradigms and reflect the need for Islamic political thought to assert its position within a global system largely shaped by Western ideas and values.

The third source is the Islamic Knowledge Movement, which seeks to reimagine the social sciences and international relations through an Islamic lens. This movement aims to replace Western theories with new frameworks grounded in Islamic thought, offering alternative ways of conceptualising global politics. These alternatives have the potential to be applied not only within Islamic contexts but also on a transregional or even global scale, contributing to a more pluralistic understanding of international relations.

This attempt to reframe international relations through Islamic thought is part of a broader debate about the role of cultural and religious pluralism in shaping the international order. The assumption underlying the Westphalian model—that religious and cultural pluralism must be privatised or marginalised in the international system—is increasingly being challenged. Instead, a new approach is needed, one that recognises the public and political dimensions of religion and culture in shaping the global order.

As the case of Saudi Arabia demonstrates, Islamic principles can and do play a central role in state governance and international strategy. Saudi Arabia's dual identity as a religious and political state offers a unique case for analysing how Islamic thought intersects with global flows. The Kingdom's religious authority as the custodian of Mecca and Medina provides it with moral legitimacy that influences its political strategy and international standing—challenging the secularist assumptions that dominate IR theory.

Moreover, the ongoing dialogue between the Muslim world and the West highlights the need to consider non-Western intellectual traditions in IR. The inclusion of Islamic sources—whether classical, reactive, or progressive—opens the door to a more pluralistic understanding of global politics. Rather than being absorbed or marginalised, Islamic thought can offer alternative ethical and political frameworks for addressing global challenges in the twenty-first century. This pluralism is crucial in developing a new international order, one that moves beyond the Westphalian assumption that religion must be confined to the private sphere. Instead, we must recognise that religious and cultural diversity are integral to the global system and that new models of international relations should reflect this reality. The Saudi Arabian model provides a valuable example of how Islamic political thought can offer new perspectives on state sovereignty, global governance, and religious legitimacy in a post-secular world.

6. Islam in World Politics

The idea that Islam offers clear policy orientations in the political sphere is widespread but also contested. As Jung (2011) points out, Western scholars and followers of Islamist movements have frequently drawn parallels between Islam and politics, particularly within Eastern Studies and discourses on Muslim movements. However, this perspective often assumes an essentialist view of Islam that sharply contrasts with Western democratic culture.

This essentialist view is problematic, as it implies the existence of a ‘pure’ and unchanging Islamic mode of governance. However, historical evidence suggests that Islam has not operated as a static, monolithic force. For instance, theologians and muhaddithun (specialists in the sayings of the Prophet, hadith) have written professions of faith (‘aqa’id) that can be compared to Christian creeds. Yet, these texts were often specific to a particular time and place, lacking the universal obligations that would support a fixed interpretation of Islam in politics.

Much of the literature on Islamic jurisprudence, its relationship with politics, and political Islam tends to focus on the domestic sphere, leaving the international sphere less explored. Writers such as Sayyid Qutb and Abul A'la Maududi developed their ideas largely in response to domestic challenges within their respective countries, reacting to the socio-political crises of their times. This reactive nature of Islamic political thought emphasises the adaptability of Islam in addressing contemporary issues, contrary to the belief that Islam is rigid or inapplicable to modern political realities.

For example, the Qur'an describes itself as a guide for all aspects of life, providing ethical standards for how individuals should live and relate to the divine. However, as Rahman (1984) states, the Sunni Orthodox understanding of the Qur'an is that it serves as a source of ethical principles, not a legal code in itself. This allows for flexibility in interpreting the Qur'an's guidance for political governance, particularly as it relates to the concept of din wa dawla (religion and state).

Rather than providing a distinct legal system for states, Islamic international relations emerge as an extension of the law governing Muslim and non-Muslim interactions. As a result, there is no equivalent in Islam to the modern municipal law or international law as understood in the West. Instead, Islamic political thought is deeply intertwined with Judeo-Christian traditions, reflecting shared historical roots in Abrahamic monotheism.

Islamic history, dating back to the time of Prophet Muhammad, shares much with Judaism and Christianity. Mandaville (2020) states that Muslims, like their Jewish and Christian counterparts, trace their religious heritage to Adam and Eve, with Ibrahim (Abraham) playing a particularly important role. Muslims believe that Ibrahim and his son Ismail built the Kaaba, the most sacred structure in Islam, located in the Great Mosque of Mecca. This shared religious heritage emphasises the interconnectedness of Islam, Judaism, and Christianity, even as they differ in certain theological and legal matters.

For the purposes of this chapter, it is essential to understand the centrality of Muslim political history, beginning with the emergence of Prophet Muhammad in the seventh century. Muhammad's role as the final prophet in the line of Abraham is crucial to understanding the Islamic approach to governance. Unlike Christianity, where Jesus is seen as divine, Muhammad is understood to be entirely human, chosen by God as the Messenger to deliver the Holy Qur'an. His role as the living embodiment of Qur'anic teachings, captured in the concept of insan al-kamil (the perfect person), makes his life and actions a key source of Islamic authority.

In addition to the Qur'an, the Sunna—the model of behaviour provided by Muhammad—serves as the chief supplement to the Qur'an. Together with the hadith (reports about the Prophet's sayings and actions), the Sunna is considered by Muslims to be the best example of how the Qur'an's divine knowledge should be lived out in practice. These sources, combined with the discipline of ijtihad (interpretation), provide a flexible framework for applying Islamic principles to contemporary governance. However, Nasr (1996) argues that it is important to recognise that many pre-Islamic tribal practices and customary laws were incorporated into Islamic governance. This raises questions about whether certain political practices associated with Islam are truly derived from religious sources or are the result of pre-Islamic traditions. The line between religious law and customary practice is often blurred, complicating efforts to identify a pure Islamic political system.

At the heart of Islamic authority lie two primary sources of knowledge: the Holy Qur'an and the Hadeeth. The Qur'an, believed by Muslims to be the literal word of God as revealed to Prophet Muhammad, is the foundation of all Islamic knowledge. The Sunna—the Prophet's life example—serves as the key to translating the Qur'anic teachings into lived practice.

Together, these sources form the basis of Islamic political thought and remain central to Muslim identity and governance.

The flexibility of Islamic jurisprudence and its interplay with customary practices are critical to understanding how Islamic political societies have evolved over time. The influence of pre-Islamic tribal law, for example, has shaped how certain Islamic political practices have been justified over the centuries. Understanding this evolution is key to analysing the political role of Islam in the modern world.

While Islam does not provide a fixed legal or political system, it offers a flexible framework for governance grounded in ethical standards and the example of the Prophet Muhammad. As this chapter progresses, the distinction between Islam as faith and Islam as politics will be explored further, particularly through the lens of Normative Political Islam—a concept that captures how Islamic norms influence political governance in contemporary Muslim states such as Saudi Arabia.

7. Faiz Sheikh, Islam and International Relations: Exploring Community and the Limits of Universalism

With the post-secular and the return of religion—particularly Islam—to International Relations (IR) now established, this section will outline the theoretical framework for the thesis, primarily drawing from Sheikh's (2016) work, *Islam and International Relations: Exploring Community and the Limits of Universalism*. In his book, Sheikh presents an Islamic approach to understanding the "international," arguing that Islam is not only central to contemporary global politics but can also contribute to IR methodology. Sheikh challenges the universalist assumptions in traditional IR and proposes that Islamic perspectives offer new ways of conceptualising global relations, while pointing out the difficulties Islamic IR faces when integrated into mainstream analysis.

Sheikh's work is critical in examining the intersection of Islam and global politics, and it provides the foundation for understanding how the Saudi state navigates the global political landscape as both a religious and political entity.

Sheikh's (2016) first major contribution is his examination of how traditional IR theories have applied to regions with significant Muslim populations, particularly the Middle East and North Africa (MENA), Sub-Saharan Africa, and Southeast Asia. He critiques the way IR scholarship tends to subsume religion under categories such as culture or tradition, failing to address religion on its own terms. This approach, Sheikh argues, limits the discipline's ability to fully engage with the role of political Islam in these regions. Sheikh's argument is especially relevant for the case of Saudi Arabia, a state where Islamic identity is central to both domestic governance and international positioning. Saudi Arabia exemplifies how political Islam challenges traditional IR categories, particularly in the context of global sovereignty and political authority.

One of the core concepts Sheikh explores is sovereignty, and he argues that sovereignty in Islamic thought differs significantly from the territorial sovereignty enshrined in the Westphalian system. Sheikh focuses on two key dimensions of sovereignty in Islam:

1. The doctrinal imperative to maintain the sovereignty of God over all Muslims, which creates tension when sovereignty is granted to individuals or institutions.

2. The nature of authority in fiqh (Islamic jurisprudence), which governs people, not territories.

In the modern state system, sovereignty is understood as control over defined territorial borders. However, in Islamic governance, sovereignty is linked to the divine and applies to people regardless of borders, as seen in the concept of the Umma (the global Muslim community). This distinction is critical for understanding how Islamic states, like Saudi Arabia, navigate the modern international system while maintaining their religious legitimacy.

Sheikh's exploration of sovereignty is particularly relevant in the context of Saudi Arabia, where God's sovereignty is upheld through the Kingdom's religious authority as the custodian of Mecca and Medina. This allows the Saudi state to assert both political and religious legitimacy, distinguishing it from other states that operate within the purely secular framework of Westphalian sovereignty.

Another key concept in Sheikh's work is the Umma, which he frames as a potential alternative to the modern nation-state. The Umma refers to the global community of Muslim believers, bound not by territorial borders but by shared faith and adherence to Islamic law. Sheikh contrasts this with the modern state, which defines itself through territorial sovereignty—a principle originating from the Peace of Westphalia.

Sheikh (2016) argues that the Umma challenges the Westphalian narrative, which has dominated IR since the 17th century. In Islamic thought, the community is bound by religious laws, rather than confined to physical territories. This contrasts sharply with the territorial sovereignty that underpins the modern state, particularly in Western political theory.

The concept of Umma has deep implications for the study of IR. It raises questions about the universal applicability of Westphalian sovereignty and whether international society can truly be "international" if it excludes non-Western conceptions of political community. Sheikh (2016) argues that the Westphalian model consolidates a normative divide between the European international system and the rest of the world, particularly in Muslim-majority regions.

For Saudi Arabia, the concept of Umma plays a critical role in how the Kingdom asserts its leadership within the global Muslim community. While Saudi Arabia operates as a modern state within the international system, its religious identity and its role as the protector of the Umma give it a unique status in global politics. This dual identity allows the Kingdom to navigate both the modern international order and the religious obligations of the Umma, making it a key player in bridging the gap between Islamic and secular frameworks in IR.

8. Limits of Universalism and the Role of Political Islam

Sheikh (2016) also critiques the universalism embedded in IR theory, particularly its assumptions about the state and sovereignty. He argues that IR's Western-centric models fail to accommodate the plurality of political and religious systems that exist globally. By focusing on the state as the primary actor, traditional IR marginalises non-Western forms of political organisation, such as the Umma.

In contrast, Islamic IR emphasizes the sovereignty of God and the role of religion in governing human affairs, offering an alternative framework to the secular universalism that dominates Western IR theory. For Sheikh, Islamic political thought offers valuable insights into how global politics can be reimagined in a more inclusive and pluralistic manner.

By integrating Sheikh's insights, this thesis will explore how Saudi Arabia navigates the tension between political Islam and Westphalian sovereignty. The Kingdom's religious identity provides it with unique tools for engaging with the international system, particularly in the context of its leadership of the Umma. Sheikh's work on the limits of universalism helps to frame this analysis, highlighting how Saudi Arabia's global role challenges the traditional assumptions of IR theory.

While Faiz Sheikh has laid an essential foundation by critiquing the universalist assumptions of Western IR and emphasising the centrality of God's sovereignty and the Umma in Islamic political thought, this thesis builds on and extends his work in several keyways.

First, this research applies Sheikh's framework specifically to Saudi Arabia, a state that navigates both religious and political identities on the global stage. While Sheikh outlines how Islam challenges traditional IR models, he does not fully explore how these ideas manifest in modern Islamic states like Saudi Arabia, particularly in the context of global economic flows and the Umma. This thesis fills that gap by analysing how Saudi Arabia asserts its religious legitimacy—as custodian of Mecca and Medina—within a global system governed by Westphalian sovereignty.

Second, I contribute original insights by linking Islamic thought with International Political Economy (IPE). My analysis shows how Saudi Arabia uses its religious identity not only for political legitimacy but also to manage and diversify its economy, particularly through religious tourism (Hajj and Umrah) and oil. This blending of economic and religious flows offers a new lens through which to understand Saudi Arabia's role in the global system, providing a case study that extends Sheikh's critique of IR's secular bias into the realm of global economic analysis.

Finally, I expand the discussion on sovereignty by investigating how Saudi Arabia reconciles the sovereignty of God with the territorial sovereignty of the modern nation-state. Through the lens of Vision 2030, I examine how the Kingdom manages this duality—leveraging its leadership of the Umma while simultaneously operating within the Westphalian framework of state sovereignty. This dual identity presents a unique case that challenges both secular and religious models of governance, contributing to ongoing debates about the role of political Islam in global politics.

9. Islam-as-faith, Islam-as-politics

Sheikh (2016) provides a critical distinction between Islam-as-faith and Islam-as-politics, which underpins much of his analysis of Islamic International Relations (IR). Islam-as-faith refers to Islam in the context of worship and one's relationship with God, encapsulating the religious, spiritual, and moral dimensions of Islam. On the other hand, Islam-as-politics refers to Islam's application in political governance, societal organisation, and global interactions.

In framing this distinction, Sheikh introduces the concept of Normative Political Islam, which helps develop a notion of Islamic IR. Normative Political Islam doesn't claim to represent a singular, univocal tradition of political Islam that all Muslims follow; rather, it acknowledges the diversity within Islamic political thought and practice. Sheikh is careful not to suggest that Saudi Arabia's interpretation of political Islam should be seen as the only legitimate or definitive one. Instead, he highlights that different Muslim-majority states and movements may have divergent interpretations of what it means to engage in politics through an Islamic lens.

Sheikh argues that for some Muslims, separating Islam-as-faith from Islam-as-politics could be viewed as a betrayal of their religion. For these groups, Islam is inherently political, dictating duties and obligations that span all aspects of life, including governance. Scholars like Bayat (2013) make distinctions between Islamism—focused on duties—and post-Islamism, which emphasises the attainment of rights. Meanwhile, Roy (1994) differentiates between Islamic fundamentalism—which seeks to return to an earlier understanding of Islam—and political Islam, which adapts Islamic principles to modern political and technological contexts.

This spectrum of thought highlights the diversity within Islamic political engagement, underscoring the fact that political Islam cannot be reduced to a single framework. Sheikh's analysis, therefore, does not attempt to unify all Islamic political movements under one model, but rather to understand the different ways Islamic values inform politics across Muslim-majority societies.

One of the key challenges Sheikh identifies is the difficulty in defining political Islam. Political Islam, over and above ethnic affiliations or national interests, remains focused on the collective identity of Muslims both nationally and internationally. This emphasis on Islamic identity creates a unique challenge for the discipline of IR, which is primarily built on state-based sovereignty and territoriality. Islamic politics, by contrast, derives its normative foundation from faith, which complicates its interaction with the secular, Westphalian model of international relations.

Sheikh (2016) emphasises that to fully understand Islamic politics, one must navigate between two competing visions:

1. The view that Islamic politics is relatively unspectacular and can be folded into broader political systems without significant disruption.

2. The contrasting view that Islam is uniquely inseparable from politics and therefore cannot be analysed without taking its religious foundations into account.

This is particularly relevant when examining how Saudi Arabia positions itself within the global order, using its religious legitimacy as both a political tool and a source of global influence within the Muslim Umma.

A key point in Sheikh's analysis is the distinction between Prophetic rule and kingly rule. Drawing from the work of Rahman (1984), Sheikh (2016) explains that during the life of Prophet Muhammad, governance was uniquely grounded in religious authority. The Prophet's role was to deliver the message of God to humanity while simultaneously serving as a political leader. After Muhammad's death, the Caliphs sought to carry on his leadership by interpreting Islamic teachings to fit new circumstances. However, as Al-Raziq (1998) argues, the Prophetic model of governance cannot be replicated because the Prophet's political authority was inseparable from his religious mission—a quality no later ruler could claim.

This distinction is crucial for understanding why Islamic politics remains a contested field. While the political role of the Prophet is central to Islamic history, it is difficult to translate into a contemporary political model because no modern leader can claim Prophetic authority. This helps explain why political Islam often struggles to find a singular, universally accepted form.

Sheikh (2016) also critiques the Eurocentrism inherent in the discipline of IR, particularly the assumption that the relationship between religion and politics that played out in the West should be mirrored in other parts of the world. He argues that the assumption of universal applicability is flawed, especially when applied to Islamic societies where the relationship between religion and politics is fundamentally different. In his view, the diversity of Islamic practices and the lack of a unified political identity make it difficult to fit Islamic politics into the nation-state model that dominates Western IR theory. This insight is particularly valuable for understanding Saudi Arabia, a state that operates as a modern political entity while simultaneously claiming to uphold Islamic values that transcend territorial boundaries.

10. The third perspective: Normative Political Islam

Most discussions around Islam and politics often assume that Islam does not distinguish between the religious and political realm, presenting Islam-as-faith and Islam-as-politics as inseparable. However, as Sheikh (2016) argues, it is crucial to make this distinction and understand the differences between Islam-as-faith and Islam-as-politics. In his view, political Islam is not simply an extension of religious faith, as suggested by proponents of the din wa dawla (religion and state) ideology. Instead, Normative Political Islam refers to a political practice that draws upon Islamic norms and values but remains adaptable, acknowledging the complexity of human interpretation and the changing socio-political context. This concept underscores the dynamic nature of Islam-as-politics, which operates independently from Islam-as-faith but is nonetheless influenced by it.

Islam-as-faith refers to an individual's spiritual connection to the supernatural, focusing on religious beliefs and practices rooted in the Qur'an and Sunna. In contrast, Islam-as-politics refers to the pragmatic application of political principles that fall outside the direct guidance of religious texts yet may still be inspired by Islamic values. Normative Political Islam, therefore, represents a flexible and evolving political framework that is not doctrinally fixed. This flexibility allows for the adaptation of Islamic principles to address the challenges of modern politics, reflecting the diversity of interpretations within the Islamic world (Sheikh, 2016).

This differentiation is essential to understanding the complexity of Islamic political thought, particularly in the context of International Relations (IR). Sheikh's argument aligns with the views of scholars like Bassam Tibi, who distinguishes between Islam as faith and the politicisation of Islam. Tibi (2012) notes that when Islam becomes politicised, it often leads to "relegalised politics," in which religious discourse is used to justify political actions. Sheikh further posits that by recognising the separation between Islam-as-faith, Islam-as-politics, and Normative Political Islam, it becomes possible to reconcile Islamic political thought with the international system. Normative Political Islam, in particular, may be compatible with global political structures depending on how Islamic norms are interpreted and applied in specific contexts.

At the same time, Sheikh acknowledges that Normative Political Islam could present an alternative to the current international system if interpreted through an Islamic lens that challenges Western-centric paradigms. What is striking about Normative Political Islam is that it does not seek to enforce a singular interpretation of Islamic politics. Instead, it embraces the plurality of human interpretation and the value pluralism that results from different Islamic traditions across time and space. This approach allows for political frameworks that are contextual and dynamic, reflecting the diversity within Muslim-majority states and the broader Islamic world (Sheikh, 2016).

The conceptual flexibility of Normative Political Islam helps contextualise how Islam can be applied in International Relations, particularly in Saudi Arabia. The Kingdom's religious legitimacy is rooted in the Five Pillars of Islam, which include the shahadah (the testimony of the unity of God and the prophethood of Muhammad), salat (canonical prayer), zakat (alms), sawm (fasting during Ramadan), and hajj (pilgrimage to Mecca). Although these pillars form the foundation of Islamic practice, their interpretation and application vary across different Islamic schools of thought, including Sunni and Shia traditions. For instance, Sunni and Shia scholars differ on the role of the imams in Islamic governance, with Shia Muslims placing greater emphasis on the sanctity and authority of the imams (Mavelli & Wilson, 2017).

In addition to the theological debates around the pillars of Islam, Islamic jurisprudence (fiqh) has evolved through different imperial traditions, incorporating elements of pre-Islamic tribal practices and customary law. While Islamic doctrine provides the foundation for political thought, there is also continuity in the basic tenets of faith, such as the belief in God's presence, the recognition of the Prophet Muhammad as the final messenger, and the Day of Judgment. However, these shared beliefs do not always dictate the specifics of political governance, which vary widely depending on historical, cultural, and regional factors.

The relationship between faith and political practice is therefore complex, and the continuous evolution of Islamic political thought reflects this reality. According to Messick (1993), the distinction between the divinely ordained Sharia and its interpretations reveals a "fertile space" for political critique. In the gap between divine law and human understanding, there is an entire politics rooted in the interpretation of the Sharia, highlighting the dynamic and contested nature of Islamic political authority (Messick, 1993).

Normative Political Islam provides a flexible framework for understanding how Islamic values can inform political practice without being doctrinally rigid. This framework allows for the adaptation of Islamic principles to address the contemporary challenges faced by Muslim-majority states like Saudi Arabia. By recognising the plurality of interpretations and the ongoing evolution of Islamic thought, Normative Political Islam offers a way to reconcile Islamic governance with the demands of global political systems, while also providing an alternative to Western-centric models of international relations.

11. Conclusion

This chapter has established the theoretical framework that will guide the analysis throughout this thesis, specifically focusing on the interaction between Islam and International Relations (IR) within the context of Saudi Arabia. The primary goal was to explore how religion, particularly Islam, plays a central role in the Kingdom’s state legitimacy and its efforts to position itself as a global hub for economic and political flows. By addressing key concepts such as secularism, post-secularism, political Islam, and the Umma, this chapter has laid the foundation for understanding how Saudi Arabia navigates its dual identity as both a modern nation-state and a religious leader.

A key contribution of this chapter is its critique of the secular bias in traditional IR literature, which has often marginalised the role of religion in global politics. By bringing Islam back into the discussion of IR, this thesis recognises the significance of Islamic values and religious authority in shaping Saudi Arabia's international strategy. Concepts such as sovereignty, culture, and tradition were highlighted as essential tools for analysing Islamic IR, particularly in the Saudi context. This framework provides a fresh lens for examining how Saudi Arabia's religious identity influences its political and economic positioning in the global arena.

The chapter also distinguished between Islam-as-faith, Islam-as-politics, and Normative Political Islam—all crucial for understanding how Saudi Arabia leverages Islamic norms while engaging with the global system. Islam-as-faith pertains to the personal and spiritual aspects of religion, guiding individuals in their relationship with God. Islam-as-politics involves the application of Islamic principles to governance and statecraft, while Normative Political Islam represents a flexible form of political engagement that draws on Islamic values but adapts to the demands of modern politics. This distinction is key to understanding how Saudi Arabia uses its religious legitimacy to assert leadership within the Muslim world and beyond.

Moreover, the concept of the Umma was explored as a fundamental element of Saudi Arabia's religious legitimacy. The Kingdom's claim to leadership over the global Muslim community, through its custodianship of Mecca and Medina, reinforces its political and religious authority. However, the Umma is not equivalent to the modern state but serves as an alternative, transnational community that complicates Saudi Arabia's relationship with the Westphalian model of state sovereignty. This dynamic is particularly relevant in the context of recent changes in the Kingdom's power structure under Crown Prince Mohammed bin Salman.

In terms of contribution, this thesis builds on the work of Faiz Sheikh by applying his theoretical framework to the Saudi Arabian case. While Sheikh critiques the Eurocentric assumptions in IR and introduces concepts like Normative Political Islam and the Umma, this research advances the discussion by showing how Saudi Arabia applies these ideas in its efforts to position itself as a global hub for capital and influence. The thesis explores how the Kingdom uses its religious identity in conjunction with economic policy to pursue global leadership, particularly through its ambitious Vision 2030 initiative.

The argument developed in relation to the research question is that Saudi Arabia's religious identity is deeply intertwined with its efforts to establish itself as a global hub for economic flows. The Kingdom uses its religious legitimacy as a strategic asset in both political and economic contexts, blending Islamic authority with modern statecraft. This ability to navigate between the secular international system and Islamic norms is central to its success in attracting global flows of capital, influence, and religious tourism.

Looking ahead, the next chapter will shift focus from the theoretical to the practical case studies that illustrate Saudi Arabia's efforts to become a global hub. It will examine key projects such as King Abdullah Economic City (KAEC), the King Abdullah Financial District (KAFD), and the Sovereign Wealth Funds including the Public Investment Fund (PIF). These case studies will provide a detailed analysis of how Saudi Arabia is using infrastructure development, financial investments, and economic diversification to realise its Vision 2030 goals while also addressing the barriers and challenges that lie ahead. This comprehensive examination will link the Kingdom’s religious identity to its economic ambitions, offering deeper insights into how Saudi Arabia seeks to position itself at the heart of global flows.

Chapter 5: Research Methodology

1. Introduction

This chapter presented the research methodology and methods that I used to answer my research question. It described the methodological approach and justified the chosen methods used in this study. It also described the instruments used in this research, including defining the population, the instrument development, data collection procedures, and data analysis techniques. The most suitable methods for a particular piece of research depended on the objectives of the study and the research problems. In line with this, the primary purpose of this research was to examine and analyse the opportunities and constraints shaping Saudi Arabia's goal to become a regional hub for global flows. A key part of the dynamics impacting this goal was the relationship between the state and religion, as Saudi Arabia was a religious state at the centre of a world religion.

Additionally, this research focuses on four major case studies:

1. Sovereign Wealth Funds (SWFs) across the GCC, including the Qatar Investment Authority (QIA) and Abu Dhabi Investment Authority (ADIA), which are explored for comparative purposes to contextualise Saudi Arabia's economic strategies.

2. The Public Investment Fund (PIF), which is Saudi Arabia's sovereign wealth fund and a key player in financing domestic and international projects as part of Vision 2030.

3. The King Abdullah Economic City (KAEC), a megaproject along the Red Sea, aimed at attracting industrial and logistical investments to diversify the economy.

4. The King Abdullah Financial District (KAFD), which is central to Saudi Arabia's effort to position Riyadh as a global financial hub.

These case studies allow for an in-depth examination of the financial, industrial, and economic aspects driving global flows in the context of Vision 2030

Due to the limited academic literature specifically addressing the King Abdullah Financial District (KAFD), I expanded my research to include grey literature from reliable online sources. This approach helped provide a more comprehensive understanding of KAFD's transformation from its inception to the present. A list of the grey literature I reviewed, which outlines KAFD's challenges, redevelopment strategies can be found in **Appendix 3**

This chapter presents the broad philosophical debates on research regarding ontology and epistemology – knowledge and how it was (or should have been) created – and how this relates to this research project. Importantly, the various elements that make up the research process (design, methods, sample) are covered and justify the methodology as suitable for accessing both the familiar and unfamiliar phenomena that were critical to achieving the research. The research methodology is outlined thoroughly.

2. Main research question:

The main purpose of this research was to explore Saudi Arabia's ambitions to position itself as a regional hub for global flows beyond oil and religion. In line with "Saudi Vision 2030", the country was undergoing a process of change that would impact and transform social, economic, and political structures. The central and dominant role of religion in Saudi Arabia, represented by the religious organisation headed by the Grand Mufti of the Kingdom, raised the question of how Saudi Arabia could achieve this goal while not only being an Islamic state, but also the seat of Islam worldwide. Concurrently, in line with the goals to transform the country, the Saudi state had ambitions to situate the Kingdom as a hub for global flows. This was in line with Crown Prince Mohammed bin Salman's goal to restructure the Saudi economy, lessening its dependence on oil and promoting the country as a choice Gulf hub to conduct regional and global business.

Along these lines, the main research question was:

To what extent has Saudi Arabia been able to position itself as a hub for global flows beyond oil and religion?

3. Research Philosophy

This section explores ontology and epistemology, laying the groundwork for the next section, which delves into the research's methodological approach. The choice of research philosophy is crucial as it defines what is accepted as new knowledge and how it is generated. This discussion covers the theoretical foundations of ontology, epistemology, and the methodology selected to answer the research question, justifying the research design, data collection, and analysis methods.

My research aligns with the Constructivist tradition in International Relations (IR). Constructivism posits that meanings and objects are not independent of human interpretation; instead, humans construct the meanings of their reality. It contrasts with objectivism, which emphasizes the independent existence of objects and our ability to describe or explain them (Bryman, 2016). Constructivism asserts that reality is shaped by the knower's perceptions, suggesting that knowledge is socially constructed.

In International Relations (IR), Constructivists critique mainstream Realist and Liberal theories for downplaying the role of ideas, discourse, and identities in political behaviour. Wendt (1999), in *Social Theory of International Politics*, expanded on this by proposing that the international system is a "social construction," contrasting with the materialist views of Realism and Liberalism. This highlights an ontological debate in IR, where Constructivists emphasise idealist approaches alongside materialist ones. Central to Constructivism is the notion that states possess multiple identities, shaped through interaction with other actors.

Constructivism proves valuable when analysing the relationship between religion and the state. This thesis asserts that Islamic engagement, including in international relations, must begin at the ontological level, which recognises reality as socially constructed. Otherwise, accepting the materialist foundations of IR could limit the Islamic perspective's engagement with key issues such as identity, values, norms, ideas, and human agency in international relations. Muslim scholars, unlike Western theorists, have largely neglected these issues—not due to interpretative ease but to preserve the normative framework governing Islamic participation in global politics. While Western IR theory may hesitate to incorporate human agency due to potential theoretical complexities, Islamic thought is more concerned with exposing Islamist actors to purely material structures, which might obscure moral responsibility before God (Allah).

Over the past two to three decades, Western academia has produced a vast amount of work on religion and international relations, with a particular focus on Islam, given its prominence as an active religious force in the early 21st century. While some attention has been directed toward other religious movements, such as conservative Christians in the U.S. and Hindus in India, most scholarship has engaged with Islam on substantive issues like the use of force, human rights, and climate change, depending on the IR framework guiding the analysis (Hay, 2002).

Placing this thesis within an Islamic intellectual context requires considering history. The starting point must reflect an interaction between political reality and knowledge production in Islamic history. A shift in political power within Islamic territories led to a split between political leadership and religious/intellectual leadership. The Prophet Muhammad's companions and their followers resisted the changes, and after a period of opposition, they withdrew from political engagement.

This schism left political leadership without intellectual guidance, weakening the ability to develop sustainable governance and policymaking frameworks, particularly ones that institutionalize constraints on individual political leaders (AbuSulayman, 2004). Consequently, political action in Islamic contexts has often relied on the moral governance of individual leaders and their accountability to Allah, rather than institutional checks and balances.

In view of this discussion, it can be concluded that human agency remains central to Islamic political thought, while succession and the role of successors have not evolved as primary subjects. This is because these roles are viewed as dependent on the individual human agents embodying them. The focus in Islamic political theory has traditionally been on the character and ethics of these individuals rather than on institutional structures. As such, agency in Islamic thought is fundamentally human, not corporate.

However, it is crucial to recall that during its height, the Islamic world held significant moral authority and was more advanced than other civilizations in terms of social and political thought. The balance of power favoured the Islamic Empire, even though the global context lacked a sufficiently developed international community to solidify Islamic dominance worldwide.

Colin Hay's *Political Analysis: A Critical Introduction* (2002) is particularly useful in contextualising this discussion. Hay argues that politics should encompass the entire social sphere, meaning that events, processes, and practices across any social field can be considered political. This is significant when examining religious states like Saudi Arabia, where the religious nature of the state is inseparable from its political character. My research explores how the relationship between Islam and the state shapes Saudi Arabia's integration into global networks, illustrating how religion and politics together influence the country's trajectory.

The concept of "government" is not inherent or natural, meaning that the social constructions we create in daily life are just as political as the actions of the state, making them equally valid subjects for political analysis. This raises a critical question: what makes political analysis distinct from cultural or social analysis, especially when both claim to address the entire social sphere? To answer this, we must define "political" and determine how political analysis focuses on the political dimensions of social relations, just as cultural analysis centres on the cultural aspects. Political analysis is defined not by the specific domain it examines but by the nature of the processes it studies. It emphasises power dynamics and social relations, regardless of the arena in which they occur.

Additionally, Hay (2002) explains that while the definition of politics is broad, not all societal aspects are purely political. Economic or cultural processes can involve political elements, particularly in relation to power, but they are not confined to political analysis alone. Political analysts cannot leave economic or cultural analysis to other disciplines when political dynamics underlie those fields. Hay emphasises the complexity of the world and critiques the rigid boundaries in social sciences, such as those between disciplines like International IR, which fail to account for the messy, interconnected nature of reality.

Interpretivism acknowledges that the world is in constant flux, with meanings being continuously transformed and contested. It rejects the notion of objectivity and the idea that facts exist independently, waiting to be discovered. Instead, it asserts that meanings are constructed rather than objective (Thomas, 2009). Central to this approach is the belief that all knowledge is socially constructed, recognizing that language, meanings, and ideas mediate all human experiences, including knowledge production. As a result, social constructionism challenges the possibility of objective knowledge. The most radical Constructivists even deny the existence of a world beyond the meanings created through language, description, and concepts (Onuf, 2012). Constructivists, therefore, do not seek to uncover an objective truth but rather to expose the claims that other perspectives accept as true, often derived from socially produced consensus. Their role is primarily to explain and critique.

In this context, social constructionism can be both beneficial and challenging for Islamic obligations, particularly in the development of an Islamic discipline for international relations. While Islamic scholarship in international relations must engage critically with dominant Western approaches, the tools of social constructionism offer valuable insights for critiquing the universalism often claimed by Western IR theory. Such critique serves as an essential starting point for developing an Islamic perspective on IR. However, Islamic scholars, given their foundational commitments, must ultimately seek "truth" in a way that differs from social constructivists, who focus on interpretation and critique (Monteiro and Ruby, 2009). If Muslim IR scholars fully adopt the constructivist approach, they risk undermining their Islamic obligations by treating them as socially constructed, rather than as divinely revealed truths about a world beyond human knowledge.

Social constructivism requires a leap of faith: the belief that claims about the social construction of knowledge are themselves not socially constructed (Monteiro and Ruby, 2009). For researchers in Islamic international relations, this poses a challenge. While social constructivism offers a useful entry point by focusing on interpretation and critique, it ultimately lacks the ethical foundations and stable framework necessary for Islamic scholars to propose alternative value systems. As a result, researchers may find themselves trapped in a cycle of endless reinterpretation without ever advancing to a phase where Islamic knowledge can reshape social structures.

Epistemologically, both positivism and social constructivism present obstacles for Muslim researchers aiming to incorporate Islamic descriptions of the social world, moral guidelines, and responsibility. Positivism initially appears to offer direct access to reality, but it too imposes constraints by filtering knowledge through theoretical constructs that reflect

Western IR frameworks. Meanwhile, social constructivism emphasizes the concept-dependent nature of social structures, allowing little room for the Muslim scholar to acknowledge and describe the "unacknowledged" aspects of reality based on Islamic insights.

Thus, both theoretical approaches—positivism and social constructivism—are limiting. The former provides mediated access to reality shaped by Western theories, while the latter overly focuses on interpretation and leaves little space for the introduction of Islamic ethical standards into social analysis. Therefore, Muslim IR scholars must be cautious in adopting these frameworks, ensuring that they do not compromise Islamic foundational principles in their pursuit of knowledge.

The epistemological and ontological limitations of Western IR theory pose significant challenges for non-Western, particularly Muslim, researchers. These barriers extend to fundamental scholarly practices such as conceptualization, abstraction, and bracketing. The discussion reveals a strong link between a researcher's foundational commitments and their conceptualization of Islam, societal structures, and the relationship between the two. This highlights the broader issue of how creativity and constraints are interconnected through social activity, which leads to political and normative questions. Scholars' technical roles in defining concepts, abstracting ideas, and determining the influence of agents and structures are influenced by their positions on key issues, including their views on the potential for change, moral clarity, and the application of general ethical guidelines that transcend specific social arrangements, such as those in international relations.

In conclusion, I have chosen Constructivism as the ontological framework for my research, with interpretivism as the guiding epistemology. Drawing from Colin Hay's work on defining the political, I will examine the case of Saudi Arabia, focusing on the power dynamics between the state and religion, both of which constitute the political sphere in a religious Islamic state. Since Mohammed bin Salman became Crown Prince in 2015, the Kingdom has experienced shifts in this dynamic, particularly with the introduction of *Saudi Vision 2030*, aimed at positioning Saudi Arabia as a hub for global flows.

As a religious state governed by Sharia and the Quran, the Crown Prince faces significant challenges in opening Saudi Arabia to foreign investment and tourism while maintaining its role as the custodian of the two holy places. Balancing these objectives—modernising the economy and preserving its religious leadership for over a billion Muslims globally—presents a unique struggle.

4. Research Design

R esearch design is a way to describe how the researcher goes about the research mission. The guideline for designing any research is that it must fully address and answer research questions (Creswell and Creswell, 2017). The methodological approach adopted for this study should therefore be discussed. The research approach provides a scheme for research-related data collection and discussion of these data with respect to initial research questions.

Given the goal to understand the political changes underway in Saudi Arabia, as well as the change in flows – such as finance, exports, investments, etc. – this study used a mixed method design, which is a procedure for collecting, analysing and mixing both quantitative and qualitative data at different stages of the research process within a single study, to understand a research problem more completely. Research approaches are typically divided into two categories: qualitative and quantitative. However, it is common to involve both qualitative and quantitative methods, referred to as a mixed methods approach (Harwell, 2011). The use of mixed methods in social science research has been praised in the literature for providing a more holistic approach to conducting investigations (Brennen, 2005). Mingers (2001) highlights that the use of a mixed methods approach provides ‘full richness’ to the data obtained since real world problems are highly complex and multidimensional. The rationale, therefore, for mixing is that neither quantitative nor qualitative methods are sufficient by themselves to capture the trends and details of the situation. I argue that this is the case when researching the political economy of Saudi Arabia and its goal to become a regional hub in the Gulf for global flows. When used in combination, quantitative and qualitative methods complement each other and allow for more complete analysis (Greene et al., 1989).

The thesis, thus, consists of a combination of quantitative and qualitative approaches that were used as follows:

1. The thesis used data sources, reports, newspaper articles, and raw data such as official Government documents that will lead to the identification and quantification of the factors affecting Saudi Arabia’s aim to become a hub for global flows. This use of data was needed to conceptualise the assessment of the research.

2. Subsequently, I used data such as interviews to develop the research question and help to understand the implementation of Saudi’s plan.

3. The thesis incorporates three case studies—the Public Investment Fund (PIF), King Abdullah Economic City (KAEC), and King Abdullah Financial District (KAFD)—to

provide a comprehensive analysis of Saudi Arabia's ambition to become a hub for global flows. These case studies combine quantitative and qualitative data to examine how large-scale investments and development projects contribute to the broader goals of economic diversification and global integration outlined in Vision 2030. Importantly, these case studies also engage with the broader literature on state capitalism, global cities, and Global Production Networks (GPNs), situating Saudi Arabia's economic strategy within global frameworks of economic restructuring. Each case study highlights different aspects of the Kingdom's strategy, from sovereign wealth management to infrastructure and financial market creation, offering a multifaceted perspective on the factors driving these initiatives.

4.1 Validity, Reliability and Confidentiality

Reliability in this research is set up to authenticate the various processes involved, and to see that if the research repeated elsewhere, by different researchers and/or at different times, would generate the same results. As the researcher, I found it challenging to find the best tools, methods of research and analysis in order to answer the research questions. Validity (whether internal or external) looks for the veracity of inferences which have been generated from the study, while triangulation and reliability relate to internal validity. Triangulation in this study is conducted by using documents, interviewees and in-depth case studies in order to develop a profound understanding of the case. During the interviews confidentiality was guaranteed by informing the participants that the information gathered from interviews would not be disclosed to third parties. In addition, the identities of the participants were kept anonymous.

4.2 Positionality

Positionality in this research is a key. Being a Kuwaiti citizen, born and raised in Kuwait, I am familiar with the advantages and skills that help me with this research. For example, a considerable advantage is that I speak and read Arabic, and have a nuanced understanding of Middle Eastern customs and traditions. Understanding customs and traditions and what is permissible or unacceptable is critical to gain access to materials and hold successful interviews. Another important consideration is that Kuwait and Saudi Arabia have a strong relationship at the level of Governments and peoples which made it easier for me to use the knowledge service available to access certain data or people in the State. Having lived in the Arab Gulf region, I know which topics are sensitive for public discussion, such as, internal sovereignty and politics, religion, customs, and traditions. Understanding these complexities was crucial for research in or on Saudi Arabia. Being a Kuwaiti national, it was easy to read articles and research papers in Arabic, and to ask for information that might be useful to my research through my network.

One key disadvantage was that my fieldwork was conducted from the UK due to the sensitivity of the subject. However, due to my broad network it was possible to meet with companies and Saudis who work in the United Kingdom in cooperation with Saudi Arabia. To conclude this section, below are the main points of discussions on the advantages and challenges of doing research on Saudi Arabia from my perspective.

5. Data Collection

It is important to highlight the distinction between primary and secondary sources of data. Secondary data is information already collected and made available by others. On the other hand, primary data is original data gathered by the researcher to investigate an issue. The subsequent sections contain a discourse with regard to these two sources of data and how I collected them during my research.

5.1 Secondary data

Herrnson (1995) describes secondary data as the analysis of data by researchers who will probably not have been involved in the collection of that data, for purposes that likely were not envisaged by those responsible for the data collection. Secondary data is important as it sheds light on the research subject or topic, and on the viability of the research questions, methods, literature, or conclusion. This data can be obtained from several sources including books, conference papers, theses, journals, and raw sources such as government publications, etc.

Secondary data provide certain advantages over other types of data. The biggest advantage is its ability to save time and cost. If the researcher needs to collect data quickly, secondary data is the best option. Among the various sources of secondary data, data collected by international organisations and Governments are often of high value as sources of information. These data are reliable and as they provide official reports collected by experts or actors in their areas of expertise (Hernson, 1995).

Data I collected in the following order included:

1. A review of existing literature on Saudi Arabia and the interplay between religion and the state, emerging markets, and oil diversification.

2. A wide range of online sources, including specialised reports by think tanks, consultancies, and private companies, including major banks, as well as online news articles from the media. When relying on these sources, I sought to maximise the utilisation of large internationally renowned and respected brands, such as the BBC, Bloomberg, CNN, the Economist, the Financial Times, the New York Times.

3. In terms of numerical data, a number of secondary sources were utilised. For the world of energy trade, among the most detailed and informative providers of primary and secondary data, as well as tailored analysis, are the U.S. Energy Information Administration's (EIA) or the British Petroleum Company Limited's (BP) annual reports and country profiles. I will employ data from both sources.

4. A further source raw data are government official sites such as the Saudi ministry of investment which address different foreign investments strategies and development projects within Saudi Arabia and abroad. These includes: Neom, King Salman Park, Jabal Omar, Jeddah Tower, Jeddah Metro, Riyadh Metro, and Sharaan Nature Reserve. All of these projects have their official websites which help to track the implementation process.

5. Documentary search of published datasets in relation to oil, investment (regional or international), cross boarders flows, and finance.

6. The study of international materials such as the texts of conventions and treaties that Saudi Arabia has ratified.

5.2 Primary data

Primary data is needed when a researcher needs to respond to research questions in a specific field of study, and there is an absence or shortage of contemporary secondary data. This is also because questions I require, depends on my specific research area. There are a variety of ways in which to collect primary data, including interviews, ethnography, observations, experiments, and surveys. There are several merits associated with producing primary data, namely that the questions asked were more closely integrated to my research questions and research objectives.

However, collecting data through, for example, interviews have certain disadvantages as it can be time consuming and expensive. Other problems are the lack of access to the right organisation or people who could provide the data needed. The researcher may also have limited control over data collection which could lead to the emergence of unexpected drivers that could hinder the effectiveness of data collection. The quality and direction of information collected from the sources depends on the willingness and ability of the respondents. There may be some respondents who refuse to participate or cooperate due to a lack of time and a lack of incentives, or fear when it comes to providing sensitive information. Importantly in the case of my research, it was difficult to access participants who were willing to take part in my research which asks sensitive political and religious questions within a sensitive country such as Saudi Arabia. This was a significant factor, and I decided to conduct interviews solely from the UK. I come back to this point shortly.

Data collection through interviews can be of a kind of neutrality towards the subject of research. For example, not all parties involved in the research, Saudi Arabia, would be happy to speak about the Kingdom, or speak about it positively or negatively. From my point of view that depends on the general political atmosphere of the Kingdom at the time. For example, after the story of the murder of journalist Jamal Khashogji in Istanbul, as a researcher, I had difficulty asking people to participate in the interviews on the research. When they agreed to participate in the subject matter, there was a neutral tone of answering some questions. The fear of speaking openly or expressing any opinions may have posed a danger to the speaker or become a problem for the organisations in which they worked.

This thesis used sources in two languages: Arabic and English. These sources included documents and reports of States and international organisations, notes by responsible individuals such as policymakers and diplomats, books published by private companies on their institutional history, newspapers and periodicals in certain areas (such as politics, business, industry, culture and religion), all kinds of academic publications (such as books, press articles, masters/doctoral thesis), as well as traditional and new types of online sources such as websites and blogs. Thus, in addition to consulting the relevant literature in the area, the thesis also analysed some other sources such as religious texts, the Quran, several legal documents such as the Saudi Basic Law of Governance, and the Charter of the Saudi Arabian Monetary Agency.

As explained above, and after discussion with my supervisory team, we decided that I would not conduct fieldwork in Saudi Arabia. This discussion and decision built on the incident of a British doctoral student arrested at Dubai airport, accused of spying on the UAE for the British government (Parveen and Wintolur, 2018). Following this was the murder of Jamal Khashoggi—a journalist for The Washington Post – in the Saudi Arabia embassy in Turkey (BBC News, 2021). It was therefore decided that data, primary and secondary, would be collected during the field research conducted in London/Europe. While this was a potential challenge to my research, I realised in my interviews that London, as home to one of the world's two global financial centres and a culturally diverse city, attracted enough key policy and financial actors and businesspeople to permit me to answer my research question in a manner that did not jeopardise the rigour of my research design. Although the interviews were conducted in London, many of the participants had extensive experience working and living in Saudi Arabia, offering valuable insights directly relevant to the context of my study.

The purpose of the fieldwork in London, therefore, was to collect data from different financial organisations and investment banks that deal with Saudi Arabia such as The Saudi British Trade directory and other companies addressed in the UK government website. Fieldwork also included attending a number of workshops and conducting interviews with experts of the field to collect data. Along these lines, primary data was collected through 20 semi-structured interviews in the City of London, United Kingdom. Given the timing of the interviews in 2020 and the restrictions imposed by the Covid-19 pandemic, video interviews were offered as an alternative to in-person meetings. The interviewees, who included managers, bankers, and scholars based in London, were specifically chosen for their expertise on Saudi Arabia and their deep understanding of the reforms taking place under Vision 2030. Many of the participants had worked and lived in Saudi Arabia, gaining first-hand experience of the country's day-to-day realities, making them ideal contributors to this research. This on-the-ground experience provided insights that were far more nuanced and reliable than those gained second-hand or through external observations. Although face-to-face interviews were not feasible due to the pandemic, and in compliance with the University of East Anglia's fieldwork policies, all interviews were conducted via video call, allowing me to maintain the rigour of my research design while adapting to the constraints of the situation.

One of the biggest challenges facing researchers in political science is how to obtain high-quality data that represents the target population. The representativeness of a sample is crucial for drawing accurate conclusions about the community under observation; selecting those most representative of that given community is a necessity. In this study, the representative sample was selected from different organisations and both genders; the stipulation for my study was that they were individuals who have specialist knowledge of the Saudi market and the potential investments opportunities. Importantly all of the individuals were specialised within their sectors on the Middle East and Africa and each of them had exposure to Saudi Arabia as a market.

In total 20 one-to-one interviews were conducted. Most of the contacts were arranged in advance, with the interview questions provided before the meetings. The target interviewees come from the following categories: financial actors, corporate world of business, energy experts in field of oil, infrastructure consultants, trade experts in the Middle East.

The rationale for selecting these interviewees is grounded in their ability to provide critical insights into Saudi Arabia's ambitions to become a regional hub for global flows, particularly in the context of Vision 2030. Financial actors were chosen for their expertise in assessing the viability of the Kingdom's financial reforms and its attractiveness to foreign investments, a key factor in diversifying away from oil dependency. Corporate business experts, operating in or familiar with the Gulf region, offered practical perspectives on the operational opportunities and challenges in Saudi Arabia, highlighting the country's potential as a destination for multinational corporations. Energy experts, specifically those with a focus on the oil sector, were crucial in evaluating how shifts in global energy markets impact Saudi Arabia's ability to transition from an oil-dependent economy to a more diversified one. Infrastructure consultants were included due to the pivotal role infrastructure plays in enabling the Kingdom's ambitions, particularly in facilitating trade, tourism, and investment flows. Finally, Middle East trade experts provided an understanding of Saudi Arabia's regional economic integration and trade policies, crucial for assessing its potential to become a global hub for non-oil trade and economic activity. A detailed table is set out in **Appendix 4**. Together, these interviewees offered a comprehensive view of the key drivers and challenges facing Saudi Arabia's efforts to position itself as a regional and global economic hub.

The interviewees were selected through an extensive search of secondary sources to identify key individuals with expertise, relevant experience and specialised knowledge to the research question. Initial contacts were established through professional networks, academic connections, and public profiles of individuals working in sectors closely aligned with Saudi Arabia's Vision 2030 goals. In several cases, referrals from these initial contacts led to further participants, enabling access to experts with specific insights into Saudi Arabia's political, economic, and social landscape. The selection criteria focused on their professional relevance, ensuring a comprehensive range of perspectives on the kingdom's efforts to establish itself as a regional hub for global flows.

The interviewees came from diverse backgrounds, offering unique expertise to the thesis. Financial actors included senior managers or advisors in international investment banks and private equity investors with extensive experience in Gulf economies, particularly Saudi Arabia. Their insights were crucial for assessing the feasibility of Saudi Arabia's financial reforms and investment climate. Additionally, senior analysts from research organizations provided advice on market access for new entrants. Corporate business experts held leadership roles in multinational corporations in sectors like tourism, construction, and manufacturing, offering practical perspectives on the challenges and opportunities for international companies in Saudi Arabia’s non-oil sectors.

Energy experts, often consultants or professionals with experience in the global oil and gas industry and Saudi Aramco, contributed valuable insights into how global energy transitions affect Saudi Arabia’s diversification strategies. Infrastructure consultants involved in projects like NEOM and the Riyadh Metro evaluated the country's infrastructure progress and its potential to support Saudi Arabia’s ambitions as a regional hub. Middle East trade experts, with backgrounds in regional trade policy and economic diplomacy, highlighted Saudi Arabia’s trade agreements and integration within the Gulf Cooperation Council (GCC).

All interviewees had either worked or were actively working in Saudi Arabia, providing real-time, nuanced perspectives on the country’s evolving political economy. Their direct involvement grounded the thesis in practical experiences and informed projections on the future of Saudi Arabia's economy in the context of global shifts.

After conducting 20 interviews, I felt that I was gaining no significantly new knowledge, and therefore stopped. The questions centre on four main themes: 1) the viability and credibility of Saudi's business and investment strategies as set out in the Saudi Vision 2030 documents, as well as in other leading policy directives; 2) their evaluation of Saudi Arabia as the Gulf's hegemon and/or leading powerhouse and the impact this will have on the country's ability to become the main hub for the region; 3) the perception of the influence on religion and religious leaders' power in Saudi Arabia and how these perceptions are likely to affect decisions made by investors and business actors to direct flows towards the Kingdom; and 4) whether Islamic financial institutions are benefiting from not having special regulations to ensure the compliance of their products to sharia law. Collection of data will, inevitably, depend on the extent to which each interviewee feels knowledgeable and comfortable to share knowledge on the above mentioned four themes and their level of openness in speaking about these organisations.

The semi-structured interviews were unique; they were less tough in a form of organised interviews and include the interview manual rather than the interview schedule. The Guide was designed as an interview claim to ensure that all cases were covered in the interview (Cross and Galletta, 2013). These types of interviews are usually described as in-depth interviews, which indicate that interviews like this are designed to produce detailed answers or complex descriptions. It is organised enough to address specific dimensions of the research question while leaving room for study participants to provide their response to the subject of the study. This style of interview is imperative for finely tuned qualitative analysis which will open up new possibilities in understanding complicated phenomena often accepted as unproblematic. As the researcher seeks to understand the complexity involved, for example, in the regulation of Islamic finance under regulations that were designed for conventional finance, then the researcher attempts to encourage the interviewees in suggesting reforms if needed. Thus, most of the questions remain open-ended. Some interviewees can be asked different sub-questions from others, depending on the type of position and field they worked in, but most were asked the same main questions.

The interviews lasted a maximum of one hour and were conducted online to comply with Covid-19 restrictions. For ethical reasons, each of the interviewees were contacted individually to enquire about their acceptance to be interviewed and to find the best and safest way to be contacted with regards to arranging times for the face-to-face interviews or other online platforms, and the way to receive the consent forms. A series of Skype / Zoom / or face to face interviews were also conducted to collect information from various experts on the topic from a number of organisations in the United Kingdom. After the interviews were completed, the data was analysed by: first, extracting information from recordings and writing it in special files for each interviewed, while preserving privacy and complete confidentiality of information. Secondly, the data was analysed by type. What kind of data was taken from interviews, was it digital or written or both? Then the data was analysed based on the nature of the information and the subject of research. For example, all oil data was stored in one file, all data relating to the 2030 vision of the Kingdom was stored alone and so on. Following that, the collection, analysis and linking of the data to the search questions and their classification was all alone. The final stage after the data analysis included written analysis on the data analysis and findings outlined in the last four chapters of this thesis.

The participants were informed, via the information sheet and consent form and by verbal or email communication, that taking part of this interview is completely voluntary and regulated according to the University of East Anglia's ethical code for research. I recognised that the topic of the thesis is to an extent politically sensitive topic in Saudi Arabia, which potentially makes the possible harm to participants relatively high. However, as adequate safeguards were followed, this has reduced the risk to a high extent. The most likely source of potential risk is a personal conflict rather than political conflict if participants criticise the way their organisations or departments work in cooperation with Islamic finance, which could affect relations with their employment managers. To reduce this risk, it was important to keep the identity of the individuals as unidentified as possible. However, I explained to the participants that there would still be a potential risk of identification, although it was small; they had the right not to participate, withdraw their participation at any stage or avoid answering certain questions. To further limit the possibility of identification participants will be given a non-identifying pseudonym: ‘participant A’ and ‘participant B’, for example.

Interview participants were fully informed of the presentation of this research and the procedures that were used. All participants were given preliminary information on the subject of the research, and this was explained again at the beginning of the interviews. The information paper that was sent in advance to the participants consisted of a comprehensive summary of the nature and details of the research, as well as their participation. Also, it included contact details of the interviewer and his supervisors so that any additional queries could be answered. Accordingly, full consent was gained by each participant signing the written consent form which was delivered to the participants by the best possible method as suggested by them: via email or by hand distribution before the interview. The consent form were returned either before or on the day of the interview.

6. Securing data and confidentiality

While conducting interviews and data collection, it is also important to follow practices that keep data safe during analysis. Safe Storage is important, but it is only one aspect of a larger set of behaviours and habits that are important when dealing with search data that must be kept confidential. Eventually, the researcher is responsible for appropriate use and store their research data. There are many practices that are crucial to maintaining the security of search data:

I. Store paper forms securely: Like electronic data, paper documents must be stored, for example, paper forms of consent to participate in the interview process, or any paperwork containing any personal identification information safe in locked cabinets when they are not in use. These papers must also be treated in complete secret and privacy for interview participants. I've saved these papers in locked cabinets after they're used to keep secrecy. These papers contain personal information to individuals who chose to remain anonymous with their names or their job profiles remaining confidential.

II. Use secure storage: Confidential data stored on transportable media such as CDs, DVDs, flash memory devices, or portable external drives must be stored securely in a safe or locked file cabinet

III. Protect passwords: Safe data storage depends on the creation and use of strong passwords necessary to access data records. The best storage and encryption techniques can be easily retracted through weak passwords that can be easily identified or guessed. So, it is imperative that strong passwords are used to avoid identification and access to the data. Also, the researcher should never share or write passwords on a piece of paper and leave it in the workplace or a place where people around can see.

IV. Activate lock out functions for screen savers: Attention must be given to computers used to analyse and store data, whether computers are personal or in the workplace. These devices must be set to lock after 10 minutes so that they cannot be accessed. This reduces the risk of stealing or using data by unauthorised people if the computer is left open.

V. Use secure methods of file transfer: Sometimes the transfer of confidential data files between users leads to the unintentional disclosure of information or identities of persons. Data transfers are often the weakest part at any stage to maintain search data security. The way in which data transmit data must reflect a high sensitivity level and data must always be pressed in search files containing identification information or other confidential information relating to search. Information must also be encrypted before it is transmitted from place to place. This is especially important when transmitting information by email or as physical media files like CDs or memory drives. File compression reduces the chances of failing the data file transfer because it might be in a large area. Data encryption will ensure that nobody who has no password created when pressing and encrypting the file will be read by the person who has no password. Other secure and convenient methods of file transfer include SharePoint and University-supported Google Drive.

6. Difficulties of conducting research on Saudi Arabia

The official law system in Saudi Arabia is Sharia, derived from various Islamic texts and ruled all the members of faith in the country. Something that some may consider normal in their country of origin can be considered a crime in Saudi Arabia, resulting in public flogging, imprisonment, deportation or death.

Anything that looks like a preacher or a proselytising religion other than Islam is treated with severe prejudice and treated as a crime in Saudi Arabia. However, the special practice of other religions is acceptable, and passengers can bring a religious text, for example, the Bible with them, as long as it is for personal use only. However, the Crown Prince Mohammed bin Salman has introduced several reforms for the religious police (Mutawa) in Saudi Arabia, officially known as the Committee for the Promotion of Virtue and the Prevention of Vice as a part of his Vision 2030 initiative which aims to boost tourism in the country. These include restricting patrols to business hours and removing the ability to detain or arrest anyone.

7. Time frame for the Case Study

This research considering Saudi Arabia's politics must address the question of an appropriate timeframe for study. This thesis covers the period from 2014 to the present moment. This timeframe was chosen as this period includes the high point of debates centred on the issue of Saudi Arabia globalisation especially after the Crown Prince Mohammed Bin Salman became the public face of social and economic reforms in the Kingdom.

Since the latter half of 2014, the oil-rich countries of the Middle East and North African region have watched billions of dollars in potential revenue vanish with a prolonged drop in oil prices. From 2010 to 2014 the average drop in oil is roughly $100 per barrel of crude, world prices have approximately averaged at $50 per barrel from 2015 through the beginning of 2018. Even at the peak of price fall, organizations like the International Monetary Fund (IMF) warned the GCC-oil rich countries of the risk of relying on oil revenues to support citizens' income, and the need to diversify sources of economic growth and state income. However, despite many of these warnings over the years, Gulf economic development has largely confirmed academic forecasts that oil-rich countries will find it very difficult to move away from oil rent, whether due to policy lock-in caused by rent seeking interest groups or due to state institutions weakened and fragmented by rapid state building (Karl, 1997).

In response to the dramatic decline in world oil prices, the Governments of the region have embarked on different solutions to address financial shortages, in particular Saudi Arabia, where the Crown Prince is working on economic, political and social reforms, which are referred to as the Saudi Vision 2030, accompanied by the more detailed National Transformation Plan (NTP) and its allied Fiscal Balance Program (FBP).

The FBP, supports, for example, to balance the Kingdom's budget which was set in 2020. Also, the income from investments rather than oil should become the main source of state revenue by 2030. These reforms seem to respond to the long-standing recommendations of international organisations and political and economic analysts that the Saudi Government should diversify its economy while reducing direct subsidies to Saudi citizens as well as separating future public spending from oil imports. The kingdom’s government face great challenges in implementing these reforms. They seek to rewrite the Saudi social contract by curtailing the State ties to its citizens with a significant amount of social liberation, but this unelected monarchy also retains absolute political control.

Thus, these reform efforts under the Crown Prince are more stringent than any previous attempt to diversify the Saudi Arabia. As a result, they face potential reactions and opposition from elites and the general population to the proposed programme of austerity measures, reduction of subsidies and public employment that are included in the 2030 Vision. The rentier system is deeply inherent in Saudi life, and it constitutes an implicit social contract between the Governor and the people. In addition, this national transformation requires significant adjustments by government ministries and agencies in the way that the Kingdom's bureaucracy coordinates and manages its programmes, which is a basis through a regime reformulated by the State budget and financial management. Furthermore, the success of these reforms depends on conditions beyond the administration of the Kingdom, for example, the response of foreign investors to Saudi plans to obtain investment opportunities. These could be some challenges facing Saudi Arabia to achieve its ambitious vision 2030.

To do this:

I. I have reviewed existing current studies on oil-rich countries and challenges to economic reform to reduce oil dependency, arguing the current efforts of Saudi Arabia to overcome this dilemma.

II. I have offered an overview of the genesis and implementation of Saudi Vision 2030, the NTP and the FBP, a particular emphasis is placed on the design of policies to separate government budgets from oil rebates. It is also important to study the role of the Crown Prince in promoting the vision of 2030 for the Saudi people and a whole world, as well as the actions taken by the Kingdom to ensure the implementation of the vision.

III. I have addressed the political economic, and religious/cultural challenges facing reform efforts in Saudi Arabia and the responses of Saudi rulers and religious leaders.

Chapter 6: Sovereign Wealth Funds and State Capitalism

1. Introduction

Sovereign Wealth Funds (SWFs) are funds owned by governments, established to invest in a country's trade surpluses and/or excess reserves. The returns generated from these investments can serve various purposes, such as creating a reserve fund for unforeseen circumstances, supporting future commitments like public pensions, or providing benefits for future generations, among other possible applications. While the exact definition of SWFs remains undefined, Borgne and Medas (2008), offer a comprehensive explanation in their article. They describe SWFs as entities used to manage public funds, primarily engaging in cross-border investments with the goal of achieving a higher risk-return ratio compared to safer investments like government bonds (Le Borgne and Medas, 2008).

SWFs have become increasingly important financial mechanisms in state capitalism, particularly in resource-rich economies. SWFs have become central to state capitalism, particularly in resource-rich economies where state intervention plays a major role in controlling and driving economic activities. In this context, state capitalism refers to a system in which the state exerts significant control over the economy, often through large state-owned entities like SWFs. The total assets under management by SWFs have surged to $11.5 trillion as of 2023, reflecting their growing influence in global financial markets (Megginson et al., 2023). The rise of SWFs in the context of state capitalism emphasises their dual role as both financial instruments and political tools, enabling governments to exert greater control over economic outcomes both domestically and globally. This chapter examines the historical development, diverse typologies, governance challenges, and geopolitical roles of SWFs, with a particular focus on the Public Investment Fund (PIF) of Saudi Arabia as a case study.

The PIF, as Saudi Arabia’s primary SWF, plays a critical role in diversifying and stabilising the Kingdom’s economy. By directing surplus revenues towards diversified investments, the PIF reduces reliance on a single commodity (oil) and mitigates the impact of oil price volatility. This diversification strategy enhances economic resilience and minimises Saudi Arabia's vulnerability to external shocks. As one interviewee from a leading financial institution noted, **"The PIF is no longer just a national fund but a global player—its investments reflect our need to be less reliant on oil and more integrated into the world economy"** (Interviewee 6, Finance Sector). By participating in GPNs, the PIF not only seeks financial returns but also aims to establish Saudi Arabia as a critical node within global economic flows, linking domestic industries to international markets.

Saudi Arabia’s Vision 2030, an ambitious plan to transform the Kingdom’s economy, is a prime example of how SWFs like the PIF are deployed to implement long-term strategies that are crucial to state capitalism. Vision 2030 aims to reduce the Kingdom’s dependency on oil revenues by expanding into non-oil sectors, leveraging the PIF as a cornerstone of this diversification strategy **"Vision 2030 is more than an economic plan—it’s a cultural shift that pushes us to break away from oil dependency and embrace a new, diversified economy",** commented one senior policy analyst in Riyadh (Interviewee 3, Political Advisor). This shift underscores Saudi Arabia’s attempt to move beyond a traditional rentier state model towards a more diversified, globally connected economy that leverages the power of state-owned entities like the PIF within global production networks.

Originally established in 1971 under the Ministry of Finance, the PIF initially had limited activities, providing soft loans to newly established state-owned enterprises (SOE) (Montambault Trudelle, 2023). However, it underwent restructuring in 2015 and became a fully-fledged SWF. This strategic shift towards economic diversification across a number of strategies deviates from the traditional SWFs in the Middle East. The theoretical expectations of a commodity-based SWF typically arises from surplus resource revenue and invests in traditional assets such as real estate (Alsweilem et al., 2015). PIF has taken a much more innovate approach since 2015 and was the most active sovereign investor globally in 2023, demonstrating its commitment to a bold investing style. **"PIF’s evolution is unprecedented—it shows a clear move from the old, risk-averse approach to a bold global strategy,"** said a senior Economist in London (Interviewee 2, UK Finance Sector). This evolution signals a broader shift in Saudi Arabia's engagement with **state capitalism**, where the state, through the PIF, actively shapes economic outcomes both domestically and globally.

Whilst PIF experienced significant growth during a time of financial instability, Saudi Arabia's public debt also surged by 2100%, soaring from $11.8 billion in 2014 to $263 billion in 2022 (IMF, 2023), amidst geopolitical and economic uncertainties that led many of its counterparts to cut back on spending (Global SWF, 2024). If government revenue decreases due to fiscal constraints, the Saudi distribution system could experience heightened internal pressures, potentially undermining its stability and long-term sustainability. With a population of 32.2 million, significantly larger than other Gulf monarchies, and nearly half of them under the age of 25, it becomes even more challenging to uphold a rentier agreement as government earnings decline which is driving strategies such as the PIF to create significant global flows (General Authority for Statistics,2024). An academic and political consultant stated **"The challenge isn’t just economic, it’s about managing the social contract in a post-oil world,"** remarked an academic policy expert from the UK (Interviewee 17, Academic Sector). In this context, the PIF acts as a key instrument in the Kingdom's adaptation to changing global economic conditions, serving not only as a financial buffer but also as a strategic tool in securing Saudi Arabia's position within global production networks.

From a religious and cultural standpoint, the PIF's mission can also be viewed through the lens of Islamic stewardship. The concept of Istislaah, or public interest, aligns with the PIF's role in safeguarding the future of Saudi Arabia's economy for the benefit of future generations. By investing in sustainable industries and diversifying away from finite resources like oil, the PIF not only serves economic goals but also upholds the religious responsibility of securing long-term prosperity for the Ummah. *"In many ways, the PIF embodies a modern interpretation of Islamic principles—it's about planning for the future, securing prosperity for the next generation, and ensuring that our actions today benefit the community tomorrow"* (Interviewee 9, Saudi Academic Sector).

2. Historical Development and Evolution of Sovereign Wealth Funds

2.1 Origins and Early Development of SWFs

According to Bahgat (2010), in 1953, Kuwait became the first country to establish a SWF called the Kuwait Investment Authority (KIA) to diversify its revenue sources, as it heavily relied on income from oil exploration and sales. After the creation of KIA, there was a period of inactivity in SWF formation until the 1970s, when Singapore, Abu Dhabi, and Canada launched their own SWFs. Their establishment of SWFs coincided with the global rise in oil prices, highlighting the role of SWFs in stabilising economies during periods of resource abundance. In 1990, Norway introduced one of the largest and most transparent SWFs globally.

The Government Pension Fund-Global, is a transparent model for managing oil revenues, illustrating how SWFs can serve as tools for both domestic fiscal management and international investments (Ang, 2014 & Norges Bank Investment Management, 2024). Norway's SWF, in particular, exemplifies the fusion of state capitalism with global ethical standards, showcasing how state-controlled assets can be managed with transparency and responsible investment strategies, a crucial factor in maintaining legitimacy in Western economies dominated by liberal market structures. ***"The transparency of Norway's SWF is something we should learn from in Saudi Arabia as we expand the PIF,"*** noted one think tank director (Interviewee 4, Policy Sector). Norway's model fits within the broader discourse on state capitalism, where the state exercises control over significant economic assets but in a way that is compatible with global market norms, unlike the more opaque models seen in other regions.

2.2 The Resurgence of SWFs in the 21st Century

In the early 2000s, the rapid expansion of state capitalism in emerging economies, especially those with large natural resource revenues, led to the proliferation of SWFs. This growth is linked to the rise of state capitalism, where governments use state-controlled vehicles like SWFs to enhance their competitive edge in global markets, exerting greater control over both domestic and international economic processes. During the 2000s, countries like China and Russia established their own SWFs to manage trade surpluses and oil revenues, making SWFs a central element of their state capitalist strategies. China establishing the China Investment Corporation in during the 2000s with an initial endowment of around $200 billion, and Russia unveiling two new SWFs with a combined wealth of approximately $150 billion. Many countries have their own SWFs, and others are interested in establishing their own (Johnson, 2007). However, the majority of SWFs are found in resource rich countries such as the oil-producing nations or economies with trade surpluses. These SWFs were not just financial instruments but tools of economic diplomacy, allowing these states to extend their influence through strategic investments in sectors like infrastructure and energy across developing regions, such as Africa and Latin America.

As of 2023, SWFs globally manage over $11.5 trillion in assets, representing a significant source of state-controlled capital. These funds have become integral to state capitalism, not only supporting economic diversification but also extending states' influence through global investments. By investing in international markets, SWFs enable states to diversify their economies and secure strategic footholds in critical industries across the globe (Megginson et al., 2023). ***"We've seen how China uses its SWF to influence infrastructure projects in Africa and Latin America, and Saudi Arabia's PIF is starting to adopt similar strategies,"*** observed one Senior Economist (Interviewee 2, Finance Sector).

2.3 Key Factors Driving the Growth of SWFs

Magginson and Fotak (2015) state that the rise of SWFs also reflects a broader strategy of economic diversification and long-term tools for economic stability. In the context of state capitalism, these funds serve as instruments of state power, helping to maintain global competitiveness while also addressing domestic economic challenges, such as aging populations and infrastructure demands. The resurgence of SWF creation in the 2000s, aligns with the notion of maintaining global competitiveness and managing the future costs of an aging population and infrastructure.

SWFs, particularly in state-capitalist frameworks, play crucial roles in shaping national development strategies. They act as buffers against external shocks and as vehicles for embedding states within GPNs (Clark et al., 2013). Particularly during the 1990s, the Gulf countries, benefiting from surplus funds generated by oil exports, established SWFs that actively participated in global financial markets. In the 21st century, the rapid growth of global oil and gas prices, coupled with the exacerbation of worldwide economic imbalances and the emergence of new economies, has propelled the substantial development of sovereign wealth funds worldwide. Notably, East Asia and the Middle East have witnessed a significant surge in the establishment and growth of SWFs, making it a prominent event in the international economic and financial domains. Moreover, SWFs have evolved to play a significant geopolitical role, as countries deploy them to acquire strategic assets abroad, further embedding them within global financial and economic systems (Csurgai, 2009). The integration of SWFs into global production networks illustrates how states use sovereign capital to position themselves strategically within global value chains, especially in sectors like technology, energy, and infrastructure.

The rise and importance of SWFs have garnered considerable attention in the past 15 years. This focus is warranted as the assets under management (AUM) of SWFs grew from about US$4 trillion in 2009 to around US$9 trillion in 2020, with over 50 funds created between 2000 and 2016 (Barrowclough, 2022; Megginson et al., 2021). The notable feature of these funds is that they are government-controlled entities with significant capital but no specific obligations. As expected, these sovereign investments raise political, economic, and security concerns for recipient countries, as well as questions about their impact on the global financial system. Sovereign investments, particularly from SWFs in politically sensitive regions, often raise political, economic, and security concerns for recipient countries (Megginson et al., 2023).

Politically, these investments may be perceived as tools for exerting influence, leading to fears that countries with significant SWFs could leverage their financial power to interfere in the domestic affairs or policy decisions of recipient nations. Economically, large-scale investments can potentially distort local markets by driving up asset prices, crowding out local businesses, or creating dependencies on foreign capital. In some cases, this can disrupt domestic industries, especially when SWFs target strategic sectors like energy, technology, or infrastructure. Security concerns also arise when SWFs acquire stakes in critical infrastructure or sensitive industries, such as telecommunications or defence, raising fears of foreign control over assets crucial to national security. Moreover, SWF activities also pose broader questions about their impact on the global financial system, including the potential for market volatility and imbalances when state-controlled funds wield such significant economic power across international borders (Cohen, 2009).

This growth is set to continue with the International Monetary Fund (IMF) projecting that the total assets of SWFs could potentially reach a staggering $71 trillion by the year 2030 (Global SWF, 2024). This highlights their continued importance in global financial and geopolitical systems.

3. Typologies and Structures of SWFs

3.1 Commodity vs. Non-Commodity SWFs

According to Kimmitt (2008), there are two main categories of SWFs: commodity and non-commodity. Commodity SWFs are funded by revenues from oil or commodity exports, while non-commodity SWFs receive transfers from official foreign exchange reserves. SWFs are part of a spectrum of government-owned investment entities, including central banks, sovereign stabilisation funds, sovereign saving funds, government investment corporations, and government-owned enterprises (Butt et al., 2009). These typologies are central to the practice of state capitalism, where the state utilizes its control over natural resources and financial assets to assert economic influence both domestically and internationally. Within the realm of SWFs, there are various types, such as sovereign stabilisation funds aimed at stabilising revenue, sovereign saving funds meant to serve as intergenerational funds, and government investment corporations focusing on investing in riskier assets like corporate bonds, common stocks, and real estate (Petrova et al., 2011).

PIF, as a commodity-based SWF, leverages Saudi Arabia's oil revenues not only to diversify the national economy but also to position the Kingdom as a major player in GPNs. SWFs, as key actors in GPNs, have a far-reaching impact on the global economy. By investing in global corporations, technology firms, and real estate, SWFs influence how value chains are constructed and controlled. For example, Saudi Arabia’s (Public Investment Fund, 2023) has made investments in global cities such as London and New York, where its capital flows are not just shaping urban development but also embedding Saudi Arabia within the global urban hierarchy. This integration into Global Cities makes the Kingdom more influential in shaping global trade and investment flows, enhancing its role in GPNs.

As one senior consultant in Riyadh noted, ***"Our investments in major cities reflect a strategy to embed ourselves into global financial networks. It’s about more than returns; it’s***

about positioning Saudi Arabia as a key player in global production and trade" (Interviewee 6, Finance Sector). This perspective illustrates how the PIF, as part of Saudi Arabia's broader state capitalist strategy, operates not just as a financial entity but as a geopolitical tool that reinforces the Kingdom's integration into global production networks. This highlights the geopolitical role of SWFs in state capitalism, where the state's control over investment in both domestic and international markets extends its influence in strategic global networks.

SWFs, despite being government-owned entities, exhibit distinct differences from central banks and foreign exchange reserves. Unlike central banks, SWFs are not tasked with the day-to-day responsibility of maintaining national currency stability and money supply. Moreover, SWFs do not hold foreign currencies like official foreign exchange reserves. Additionally, SWFs offer unique advantages such as longer investment horizons, willingness to take on higher risks, and pursuit of greater returns, even though they invest in state funds (Kunzel et al., 2011).

In terms of governance, SWFs vary significantly. Some SWFs are fully managed by government ministries, while others, such as Singapore's Temasek Holdings, operate with more autonomy (Kunzel et al., 2011). In the Middle East, PIF is under the direct oversight of the government, reflecting the centralised nature of state capitalism in Saudi Arabia (Public Investment Fund, 2022). As one Academic explained, **"Saudi's governance structure is designed to align our investment strategy with the national interest. This alignment ensures that PIF actively contributes to Saudi Arabia's key national objectives. By doing so, they are able to play a critical role in the successful implementation of Vision 2030, helping drive economic diversification and sustainable growth in the Kingdom."** (Interviewee 17, Academic Sector).

It is crucial to recognise that SWFs cannot be categorised as a homogenous group due to variations in ownership and management structures. While national governments typically own the majority of SWFs, there are cases where local governments have ownership. Some SWFs operate semi-independently with government-appointed boards, while others are directly managed by the Ministry of Finance. Certain SWFs are managed by central banks, and a few are under the direct supervision of the head of state. Furthermore, there are SWFs established as private companies wholly owned by the government (Megginson et al., 2015).

4. Investment Strategies and Risk Profiles of SWFs

4.1 Strategic investment Approaches

SWFs typically adopt different investment strategies depending on their objectives and risk appetites. For example, Norway's Government Pension Fund-Global maintains a conservative portfolio, focused on long-term stability, with an emphasis on ethical investments. On the other hand, the Abu Dhabi Investment Authority (ADIA) and Saudi PIF pursue more aggressive strategies, investing in high-growth sectors such as technology, infrastructure, and real estate. These diversified portfolios allow states to exert greater control over their economic trajectories, aligning investments with national interests (Megginson et al., 2015).

The Saudi PIF, in particular, has adopted a proactive investment strategy under Vision 2030, focusing on technology and entertainment sectors to boost domestic industries. These high-risk, high-return investments align with the broader goals of Vision 2030, which seeks to transform Saudi Arabia into a global investment powerhouse. By pursuing high-risk, high-reward investments, PIF aligns its objectives with the broader goals of Vision 2030, demonstrating a commitment to economic diversification (Vision 2030 Kingdom of Saudi

Arabia, 2016). ***"PIF's investments are reshaping Saudi Arabia's position in global markets; it's not just about profits but about creating strategic footholds in sectors like technology and infrastructure,"*** noted a UK-based energy economist (Interviewee 12, Energy Sector).

In Global Production Networks (GPNs), these investments allow Saudi Arabia to assert itself as a key player in the value chains of technology and energy, areas crucial for long-term economic resilience. By embedding itself in these sectors, Saudi Arabia is enhancing its geopolitical influence while ensuring that its economy is less reliant on oil.

4.2 Domestic vs. International Investment Focus

SWFs also differ in terms of their investment strategies to inwards or outwards investment. For instance, Khazanah Nasional BHD in Malaysia concentrates on domestic markets to foster economic growth, whereas the China Investment Corporation emphasises foreign investments to diversify their portfolios and increase returns (Global SWF, 2023). The Saudi PIF combines both approaches, investing in domestic megaprojects like NEOM while also acquiring stakes in global companies such as Uber and Lucid Motors. This dual focus helps support Saudi Arabia's domestic economic growth and positions the Kingdom as a key player in global markets, fulfilling the goals of Vision 2030. This centralisation of control within state-owned entities is a hallmark of state capitalism, where the state plays a direct role in managing large swathes of the economy to ensure alignment with national objectives (Public Investment Fund, 2023).

4.3 Transparency, Accountability and Governance

Despite being a significant source of international capital, concerns have been raised by regulators and financial market authorities regarding the lack of transparency exhibited by SWFs, particularly those originating from China and the Middle East. One particular concern revolves around the possibility of mismanagement and corruption. When there is poor governance and a lack of transparency, there is a risk of funds being misused or invested in ventures that carry significant financial risks. Therefore, it is crucial to prioritise transparency, accountability, and strong governance structures in order to uphold public trust. While certain SWFs, such as those from Norway and Singapore, have demonstrated a commitment to complete disclosure, many of the largest SWFs across the globe refrain from providing crucial information pertaining to their investment objectives, annual accounts, asset size, and investment portfolios. Consequently, the motives behind their investments remain inadequately comprehended.

Another challenge associated with SWFs is their potential to disrupt local markets. In some instances, the large-scale investments made by SWFs can drive up asset prices, leading to an imbalance within the domestic market. This imbalance can result in social and economic inequalities, particularly if the benefits derived from these investments are not distributed equitably among the population (Megginson and Fotek, 2015).

5. Sovereign Wealth Funds in the GCC:

5.1 Role of SWFs in Oil-Dependent Economies

For countries in the Middle East such as Kuwait and Saudi Arabia the SWFs are primarily aimed at reducing the potential effects of oil price changes on domestic fiscal and monetary policies, as well as stabilising foreign exchange earnings. In recent years, there have been significant fluctuations in oil prices due to global economic conditions and political unrest. For example, in 2008, international oil prices dropped from $147 per barrel in July to below $40 per barrel by the end of the year, representing a 70% decrease. Similarly, in 2014, Brent oil prices fell from $115.06 per barrel in June to $57.33 per barrel by the end of the year, a decrease of 50.2% (Khan, 2017). These fluctuations highlight the importance of SWFs within the Gulf region's state capitalist systems, where the state utilises these funds to maintain macroeconomic stability and mitigate the potential risks of oil dependency.

Sovereign wealth funds in the Middle East have played a crucial role in mitigating the impact of these frequent oil price fluctuations, resulting in a significant increase in the size of sovereign wealth fund assets in the region. By the end of 2014, the total value of sovereign wealth fund assets in the Middle East had risen by almost 50% compared to the figures recorded at the end of 2010, reaching a total of $2.7 trillion. As a result, the GCC's investment funds now constitute more than fifty percent of global sovereign wealth fund assets (McKinsey Global Institute, 2007, p. 45). The capacity of these funds to absorb shocks reinforces their importance as tools of state capitalism, whereby the state intervenes in economic cycles to maintain political and economic stability. **"SWFs have given us the tools to manage economic crises without completely upending the system. They act as shock absorbers, allowing us to navigate through oil price volatility,"** commented one editor, formerly think tank (Interviewee 8, Research Sector). This ability to smoothen the effects of external shocks on domestic economies positions SWFs as essential to state capitalism in oil-rich nations.

5.2 SWFs as Economic Stabilisation Mechanisms

During periods of economic downturn, such as the 2008 financial crisis and oil price collapse, the Kuwait Investment Authority drew from its reserves to cover budget deficits without resorting to debt. Similarly, during the 2014 oil price crash, the UAE's Abu Dhabi Investment Authority used its SWF to maintain infrastructure investments and fund key social projects, ensuring fiscal stability. This ability to stabilise national economies without resorting to debt or austerity is a defining characteristic of state capitalism, where the state actively intervenes to smooth out economic cycles and protect long-term development goals. These funds function by reinvesting oil revenues during boom periods, allowing for capital reserves to be drawn upon in times of economic downturn, thus avoiding sudden austerity measures. This approach helps to avoid sudden austerity measures and maintain a stable flow of public investment (Meggenson and Fotak, 2015). **"Without SWFs, the Gulf States would have faced painful cuts in infrastructure spending during oil slumps. The funds allow these countries to maintain continuity and avoid disrupting long-term development plans,"** noted a partner in Private Equity in Dubai (Interviewee 1, UAE Finance Sector).

5.3 Economic Diversification and Development

One of the benefits of Sovereign Wealth Funds (SWFs) is their potential to drive economic development. Through investments in infrastructure, education, and healthcare, these funds can spur economic growth and enhance social welfare. SWFs also play a role in creating domestic employment opportunities by investing in key industries and supporting entrepreneurship. Furthermore, SWFs can attract foreign direct investment (FDI) and promote international collaborations. Nations with well-managed and transparent SWFs are more likely to appeal to global investors who view these funds as trustworthy partners. This influx of FDI can boost local economies, strengthen business ties, and facilitate the transfer of knowledge. The influx of FDI is crucial for integrating Gulf states into global production networks, positioning their economies as key nodes within global trade flows. Additionally, SWFs serve as countercyclical stabilisation tools during economic downturns. These funds can be utilised to bolster domestic industries, stabilise financial markets, and aid in the recovery process (Global SWF, 2023).

Moreover, SWFs can act as tools for economic diplomacy by attracting foreign investments and fostering economic collaboration. However, the size and influence of SWFs can raise concerns among international stakeholders regarding their intentions and potential impact on global markets and society. Therefore, it is crucial to prioritise transparency, accountability, and adherence to globally recognised standards to address these concerns and maintain trust. For example, the recent United States Senate hearing on the Saudi PIF highlights concerns about the fund's potential influence on the US Professional Golfers' Association (PGA). This case demonstrates US policymakers' worries about the implications of Saudi financial resources on a US sports organisation, particularly considering concerns over Saudi Arabia's human rights record. Apart from US concerns, the SWF Institute of Norway is targeting multinational corporations like ExxonMobil, Chevron, and BP for their environmental practices and failure to comply with the Paris Agreement, which aims to protect the environment and reduce pollution (Megginsom and Fotek, 2015). The Norwegian Fund has opted to reduce its investments in the oil sector and is now demanding multinational companies seeking funding to comply with the guidelines outlined in the Paris Accord. These guidelines encompass endeavours to minimise their ecological footprint and shift towards a sustainable future that prioritises the welfare of future generations (Global SWF, 2015).

5.4 SWFs as tools for maintaining political stability in rentier states

Gulf monarchies are considered quintessential rentier states due to their heavy dependence on hydrocarbons in their economies. Rentier state theory explains the political and economic consequences that arise in countries relying primarily on external income, such as rents, rather than taxes or revenue generated from economic activities (Beblawi and Luciani, 2015; Delacroix, 1980; Mahdavy, 1970). In this hierarchical structure, the state holds a position of power and influence over the economy. It allocates resources through a 'rentier bargain', in which the ruling elites offer advantages, such as tangible benefits and exclusive access to key decision-making groups, to specific social alliances (Gengler et al., 2021). The stability of a regime relies heavily on the combination of legitimacy and co-optation. The economic success of the regime and its ability to fulfil the unspoken agreements of a rentier system are key factors in determining its legitimacy among the population. Therefore, Gerschewski (2015) argues that the regime's stability is closely linked to how it is perceived as legitimate and its effectiveness in co-opting different groups within society.

The theories of welfare politics in countries with abundant resources, propose that the ruling elites prioritise maintaining their power. With this objective in mind, economic policies and resource allocation are shaped by the incumbents' evaluation of potential threats to their control (Eibl and Hertog, 2023). Furthermore, the presence of lock-in effects has been shown to result in enduring features in allocative systems (Hertog, 2011). Therefore, this implies that changes in SWF behaviour are motivated by the perceived risks that elites view as a substantial and long-lasting danger to the regime's existence. However, the method by which governing elites employ SWFs to address these threats depends on the options available to them, which existing rentier institutions influence.

Karl (1997) states that to maintain stability, leaders must address challenges stemming from the international environment, which includes both constraining and enabling factors. Economic crises, in particular, pose significant threats to the survival of regimes, irrespective of their specific type, due to limited resources. The chronic fiscal challenges faced by rentier states are likely to worsen current tensions managed through allocation mechanisms.

Countries with abundant resources have shown resilience in the face of economic fluctuations, indicating that the stability of governments is closely tied to the maintenance of political institutions and alliances that go beyond just oil revenues. During times of crisis, leaders of resource-rich nations often turn to foreign investments as a safe haven for their funds to keep their ruling coalition intact (Kendall-Taylor, 2011). The SWFs such as PIF which are taking a proactive investment strategy with greater risk tolerance, rather than just being a place to store savings for the long term, demonstrate a government's acknowledgement of the need to address generate higher returns outside of their current resources. This suggests that they have a longer timeline as short term losses could be offset over a long time period (Kendall-Taylor, 2011).

The consideration of economic diversification plays a significant role in the selection of SWFs in resource-rich nations. However, the increasing use of proactive SWF tactics is also seen as a response by rentier states to the threat of declining income from foreign sources and the challenge of maintaining a rentier governing agreement internally. This section takes a dynamic approach to regime durability, moving away from a fixed perspective and focusing on the various measures and tactics used by those in power to adjust and preserve control systems in the long run (Gerschewski, 2015). This perspective suggests that SWFs can serve as sophisticated instruments for rentier states to adapt to challenges from their geopolitical environment, while still upholding the core principles of regime stability that underpin allocation structures.

In the emerging paradigm, the pervasive role of SWFs in Gulf states represents a novel state-managed approach to address the challenges of climate adaptation in an increasingly financialised global economy, while also perpetuating fundamental rentier mechanisms characterised by the predominant role of the state and entrenched distributive obligations. SWFs inherently exhibit rentier traits. A commodity-based SWF, in its most basic form, transforms revenue from a finite natural resource into centralised financial assets controlled by the state, thereby enabling authorities to enhance supervision over economic progress. Consequently, ruling elites can utilise rent-like earnings to fund state-led industrial modernisation, localise technologies, establish or sustain strategic international alliances, or cater to networks of privilege that permeate state-society interactions. Although the nature of rent and its circulation have evolved, the foundational framework of the rentier state remains intact.

5.5 GCC sovereign wealth fund's role in driving economic growth and political resources

The economic reform agenda that has been implemented in the GCC states has been driven by various factors, such as the decline in oil prices, rapid population growth, and the increasing costs of providing state services and subsidies. However, these reforms have resulted in some unforeseen consequences. One of the key areas where these changes in state-society relations can be observed is in the realm of SWFs. Over time, these funds have evolved and are now playing a transformative role in national development strategies. While their primary purpose was to safeguard wealth, some SWFs have started adopting more experimental and high-risk investment strategies. These strategies aim to diversify national economies and generate high returns, thereby reducing dependency on oil. The current phase of late rentierism, characterised by the reliance on oil revenues, raises important questions about ownership and the role of the state as the guardian or steward of society's wealth. By examining the role of SWFs in state-society relations and rentierism across the Gulf region, this essay focuses explicitly on the case of Saudi Arabia.

Currently, SWFs are closely linked to the personal visions of leadership and economic development. They embody a shared understanding of how future growth should be pursued, but their decision-making process combines elements of corporate investment banking with the preferences of specific leaders. In some ways, SWFs lack the collective involvement of the public in decision-making, which is more common in traditional political institutions. For example, in countries like Saudi Arabia, the SWF can become highly personalised and closely aligned with the individual vision and priorities of a new generation of leaders.

6. The Saudi Public Investment Fund: A detailed Examination

6.1 Historical Background of the PIF

This section delves into the Saudi case and its SWF, the PIF, to analyse recent changes in allocation and its impact on national development. It also compares these developments to other GCC states and their respective funds, offering a comparative study on the role of SWFs in driving economic growth and managing shared wealth. The PIF serves as a unique case within state capitalism, where the state's control over capital is a key mechanism for economic diversification and long-term wealth preservation. While it is too early to draw definitive conclusions on the Saudi case's divergence or its implications for state-society relations, potential areas of tension can be identified. This analysis sheds light on the state's obligations to citizens in terms of wealth creation and a more centralised, personalised approach to economic development planning.

From 2015 to 2022, the PIF experienced a near fourfold growth in assets under management, escalating from $150 billion to $580 billion, positioning it as the world's sixth largest of its kind. Beyond its engagements in the international financial milieu, the SWF has instituted in excess of 30 entities across a diverse array of 10 sectors, including military industries, energy and utilities, real estate, and tourism (Public Investment Fund, 2023). Scheck, Jones, and Said (2019) state that the PIF is emblematic of pioneering infrastructural ventures, prominently featuring as the nexus for the ambitious $500 billion NEOM urban development and the Sudair Solar initiative, which is distinguished as one of the world's pre-eminent solar installations by capacity. The launch of Vision 2030 in 2016 marked a significant turning point for the fund, positioning it as the one of the primary vehicles for driving Saudi Arabia’s economic transformation. **"The PIF’s transformation from a passive state-owned entity to an active global investor is a testament to the broader ambitions of Vision 2030. This shift reflects Saudi Arabia's commitment to diversifying its economy and reducing its reliance on oil revenues. By actively investing in a wide range of sectors both domestically and internationally, the PIF is positioned to drive economic growth, foster innovation, and strengthen the Kingdom's presence on the global stage."** noted a Saudi based academic (Interviewee 7, Saudi Academic). The fund's proactive strategy has been crucial for Saudi Arabia's ambition to diversify its economy and reduce its reliance on oil revenues.

In comparison to other GCC SWFs, Saudi Arabia's delayed entry into the development fund arena—establishing its fund in 2015, a decade after its regional counterparts—reflects its distinct state capitalist strategy. Unlike the earlier oil boom phase in the 2000s, when Gulf SWFs were traditionally established, Saudi Arabia set up the PIF during a period of declining oil prices. This deviation from the typical trajectory highlights the influence of internal political dynamics, particularly the centralisation of power under MBS, which has reshaped Saudi Arabia's approach to sovereign wealth management.

Some sovereign wealth funds focus on investing domestically, while most in the Gulf region are used to expand wealth abroad. However, there is a growing trend of using these funds to exert influence on foreign policy (Baldwin, 2020). His practice, known as economic statecraft, is not limited to the Gulf states. However, the intensity with which they are used for political purposes, often in competition with each other, is a common trend in the region.

Saudi Arabia presents a compelling opportunity to expand upon the conceptual framework discussed earlier. Despite being a prime example of a country abundant in resources, the kingdom demonstrates patterns in SWF behaviour that challenge the conventional understanding of commodity-based SWFs. Theories based on diffusion suggest that countries with significant resources tend to establish comparable types of sovereign funds when influenced by similar external factors, such as peer group imitation (Chwieroth, 2014). The majority of development-focused sovereign funds in the GCC were established in the early

2000s, a time of great prosperity that aligned with the oil boom from 2003 to 2013. While it would have been expected for Saudi Arabia to follow suit and create a sovereign development fund during this period, it deviated from its peer group. Instead, Saudi Arabia established its own fund in 2015, nearly ten years after other Gulf monarchies. This decision came at a time when the global economy was undergoing a substantial and prolonged decline in oil prices, presenting a starkly different landscape for Saudi Arabia to navigate.

6.2 Political Influences on Sovereign Wealth Management via the Public Investment Fund in Saudi Arabia

Since 2015, Saudi Arabia's PIF has transitioned from a peripheral role to the kingdom's pre-eminent economic flows. However, the complex dynamics propelling the PIF's overhaul remain somewhat elusive. Amid challenging economic landscapes, it's posited that the reshaping of the PIF's framework and trajectory is intrinsically linked to the intensifying centralisation of authority within Saudi royal circles, especially since Mohammed bin Salman's (MBS) emergence. The governance model of the fund and its cadre of decision-makers distinctly echoes the overarching influence of MBS. Consequently, the PIF's domestic engagements evolved from multifaceted investment strategies, swayed by various senior leaders, to a singular, robust, MBS-oriented blueprint. Notably, the PIF's manoeuvre during the COVID-19 crisis underscores a shift from a traditionally circumspect approach to a more responsive and immediate sovereign wealth stance.

Venturing beyond overarching economic and institutional paradigms, this examination underscores the pivotal role of political figures in directing Sovereign Wealth Fund (SWF) choices. By spotlighting the power interplays within the aristocracy, the analysis enriches prevailing understandings of the domestic impulses guiding SWFs. It thereby offers renewed insights into the nuanced interrelation between nation-states and financial realms amidst surging financialisation.

On 23 April 2020, a digital gathering under the banner of the Future Investment Initiative (FII), facilitated by Saudi Arabia's PIF, convened a panel of international investment connoisseurs. Their dialogue centred on the intricacies of governance, macroeconomic factors, and technological ramifications in the wake of the COVID-19 pandemic. Throughout the symposium, Yasir Othman Al-Rumayyan, the PIF's governor, illuminated the SWF's strategy to the virtual attendees, emphasising, 'One shouldn't squander a crisis... Thus, we are unequivocally exploring all potential avenues' (England & Massoudi, 2020). Subsequently, the PIF undertook equity positions in a series of corporations throughout the first quarter (Q1) of 2020. This strategic acquisition augmented the PIF's holdings in US-listed assets, elevating their value from $2.2 billion to an impressive $10.1 billion. Nevertheless, coinciding with a market resurgence in the second quarter (Q2), the PIF systematically divested from the majority of its stakes in US-listed firms acquired during the preceding quarter hereby taking a short term, opportunistic approach (SEC, 2020a; SEC, 2020b). **"The PIF’s response to COVID-19 marked a distinct shift towards a more aggressive and speculative investment strategy, signalling the fund’s growing role in navigating global economic fluctuations,"** commented a UK-based economist (Interviewee 12, UK Energy Sector). This shift underscores the PIF’s increasing role as a dynamic, state-controlled investment vehicle, capable of responding to both domestic and international market conditions.

This period coincided with the economic reverberations of COVID-19, the Saudi SWF deviated from its articulated strategy of adopting a low-risk, long-term investment perspective.

Instead, it pursued opportunistic acquisitions of undervalued equities in mature markets, aiming for rapid returns. This speculative endeavour by the PIF during the pandemic's onset aligns with a wider strategic recalibration of the fund's operations commencing from 2015 (Clark et al., 2020), (Public Investment Fund, 2021).

6.3 The Post 2015 Transformation of the PIF

In 2015, the leadership of Saudi Arabia initiated a process to enhance the powers of the PIF. This strategic move was marked by a significant development on March 23, 2015, when the Council of Ministers promulgated Resolution No. 270. This resolution was pivotal in transitioning the supervisory control of the PIF away from the Ministry of Finance, which was traditionally recognised for its confidential and isolated operations under MBS control (Hertog, 2011). This transition entailed the establishment of the PIF as an autonomous investment entity, legally holding ownership of its managed assets. Concurrently, the sovereign wealth fund's board underwent a reconstitution, with a new chairman at the helm.

The PIF underwent a significant restructuring, evolving from a manager model to an investment company model. Originally, under the "manager model," the PIF primarily managed state assets in a more passive, conservative way, similar to traditional public financial management. However, transitioning to an "investment company model" means the PIF began actively engaging in diverse investment activities, seeking growth and returns across various sectors, both domestically and internationally (Public Investment Fund, 2021). This new model reflects a more dynamic, profit-driven approach, akin to that of a global investment firm, aiming to boost economic diversification in Saudi Arabia.

Prior to 2015, the activities of the PIF were predominantly focused on supporting SOEs, a scenario influenced by the competing interests of various senior princes, leading to a scattered investment approach (Megginson and Fotak, 2015). However, with the reformation of the PIF's institutional structure, its mission towards domestic investment transitioned to becoming a pivotal force in economic development and a facilitator for the private sector (Public Investment Fund, 2021). This evolution is reflected in the PIF's recent domestic initiatives, which mark a significant shift in its investment strategy, aligning with the centralisation of royal power. The sovereign wealth fund has emerged as a key driver of economic growth within the Kingdom, propelled by the strategic objectives of Vision 2030. The leadership now leverages the PIF as a tool for achieving comprehensive growth and structural changes integral to a broader nation-building agenda. This approach includes explicit socioeconomic objectives implemented through focused interventions in targeted sectors such as tourism, technology, infrastructure and extensive state involvement in the Kingdom's economic landscape. Alongside the domestic investments, the PIF has generates returns from its global investments, and targets sectors that can generate long-term economic returns and job creation within Saudi Arabia.

The sovereign wealth fund has become the preeminent investor on the Tadawul, Saudi Arabia's stock exchange. In this role, the PIF continues to reinforce the state's influence over the trajectory of economic development (Montambault Trudelle, 2023). This influence is exerted through the control of key financial institutions and traditional sectors vital to growth, such as building materials, petrochemicals, and mining. A notable example of this influence is the PIF's position as the principal shareholder in major Saudi banks, including the Saudi National Bank, Riyad Bank, and Alinma Bank (Public Investment Fund, 2021). Collectively, these banks command a significant portion of the market, holding approximately 48% of market shares. By controlling major financial institutions and industrial companies, the PIF not only strengthens the state's control over key industries but also stabilises the economy against external shocks, all while supporting private conglomerates closely tied to the ruling family. This arrangement fosters strong state-business relationships, ensuring mutual benefits.

Another example is the cement sector, the sovereign wealth fund holds a majority of the shares in several key companies: Southern Province Cement Company, Qassim Cement, Yanbu Cement, and Eastern Cement, cumulatively accounting for 37% of market shares. This data was reported by Aljazira Capital in 2020 (Aljazira Capital, 2020). In the mining industry, the PIF is the largest shareholder of Ma'aden, a world-leading mining company, with a stake of 67.18% in its outstanding shares. The PIF's investment in these domestic industries serves to shield the national economy from market volatility while simultaneously favouring specific business entities. There is a notable interconnection between these PIF-targeted firms and privately-owned conglomerates controlled by prominent business families. These families, including the Al Rajhi, Alissa, Alireza, Al Zamil, Al Muhaidib, and Juffali Groups, have historically maintained close ties with the Al Saud ruling family, which has fostered mutually beneficial relationships.

To complement its substantial domestic investments, the leadership of Saudi Arabia is focused on elevating the PIF to the status of a global investment flow. This strategic objective involves a commitment to allocate 25% of the PIF's assets to international portfolios. These international investments are planned to be divided between two key areas: the International Diversified Pool and the International Strategic Investment Pool. This approach signifies a balanced strategy aimed at both diversification and strategic international investments (Public Investment Fund, 2017).

Examples of International Strategic Investments, include high-profile stakes in companies such as Uber, Lucid Motors, and SoftBank’s Vision Fund, solidifying its role as a global economic player. This overhaul aligns with Saudi Arabia’s broader goal of creating diversified global flows, transforming its economy and securing sustainable long-term growth.

The extension of the PIF's investment capabilities to international markets represents a substantial shift in the country's financial landscape, reflecting a broader strategic vision for diversifying the nation's economic interests and financial assets on a global scale (Seznec & Mosis, 2019). In the period following 2015, PIF underwent a significant transformation, consolidating the nation's foreign investment endeavours (Montambault Trudelle, 2023). This strategic reorganisation positioned the PIF as the exclusive entity responsible for conducting foreign investments on behalf of the Kingdom. Roll (2019) argues that this move aimed to streamline and optimise the management and deployment of the Kingdom's international financial assets. The centralisation of sovereign wealth management within the PIF serves a dual purpose. Firstly, it enables the circumvention of the autonomously governed technocratic body of SAMA. Secondly, it consolidates various fragmented investment entities under a unified, overarching fund. This fund is closely managed by a select cadre of high-level insiders who maintain close ties with MBS. This strategic alignment facilitates more streamlined and cohesive investment strategies at a national level.

Recent international comparative studies reveal that Saudi Arabia prominently engages in sovereign investments, aligning with nations such as Qatar, Kuwait, Russia, China, and Norway. Notably, a substantial proportion (80.4%) of Saudi foreign investments are directed towards acquiring majority stakes (specifically, 50.01% ownership), reflecting a strategy focused on securing controlling interests (Babic et al., 2020). Additionally, the PIF’s recent endeavours show a predilection for investments in sectors with high risk and visibility, particularly in technology and transportation.

A prime example of PIF's strategic investments includes a significant $45 billion allocation to the SoftBank Vision Fund, representing 45% of the fund's outstanding shares. This fund is recognised as the world's largest venture capital fund with a focus on technological advancements. Moreover, in 2018, the PIF acquired a 4.9% stake in Tesla, only to divest these shares in 2020. The proceeds were then reinvested into acquiring a majority stake in Lucid Motors, a Silicon Valley-based company, with an investment of $1.3 billion. This move underscores the PIF's ongoing commitment to high-value, transformative investments in cutting-edge sectors (Li, 2020). The PIF holds a significant 5.3% stake in Uber Technologies, valued at around $2.3 billion. Additionally, the PIF has diversified its investment portfolio by forging partnerships in various sectors, including entertainment, hospitality, and travel. This diversification is evidenced by its acquisition of a substantial stake, amounting to $500 million or 5.73%, in Live Nation Entertainment, a prominent event promotion company. Furthermore, the PIF has invested in the cruise industry by purchasing an 8.24% share of Carnival Corporation, valued at $369.3 million. These investments reflect the PIF's strategic approach to expanding its influence and presence across a diverse range of industries (Reuters, 2020).

While the PIF has achieved notable success in forming multiple international investment partnerships, there appears to be an increasing divergence between the objectives of the Saudi Arabian government and the motivations driving the global investment community. According to Mogielnicki (2019), this disconnect highlights differing priorities and expectations between Saudi Arabia's strategic investment goals and the broader interests that guide international investors. The influx of FDI into Saudi Arabia has experienced a notable fluctuation over the years. There was a substantial decrease from $39.5 billion in 2008 to a mere $1.4 billion in 2017, followed by a modest recovery to $4.6 billion in 2019. Roll emphasises that the pivotal determinant for FDI inflows is less about the investment strategy of the SWF and more about the overall investment environment within Saudi Arabia. This perspective suggests that factors beyond the direct control of the SWF significantly influence the attractiveness of Saudi Arabia as an investment destination (Roll, 2019). In contrast, the investment strategy of the PIF during the economic downturn caused by the 2020 coronavirus pandemic highlights a strategic pivot. In response to the economic repercussions of COVID-19, the PIF proactively engaged in acquiring undervalued stocks in developed markets, aiming for short term financial returns (Public Investment Fund, 2021). This approach signifies a more commanding and individualised approach to sovereign wealth management by the Saudi ruling elite. It reflects a shift towards a speculative and short-term focus on returns, diverging from the PIF’s declared objective of accumulating wealth for future generations, which inherently requires a medium to long-term investment horizon. This change in strategy indicates a re-evaluation of investment priorities in light of global economic challenges.

7. Prosperity Amidst Constraints: The Growth of the PIF and Global Influences

The current analysis underscores the correlation between the restructuring of the PIF and the evolution of regime structures and intra-elite dynamics in Saudi Arabia. This transformation is marked by a centralisation of political and economic authority within the Saudi ruling family, particularly since the ascent of MBS. This prompts an inquiry into whether the changes in institutional architecture and investment strategies can be predominantly attributed to internal regime dynamics. Additionally, the role of international factors in influencing these shifts warrants examination. The growth of development funds in commodity-exporting nations, such as the PIF, is primarily influenced by macroeconomic factors. This includes the emphasis on maintaining a stable fiscal budget or current account surpluses, particularly following a resource boom, coupled with the challenges associated with economic diversification (Montambault Trudelle, 2023). Although the expansion of the PIF aligns with Saudi Arabia's need for enhanced economic diversification, a preliminary examination of macroeconomic trends reveals that the SWF's restructuring occurred during a period of scarcity. In line with theories of state capitalism, this demonstrates how the state utilises SWFs like the PIF to centralise economic control, using its investments to reinforce political stability while adapting to changing global financial dynamics. This period was characterised by declining oil prices, escalating public debt, persistent budget deficits, and increasing demographic challenges.

In 2014, a significant shift occurred in the oil market, leading to a steep decline in Brent crude prices. This downturn saw prices fall from $98.97 per barrel in 2014 to $41.96 per barrel by 2020 (U.S. Energy Information Administration, 2021). The reduction in oil prices had a direct and significant impact on the revenues of Saudi Arabia, a state heavily reliant on oil. Between 2013 and 2016, these revenues diminished by half, eventually stabilising at 72% of their pre-oil shock level by 2020. While revenue experienced a sharp decline, the reduction in government spending was comparatively gradual. This imbalance has led to persistent fiscal deficits for the Saudi government since 2014. Concurrently, public debt witnessed a dramatic increase, surging by 221% in 2015 and 123% in 2016, with continued growth ranging between 40% and 21% up until 2019 (World Bank, 2016). This aligns with Global Production Networks (GPNs) theory, which explains how states like Saudi Arabia leverage control over financial networks to manage risks and sustain influence in international markets, despite domestic economic volatility

The connection between rising public debt and a sovereign wealth fund (SWF) based on oil profits highlights the tension between stabilising finances during oil price volatility and managing long-term fiscal challenges. For Saudi Arabia, the significant drop in oil revenues since 2013 exacerbated its fiscal deficits, prompting the government to increase borrowing to fund its expenditures. Public debt surged dramatically during this period, while the returns from the Public Investment Fund (PIF) became increasingly vital to offset fiscal imbalances. However, as the Kingdom's debt servicing costs rise, questions arise about whether PIF's returns can sufficiently counterbalance these debts.

Saudi Arabia's debt servicing costs reached $6 billion by 2020, and though the PIF has recorded impressive returns from global investments, these returns may not fully alleviate the growing fiscal pressure. The interplay between leveraging PIF's investments and managing increasing public debt highlights a critical challenge for the Kingdom's broader economic strategy under Vision 2030. Balancing these two financial streams will be essential to sustaining fiscal stability in a post-oil future. From a state capitalism perspective, the PIF operates as an extension of the state's broader economic apparatus, where its international investments serve not just to generate returns but also to maintain the state's control over strategic assets within global markets.

A recent demographic survey from Saudi Arabia, conducted in 2016, revealed that out of 20.1 million Saudi nationals, 49% were under 25 years of age, and 30% were under 15 and in terms of population size, in 2016, Saudi Arabia had a population that was more than eight times larger than any other Gulf country (Kingdom of Saudi Arabia, 2016). This demographic factor, combined with economic conditions, resulted in the sovereign wealth available per citizen in 2017 being markedly lower in Saudi Arabia compared to its Gulf neighbours: $422 in Kuwait, $1,043 in Qatar, and $1,085 in the UAE, compared to just $42 per Saudi citizen. This situation, alongside the increasing number of Saudis entering the labour market and the ongoing decline in resource revenues, poses significant challenges to the sustainability of the Saudi distributive state. This state has historically relied on large-scale public employment, social transfers, and heavily subsidised public utilities.

In 2015, the Saudi government faced a challenging fiscal scenario where its expenditures on salaries and allowances surpassed its total oil income (PIF, 2023). This situation highlights a stark contrast between the country's strained fiscal health and the substantial growth of the PIF since that year. The fiscal difficulties of the Kingdom also have a direct impact on the PIF's funding, which heavily relies on oil revenues. Typically, sovereign development funds like the PIF raise capital through bond issuance to finance their investment activities. However, in the face of declining resource revenues, the PIF has displayed a growing inclination towards private debt. This shift is evident from its decision to secure substantial loans from international banks, including an $11 billion loan in 2018 and a $10 billion loan in 2019 (Al Arabiya, 2021). Furthermore, according to Arab News (2021), in March 2021, the PIF secured a significant multicurrency revolving credit facility from a consortium of international banks. Opting for private loans enables the fund to circumvent the transparency and regulatory requirements associated with bond issuance. As a senior economist stated, **" By turning to private loans, the PIF is demonstrating a new level of financial flexibility, allowing it to diversify its funding sources and accelerate investment initiatives. However, this shift also introduces certain risks, particularly regarding transparency and the**

potential impact on long-term financial stability. Balancing the need for flexible financing with maintaining accountability and sustainable growth will be crucial for the PIF as it continues to expand its global investment portfolio." noted a senior financial analyst in London (Interviewee 6, UK Finance Sector). This strategy, while offering more flexibility, also indicates a move towards a more short-term perspective in sovereign wealth management, diverging from traditional approaches.

A common belief is that countries with geographical and cultural proximity, similar export profiles, and exposure to similar external pressures will develop Sovereign Wealth Funds with comparable types and behaviours. This similarity may result from processes of cross-national emulation or shared macroeconomic characteristics. Aligning with this hypothesis, Saudi Arabia, Bahrain, and Abu Dhabi have all established SWFs with a developmental mandate in response to challenges such as industrial upgrading and economic diversification. However, there are notable differences in the timing of these developments. Abu Dhabi and Bahrain initiated their sovereign development funds during the early 2000s oil boom. In contrast, Saudi Arabia established its development-focused SWF in 2015, a period paradoxically marked by a sharp decline in state revenues and significant fiscal deficits. This divergent timing contradicts the assumption of a uniform development trajectory for SWFs in countries with similar characteristics and external pressures.

The SWF of Saudi Arabia differs not only in its context of establishment but also in its strategic orientation. This is evident when comparing the speculative approach of Saudi Arabia's PIF with the more cautious response of Mubadala, Abu Dhabi's state investment vehicle, to the COVID-19 pandemic. Mubadala is known for being a reliable, multi-year investor and is recognised for its professionalism in state investment management. It has a reputation for participating in self-assessment and transparency initiatives in the field of sovereign wealth management (Global SWF, 2022). This brings up the question of whether differences in regime dynamics can explain the variation between these two Gulf SWFs. Despite sharing many macroeconomic similarities, such as reliance on oil revenues and vulnerability to external factors like commodity cycles, the United Arab Emirates (UAE), and particularly Abu Dhabi, have a more diversified economy. Abu Dhabi possesses the majority of the UAE's oil wealth. Furthermore, the demographic contrast is stark, with the total number of UAE nationals being significantly lower than that of Saudi nationals. Given this context, if SWFs are indeed driven by macro-level indicators, Mubadala is in a more advantageous position to pursue a more aggressive and riskier investment policy. This is due to its higher sovereign wealth per capita, and a stronger macroeconomic standing compared to Saudi Arabia, which is characterised by a lower level of economic rent per capita. From a GPN perspective, this divergence in investment approaches highlights how different states interact with global financial networks, using SWFs to either consolidate domestic advantages or aggressively expand international influence

Understanding the development of SWFs in Saudi Arabia goes beyond macro-level trends, as the political and religious dimension plays a crucial role. The article emphasises the connection between the reconfiguration of the PIF and the concentration of royal authority and power politics within the family following King Salman's accession and the rise of MBS. The PIF's institutional design and investment strategies underwent a significant shift after 2015, driven by a personalised and highly interventionist approach led by a closely connected group of regime insiders centred around the crown prince. This approach moved away from previously scattered and uncoordinated investment patterns influenced by conflicts between government agencies and competing senior decision-makers. The relationship between PIF selections, elite political dynamics, and reorganisation within the Saudi government after MBS came to power shows that, despite attempts to remove politics from SWF planning and usage, the personal ambitions of political figures and their connections still have a significant impact on decisions about sovereign wealth management. This aligns with the historical pattern in the Kingdom's government since the 1950s, where institutional initiatives often become symbols of authority in power struggles among the elite, rather than solely focusing on modernisation or state reform. The PIF is a clear example of how conflicting interests and alliances between senior royals and technocrats can shape the direction of the Saudi state during crucial moments in history.

The findings in this chapter have broader implications for research on factors that influence sovereign investments in the field of International Political Economy (IPE).

The chapter provides a comprehensive analysis of Sovereign Wealth Funds (SWFs) as pivotal instruments in modern state capitalism, particularly in resource-rich nations like those in the GCC. SWFs have become essential economic tools for managing the volatility of revenue streams, especially in oil-dependent economies. By directing surplus revenues into diversified investments, SWFs help reduce reliance on a single commodity, thus insulating these nations from external shocks such as fluctuating oil prices. Their role extends beyond economic stabilisation, positioning them as key agents for securing long-term financial stability and fostering sustainable growth. In this sense, SWFs serve not just as savings mechanisms for future generations but as catalysts for broader economic transformation, particularly in countries seeking to transition away from resource dependency.

The geopolitical dimension of SWFs is another critical theme explored in the chapter. SWFs have evolved from being purely economic tools to becoming powerful instruments of geopolitical influence. Countries with large SWFs, particularly in the Middle East and Asia, have used these funds to acquire strategic assets abroad, gaining leverage in international economic and political arenas. This has led to growing concerns among recipient countries about the potential political motives behind SWF investments. In some cases, SWFs have been perceived as vehicles for state-driven economic diplomacy, where financial investments are used to strengthen bilateral relations or pursue broader geopolitical objectives. For instance, Saudi Arabia’s PIF has been involved in high-profile investments in global sectors like technology and infrastructure, which align with the Kingdom’s broader geopolitical ambitions under Vision 2030.

Despite their benefits, the chapter also highlights several challenges associated with SWFs, particularly issues of transparency, accountability, and governance. While some SWFs, like Norway’s, are models of transparency, others—particularly those in the Middle East—operate with limited disclosure, raising concerns about their investment goals and political motivations. In some cases, the lack of transparency has led to concerns about mismanagement, corruption, or the potential misuse of funds for political purposes. Additionally, the sheer scale of SWF investments can sometimes distort local markets, driving up asset prices and creating economic imbalances within recipient countries. These concerns underscore the importance of robust governance structures and international regulations to ensure that SWFs contribute positively to the global economy without compromising local economic stability or political sovereignty.

The chapter ultimately underscores the multifaceted role of SWFs in the global economy, noting their growing influence not only as sources of capital but also as instruments of state power. In the context of the GCC, SWFs have become central to national development strategies, acting as tools for both economic diversification and political leverage. This dual role of SWFs—balancing economic goals with political objectives—reflects their complex nature as financial entities deeply embedded in the political economy of their respective nations.

The case of Saudi Arabia's PIF, in particular, illustrates how SWFs can be used to drive ambitious national projects, while also highlighting the risks and challenges associated with such a centralisation of economic power within the state. The chapter's findings suggest that as SWFs continue to grow in size and influence, their role in both national and global governance will become increasingly critical, requiring greater attention to issues of transparency, accountability, and international cooperation.

While the growing significance of SWFs as providers of long-term capital is acknowledged, others argue that SWFs also serve as reservoirs of much-needed patient capital in addressing urgent issues like climate change, global health, and deteriorating infrastructure (Ivashina and Lerner, 2019). However, it is important to note that this portrayal of SWFs as exclusively risk-averse and long-term capital providers, irrespective of their mandates and political environments, is overly generalised. The research findings demonstrate that investment patterns can be influenced by the desire to strengthen national champions or achieve political and strategic objectives. This can involve acquiring controlling stakes in targeted companies or engaging in speculative and short-term market activities. In response to a shift in the political power dynamics, the Saudi leadership deliberately and openly utilised the SWF at both local and global levels to legitimise and sustain existing structures of political authority rather than solely pursuing profit maximisation over the long term. Decisions concerning SWFs are not made in a politically neutral vacuum but rather are intricately intertwined with specific social, economic, and political contexts.

This examination explores key theoretical and empirical issues in IPE, focusing on the expanding role of SWFs like the PIF in global finance. The rise of SWFs challenges traditional state-market distinctions, highlighting the increasing influence of states in financial markets. By considering the political motivations behind SWFs and their impact on global finance, we can better understand the strategic objectives of state investment funds. While quantitative analyses are valuable, qualitative research is essential to uncover the political drivers behind the growth of transnational state capital. With SWFs emerging in countries worldwide, understanding the relationship between domestic politics and sovereign wealth management is crucial for navigating the opportunities and challenges presented by state financial institutions. The growing interest in SWFs underscores the need for further exploration into their design and utilisation by scholars and practitioners.

Chapter 7: The Ambition of Global Cities.

1. Introduction

This chapter examines the ambitious development of Saudi Arabia's new cities as part of a broader strategy to position itself within the global economic order. In particular, it explores how these cities serve as a case study in understanding the intersection of urban planning, economic diversification, and global flows of capital, labour, and innovation. The literature on global cities, state capitalism (SC), and global production networks (GPN) provides crucial insights into how states, particularly in oil-dependent economies, use urban development as a mechanism for positioning themselves within the competitive landscape of global flows. This is particularly important in the context of Saudi Arabia, where cities such as King Abdullah Economic City (KAEC) represent more than mere urban expansion—they are integral to the Kingdom's strategy for a post-oil economy. Understanding these projects through the lenses of SC, GPN, and urban governance not only enriches our theoretical knowledge but also offers a framework that can be applied in future studies of emerging economies globally.

According to Moser (2012), in the oil-rich states of the Arabian Peninsula and much of the Muslim world, there was a growing trend of constructing lavish planned cities from scratch. With abundant petrodollars, many Arab states could afford massive investment projects and had government structures that facilitated urban mega-developments. Building new planned cities was a strategy employed by states to stimulate economic development (Keeton, 2011). Vale (2014) stated that building new planned cities serves multiple purposes: stimulating economic growth, instilling national pride, projecting a modern image internationally, and communicating a particular ideological vision. As one Saudi economist noted during my interview:

"KAEC, for instance, is a statement of intent—an effort by the Kingdom to show that it can lead not just in energy but in finance and global trade."

According to Al-Ankary and El-Bushra (1989), in the Kingdom of Saudi Arabia (KSA), the ruling elite had long viewed the construction of new cities as essential for the country's survival. During the formation of the political system after World War II, the king recognised the challenge of building lasting political structures based on nomadism and shifting allegiances. This was reflected in the rapid urbanisation of post-war Saudi Arabia; in 1950, only 10 % of the population lived in cities, but by 1985, this figure had risen to 75 % (Al-Ankary and El-Bushra, 1989). Meanwhile, oil and gas consumption in Saudi Arabia continued to skyrocket, with studies estimating that the country could become an oil importer as early as 2030. Al- Rasheed (2010), stated that beyond economic growth and job creation, the construction of new cities in Saudi Arabia, particularly after the Arab Spring, was seen as a strategy to prevent political and social dissent among a population eager for change.

2. Global Cities as Economic and Political Actors

Elsheshtawy (2004), argues that cities could be understood as a language through which countries communicated their wealth, power, and modernity to both national and global audiences. Cities were replacing nation-states as the centres for global economic interactions. According to Kavaratzis and Ashworth (2005), due to this increasingly powerful and autonomous role, there was a widespread perception that cities needed to be marketed as products. Kanna (2013), states that city development was 'branded' for a global audience, and an orientation towards elite international tourists drove cities to create iconic landmarks defined by superlatives, often in the absence of democracy (Ponzini, 2011).

Dubai has eagerly embraced this strategy, consciously shaping its urban landscape to symbolise stability and present itself as a business-friendly hub. The Burj Khalifa, currently the tallest building in the world, followed the iconic sail-shaped Burj Al-Arab, a seven-star luxury hotel situated on an artificial island. Abu Dhabi, Dubai's neighbouring emirate, is also striving for global recognition with its $28 billion Saadiyat Island project. This cultural hub will host a New York University campus, branches of the Louvre and Guggenheim, and other prestigious institutions, aiming to harness the ‘Bilbao effect’ to gain international credibility and attract more foreign investment (Ponzini and Nastasi, 2016).

According to Tok et al. (2015), throughout the Arabian Peninsula and the Gulf region, nations are implementing strategies to boost competitiveness and diversify their economies, focusing on the development of modern, glittering metropolises. Qatar developed Lusail City, which features extensive football stadiums, hotels, residential areas, mass transit systems, and a marina, all set to be showcased when the country hosts the 2022 FIFA World Cup. Meanwhile, Kuwait plans to build the ‘City of Silk’ (Madinat al-Hareer) opposite Kuwait City, including a tower that, at 1001 meters, would surpass Dubai’s Burj Khalifa as the tallest building in the world. In addition to Saadiyat Island, Abu Dhabi is also investing in a vision of a post-oil future with Masdar, an ambitious planned carbon-neutral, zero-waste sustainable city (Moser, 2012; Hopwood, 2010; Reiche, 2011; King Abdullah Economic City, 2024).

King Abdullah Economic City (KAEC), a master-planned city on Saudi Arabia's Red Sea coast, is the first of four new master-planned 'economic cities' in the country. Launched in 2005 as part of a major investment strategy initiated by King Abdullah bin Abdul-Aziz Al Saud, KAEC covers an area the size of Washington, DC. It serves as the pilot and flagship of these economic cities, with substantial resources invested to make it a luxurious experiment in economic engineering. King Abdullah expects these cities to attract private capital and foreign investment, diversify the economy beyond oil, and transform Saudi Arabia into a 'nerve centre for global business'.

The unveiling of KAEC signifies a pivotal phase in Saudi Arabia's national development agenda. In an effort to diversify its economy beyond oil exports, Saudi Arabia aims to become a global hub for industry, R&D, education, and tourism. The plans for KAEC encapsulate these goals, highlighting the kingdom's strategy for a post-oil future. The Saudi Arabian General Investment Authority (SAGIA) asserts that each Economic City will be an exciting metropolis, designed to maximise investment potential and provide significant advantages to businesses. These cities will feature modern architectural designs, world-class services and infrastructure, and ubiquitous connectivity, offering residents the ultimate in 21st-century urban living and working. Regardless of whether these economic cities achieve their intended success, they offer fascinating insights into the ambitions of Saudi Arabia's ruling elite and represent a distinctive city-centric path in global economic development.

This chapter aims to address this gap in the literature on Saudi Arabia's new cities, exploring the national and international ambitions embodied in KAEC, KAFD, and others situating them within the global trend of new cities, and providing an overview and preliminary analysis of their master plan. It will also critically examine the governance challenges facing with these cities.

A key aspect of this development strategy involves the creation of new cities, which will contribute to shaping a more prosperous urban future through innovative initiatives, research, and events. To address the challenges arising from a growing population and to support economic diversification, the Kingdom of Saudi Arabia has embarked on the construction of new economic cities and hubs. One of these cities is King Abdullah Economic City (KAEC), situated in Rabigh. Another example is King Abdullah Financial District (KAFD) which will be discussed in detail later in this chapter. KAEC aims to be an inclusive, interconnected, and thriving city that caters to the diverse needs of its residents while maintaining high standards of living. This chapter will delve into the details of King Abdullah Economic City, including its main objectives and development principles. Furthermore, it will provide insights into the challenges encountered during its establishment and the strategies employed to overcome them. Additionally, the chapter will shed light on the opportunities that KAEC offers to its community, emphasising its potential to become one of the largest sustainable cities in the Middle East in the future.

Vision 2030 emphasises the importance of diversifying the economy by relying on multiple sectors rather than solely depending on oil as the primary source of energy and external revenue. The vision aims to bolster investments in real estate and infrastructure projects, establishing a robust industrial foundation for the Kingdom to ensure its economic sustainability in the face of diminishing oil reserves. The vision primarily advocates for the establishment of three key pillars:

1. A vibrant society: This pillar envisions a society where all members live in accordance with moderate Islamic principles while enjoying a high quality of life. It emphasises the importance of empowering social and healthcare systems to support this vision.

2. A thriving economy: The second pillar focuses on developing investment tools, diversifying the Saudi economy, and creating job opportunities. By expanding economic sectors beyond oil, the Kingdom aims to foster economic growth and resilience.

3. An ambitious nation: This pillar highlights the significance of competent employment and responsible societies. It emphasises the need for effective coordination among all stakeholders, including the private and non-profit sectors, to maximise benefits and optimise resource utilisation.

By pursuing these pillars, the Kingdom of Saudi Arabia aims to achieve sustainable development, enhance the well-being of its citizens, and position itself as a dynamic and prosperous nation. The primary aim of these economic cities is to enhance the national economy and improve the quality of life for Saudi citizens. This will be achieved by fostering the competitiveness of the Saudi economy on a global scale and simultaneously creating diverse job opportunities. The development of these cities will be based on six fundamental principles. Firstly, each city will focus on at least one globally competitive economic sector, which will serve as the initial core for development and attract other businesses. Secondly, these cities will leverage their greenfield advantage to adopt cutting-edge technology solutions, ensuring their competitiveness. Thirdly, the private sector will play a crucial role in establishing the initial infrastructure and real estate developments in each city. Additionally, private investors will create core jobs in essential employment sectors, which will in turn stimulate the growth of supporting service jobs. Moreover, according to (KAEC) these cities will offer an appealing lifestyle that will entice Saudis to relocate and reside there. Lastly, the cities will establish a business centre that rivals other global free zones in terms of competitiveness.

3. King Abdullah Economic City (KAEC), an overview

King Abdullah Economic City (KAEC) was launched in 2005 and is situated along the Red Sea coast in the Western region of the Kingdom of Saudi Arabia, at a distance of 100 km from North Jeddah. KAEC is designed to be a multi-purpose metropolis featuring schools and universities, an industrial zone, a central business district, a luxury resort, and a deep seaport for both international shipping as well as passenger travel, and residential areas. It is expected to house a population of about 2 million, which would make it the third largest city in Saudi Arabia, after Riyadh and Jeddah. Covering a 168 square kilometre area, the city will be approximately the size of Washington, DC.

The city is under the jurisdiction of a single governing body known as the Economic Cities Authority (ECA). It is designed to be a diverse development encompassing various sectors, consisting of six distinct zones. These zones include a seaport, an industrial district, a financial island serving as the central business zone, an educational zone, resorts, and a residential area intended to accommodate approximately 2,000,000 inhabitants.

The six zones were designed to work together to globally promote KAEC and establish it as a premier hub for both heavy and light industries. This initiative aimed to enhance services across various sectors, thereby attracting increased levels of local, regional, and international investment. Additionally, it sought to create more job opportunities for Saudi youth. The new economic city was bolstered by a substantial new port facility, a station on the Haramain high-speed train line, and the presence of King Abdullah University of Science and Technology (KAUST). These elements significantly contributed to Saudi Arabia's rapid economic development and enhanced its international competitiveness.

The $100 billion project represented the largest single investment in Saudi Arabia at the time, surpassing the budgets for new cities in other nations (Moser, 2014). It was privately financed and managed by Emaar, the Economic City (EEC), a subsidiary of Emaar Properties. This Dubai-based public joint stock company was the largest land and real estate developer in the Gulf region, with a notable presence in 36 markets across Asia, the Middle East, and North Africa. Moser (2014), states Emaar had a history of high-profile real estate developments and, for KAEC, partnered with the American architectural firm Skidmore, Owings & Merrill (SOM), who had previously worked with them on the Burj Khalifa and consulted on KAEC's master plan.

While all cities have economic roles, Saudi Arabia's 'economic cities' were designed to emphasise the kingdom's diversification goals. Despite its wealth, the kingdom's heavy reliance on petroleum exports, which constituted half of its GDP, was risky. Recent studies such as Daya and El Baltaji (2012) indicated that oil reserves might have been overestimated, while consumption rates soared. Recognising this vulnerability, Saudi Arabia made a substantial push toward diversification through economic liberalisation and joined the World Trade Organization in 2006. KAEC and other economic cities aimed to position Saudi Arabia to engage more deeply in the downstream sector by expanding petroleum-intensive industries such as petrochemicals, aluminium, and plastics. These economic cities were intended to ‘leapfrog’ Saudi Arabia into a ‘knowledge’ economy, following trends seen in other new and existing cities globally (Alraouf, 2008; Evers, 2003; Ewers and Malecki, 2010; Al-Filali and Gallarotti, 2012).

Saudi Arabia’s approach mirrored Dubai’s strategies from the 1980s and 90s, where economic liberalisation helped diversify the oil-dependent economy. Dubai invested significantly in services, commerce, and tourism-related industries, and established the port of Jebel Ali as a free zone to attract multinational corporations (Elsheshtawy, 2004). By lowering taxation rates and removing business barriers, Dubai's open-door economic policies attracted substantial foreign investment (Acuto, 2010). Similarly, according to Moser (2014), KAEC looked to Singapore as a model, aspiring to replicate its robust international economy, revenue-generating port, and public-private investment strategies to foster a knowledge economy, develop advanced manufacturing, and attract global talent. KAEC's plans reflected Dubai and Singapore’s development strategies, demonstrating Saudi Arabia’s commitment to rapid economic growth through modernisation and liberalisation. KAEC’s approach exemplified the trend of urban policy transfer and the international exchange of planning concepts within the Global South (Bunnell,2010). These pioneering cities adopted new urban policies and investment structures distinct from those developed in the Global North (Hogan et al., 2012).

Despite the fact that private firms were contracted to design and construct KAEC, SAGIA played a pivotal role in collaborating with Emaar to drive the development forward, promote the project, and draw private investments from both within Saudi Arabia and internationally. In 2006, Emaar, The Economic City, launched an initial public offering (IPO) that was exceptionally successful, with more than half of the Saudi population buying shares (Dudley, 2006). This demonstrated a substantial level of initial enthusiasm and confidence among Saudis in the economic cities initiative and in King Abdullah's broader strategy to liberalise the Saudi economy. Another clear indicator of the kingdom's intention to open its economy was seen in early 2015 when the Saudi stock market (Tadawul) allowed foreign investors to trade for the first time (The National, 28 August 2014). These developments underscored the kingdom's efforts to forge new relationships with the private sector and seek economic growth beyond its borders.

KAEC played a crucial role in the campaign to attract international interest in Saudi Arabia and was central to the kingdom's strategy for global competitiveness. The economic cities highlighted their liberal, free-market economic policies. SAGIA promoted the economic cities as surpassing the limitations of industrial parks and 'free zones,' offering an 'integrated free market environment' for both foreign and local businesses. These cities advertised benefits such as minimal corporate taxes, 100 % foreign ownership, and affordable access to energy and petrochemical resources. SAGIA emphasised that Saudi Arabia ranked as the 11th easiest place to conduct business globally and was the top recipient of Foreign Direct Investment (FDI) in the Middle East/North Africa region. Although the government operated under a monarchy, it stressed that the Supreme Economic Council adhered to free-market policies. SAGIA even provided some debt and equity funding to support interested businesses in establishing operations in Saudi Arabia.

The Saudi government also aimed to tackle significant domestic issues such as unemployment and housing shortages through the development of new cities. With a young and rapidly growing population—over 65 % of Saudis being under the age of 30 and an estimated 40 % unemployment rate among young, KAEC was positioned to play a pivotal role in the Kingdom's efforts to diversify its economy and generate employment for Saudi youth, with the city expected to create 500,000 job opportunities. It aimed to serve as a catalyst for attracting foreign investment and fostering global trade, commerce, and industry. These projects were intended to elevate Saudi Arabia’s status as an international investment destination and propel its economy towards adopting and meeting international standards (MEED, 2024).

King Abdullah Economic City was established to be a major driver of socio-economic development in Saudi Arabia. It aimed to provide local and international investors with unique business opportunities while creating new job prospects for Saudi youth. The city was developed in several phases. Initially, partial areas such as the city district, business park, port, and industrial area were developed. The second phase saw the completion of the residential area and further development of the earlier zones. The third phase focused on finalising the city's facilities. This section will describe the components that made up King Abdullah Economic City and highlight its importance.

3.1 The concept of new cities

Situating the creation of KAEC within a broader historical and contextual framework reveals that the concept of constructing master-planned cities from a blank slate is neither new nor modern (Moser, 2015). This practice can be traced back to ancient civilisations across the Middle East, China, South Asia, Southeast Asia, the Americas, Africa, and Europe. Home, (2013) states that during the colonial era, building new cities was a key strategy used by imperial powers, especially the British, to expand bureaucratic control, manage colonised populations, and dominate economically. The collaboration between colonial administrations and corporations to advance mutual interests is a foundational aspect of KAEC and other contemporary new city projects.

Modernist cities of the 20th century emerged for various purposes, such as serving as administrative capitals, industrial hubs, symbols of a break from colonial pasts, nation-building efforts, and solutions to housing deficits. There was a utopian belief embedded in new master-planned cities like Chandigarh, Brasilia, and Shah Alam that modern planning experts could engineer a harmonious, equitable, and prosperous society (Chalana and Sprague, 2013). Despite harsh criticism for being dehumanising, car-centric, top-down, and ultimately unsuccessful, the legacy of these modernist cities persists in the current wave of new city constructions, including KAEC (Scott, 2020). After the modernist boom in the 1950s and 60s, this trend diminished until a resurgence in the 1990s and 2000s, leading to one of the most intensive periods of new city building since the peak of colonial expansion.

Harvey (1989), states that today's new cities, being constructed across Asia, the Middle East, Africa, and more recently Latin America, are part of a wave of entrepreneurial urbanism. These cities are primarily driven by corporate-government partnerships and are mostly located in the Global South. For instance, India alone is planning or constructing one hundred new ‘smart’ cities (Datta, 2012; Datta, 2015). In the Middle East, new cities are being planned in countries like Kuwait, Qatar, Abu Dhabi, Yemen, Palestine, and Iran. Southeast Asia sees similar developments in Malaysia, Indonesia, Myanmar, Cambodia, Vietnam, and the Philippines. Numerous new cities are also emerging in Africa, including Morocco, Senegal, Uganda, Tanzania, Kenya, Egypt, and Nigeria (Watson, 2014). The trend has recently reached Latin America, with Ecuador constructing 'Yachay Knowledge City,' aiming to become the Silicon Valley of Latin America (Moser, 2014).

Reflecting the growing international trend of leaders relying on new cities, KAEC embodies the belief among Arab oil-producing nations that preparing for a post-oil future requires top-down, 'world-class' mega-developments to attract investment and talent, rather than incremental, participatory approaches. Politicians, international planning and architecture firms, consultants, and other ‘visionaries’ and ‘thought leaders’ (Moser, 2015) maintain the assumption that new cities can solve various national issues such as housing shortages, pollution, overcrowding, and economic stagnation. While there has been significant scholarship on master -planning in existing cities in the Middle East such as Beauregard and Marpillero-Colomina (2011) and Asia, the trend of creating new cities from scratch, especially in anticipation of a post-oil era, has received limited scholarly attention (Hamnett and Forbes, 2011).

Hvitd (2012), states that similar patterns are emerging across new city projects, including KAEC. These new cities often play a crucial role in national economic development strategies and vision documents. Examples include Malaysia’s Vision 2020, which led to the creation of Putrajaya and Cyberjaya; Andhra Pradesh’s Vision 2020, resulting in Cyberabad; and Kenya’s Vision 2030, which includes ‘Konza Technology City’ as a key component. Although these projects claim to address housing deficits, poverty, and unemployment, they are typically top-down initiatives with little public participation. Emerging issues of exclusivity are becoming apparent, as new cities often cater to the elite (Das, 2012; Datta, 2012; Myers, 2015). Further empirical research is needed to determine the extent to which these new cities will become gated enclaves, exacerbating social divides as they develop.

Finally, KAEC, like other new cities in the Global South, is part of a broader transnational circulation of urban policy and aesthetics. Its master plan is shaped by a complex interplay of influences. While it is inspired by the 'modern' era characterised by the accelerated transfer of Western ideas globally, it is not merely an heir to Western planning. According to Hogan et al. (2012), further research is needed to fully understand KAEC's complex lineage, but it exemplifies emerging South-South policy transfers that challenge the conventional notion of urban policy originating in the Global North and being emulated in the Global South. Although the master plan incorporates elements reminiscent of car-centric American suburbs, KAEC's CEO has cited Singapore as the primary source of inspiration for the city.

The six zones of KAEC aimed to be six facilitators for global flows include:

- **The World-Class Seaport - King Abdullah Port (KAP)**:

King Abdullah Port (KAP), planned as the largest port on Saudi Arabia's west coast, spans 2.6 million sqm, with the capacity to handle 20 million TEUs and the world's largest vessels. Its strategic location on the Red Sea provides access to key Saudi cities and supports the movement of goods to Europe, Africa, and Asia. Designated areas for light industry and logistics were created, forming a platform for regional trade. The port features an integrated transport system, allowing seamless transitions between sea, rail, road, and air, serving as the main gateway to the central and eastern provinces. Its proximity to Makkah and Madinah includes a Hajj terminal for over 300,000 pilgrims, supported by hotels and medical centers. KAP began partial operations in 2013, receiving its first commercial ship on September 28, and officially started import/export operations in January 2014 (King Abdullah Port, 2024). It houses key government agencies like Saudi Customs, the Coast Guard, and the Saudi Food and Drug Administration, and is an essential part of KAEC's multi-modal transport network, which includes the Saudi Land Bridge rail project and the Haramain railway.

- **The Industrial Valley (IV)**

The Industrial Valley, covering 55 million square meters, was designed to meet the needs of small, medium, and large-scale industries, hosting around 2,700 manufacturers and logistics companies. Strategically connected to King Abdullah Port (KAP), the Haramain High-Speed Rail, and the planned Saudi Land Bridge, it offered top-tier infrastructure for efficient logistics and distribution, reaching the largest markets in the region. Key sectors included downstream petrochemicals, pharmaceuticals, research and development, and educational institutions aimed at preparing young Saudis for new job opportunities. A portion of the area was also designated for residential development to attract and house workers and their families (KAEC, 2024).

The Industrial Valley featured five industrial clusters: fast-moving consumer goods (FMCG), logistics, pharmaceuticals, plastics, and building materials. It offered ready-to-build industrial lands with customisable designs, supported by utilities such as electricity, water, sewage treatment, and natural gas in selected areas. A fibre optic network supported telecommunications, catering to modern technology demands. With its single regulatory authority, extensive connectivity, and integration with the broader city, the IV was an attractive destination for major investors (KAEC, 2024).

- **Financial Island (Central Business Zone)**

The Financial Island was designed to offer 500,000 square meters of class “A” office space for leading international and regional financial entities, along with business hotels featuring up to 1,200 rooms, and a new exhibition and convention centre. It was projected that up to 60,000 professionals would operate from the Financial Island daily. The zone was to be highlighted by two towers, each reaching up to 100 stories, providing impressive views of the surrounding city skyline. This area would benefit from state-of-the-art communication and IT infrastructure.

- **Educational Zone**

The Educational Zone comprised schools for all educational levels, international universities for higher education, and fully equipped research centres closely collaborating with R&D arms. The King Abdullah University of Science and Technology, whose construction began in 2009, was one of the best-funded universities globally, with an initial $20 billion endowment from the King, ranking just behind Harvard and Yale. It was also notable as the first mixed-gender university in the country.

- **Waterside Resort**

The Waterside Resort spanned approximately 4 million square meters and featured a mix of waterfront hotels and boutique residences (75–150 rooms), mid-sized holiday retreats (350–400 rooms), and large resort hotels (500–600 rooms). These facilities were intended to provide the highest levels of comfort, relaxation, and recreation. The master plan envisioned 3,500 well-appointed hotel and residential bedrooms and suites, premium villas, extensive retail elements, an international-class signature 18-hole golf course, and an equestrian club.

- **Residential Zone**

Known as “The Coastal Communities,” the Residential Zone offered a variety of housing and living solutions to meet the diverse price points and lifestyle needs of its population. Each zone had its own unique character, defined by land use, built-up space, and public amenities such as mosques, souks, and recreational venues, all designed to promote health and well-being for residents. Furthermore, the area provided ample opportunities for business and investments in property development for residential, commercial, or recreational purposes. These districts were expected to host thousands of tourists and transient traffic in various residential properties, ranging from mid-rise buildings to secluded detached homes, and would be home to 1,000,000 permanent residents.

3.2 The Governance system

One of the main challenges expected for KAEC lies in its governance model. Although the city markets itself as forward-thinking and conducive to business, overcoming bureaucratic obstacles to encourage development, this is done through a corporate management framework rather than a democratic or progressive approach. As a public-private partnership, KAEC is structured to serve the interests of investors, being developed by and for them. Instead of a traditional mayor, the city is overseen by a CEO and operates similarly to a publicly traded company. Plans for a city council are absent, and the city's leadership regards its residents as 'customers.' (Moser, 2014).

KAEC's governance highlights a global trend in urban management, moving from a managerial to an entrepreneurial approach (Harvey, 1989). In the past, cities depended on national governments to supply services and social welfare to their populations. Gradually, local governments have assumed greater responsibility, often needing to attract external investments to tackle urban challenges. Although Harvey's analysis focused on established cities, KAEC and other newly planned cities present even more pronounced examples of this entrepreneurial urbanism. Datta (2015), In India, for instance, an entrepreneurial approach has been adopted, as seen in the Prime Minister's announcement of 100 new 'smart' cities aimed at boosting global competitiveness. Likewise, developments such as Masdar and Tianjin Eco-City leverage their environmental sustainability and experimental nature to draw in investors. (Caprotti, 2014)

The distinct situation of a private, socially liberal, gated city within an absolute monarchy and Islamic theocracy raises several questions about its future operations once completed. At present, the Economic Cities Authority (ECA), created through a Royal Decree, acts as the exclusive regulator for KAEC, offering a streamlined process for permits and licenses to facilitate business dealings and cut through bureaucracy. However, it remains unclear whether KAEC will continue to prioritize corporate and business interests once the city becomes fully inhabited. Concerns have been raised regarding the possibility of a dual legal system in KAEC, the role of shareholders in shaping its political and economic future, the extent of residents' participation in governance, and how private security will enforce laws.

Regulations concerning tourism and foreign residents pose another governance challenge. Although KAEC officials promise that foreigners can buy property within the city, Saudi Arabia does not currently offer a tourist visa. The country has three types of visas: a Hajj visa for religious pilgrims, a business visa, and a 'government visit' visa, which requires sponsorship and an official invitation. These limitations restrict the movement of people, talent, and ideas into KAEC, making it challenging to grow tourism beyond the local market.

KAEC's relationship with the rest of the kingdom is likely to create social and political tensions. Among KAEC and Emaar staff, the city is seen as a bubble with more relaxed and Westernized social norms. For example, women were initially allowed to drive (contrary to Saudi law) and interact publicly with men, were not required to wear the legally mandatory black robes or abayas in public, and the religious police were not permitted to enter the city. Saudi police also cannot enter the city, which is patrolled solely by private security forces (Interview with KAEC official, November 2013). KAEC officials hope the city can operate under a different social model from the rest of Saudi Arabia, but the implementation of this model remains unclear. The Saudi government desires a modern, international city to attract Western investors and residents but must balance this with the risk of alienating the Saudi population and angering the religious establishment. As KAEC progresses, it will need to balance an ambitious and progressive vision of Saudi Arabia’s future with the kingdom’s conservative customs and religious values. This balance will likely lead to tensions and debates about the city's role in the kingdom’s trajectory and governance.

3.3 What does the future look like for King Abdullah Economic City

As construction advanced over years in King Abdullah Economic City (KAEC), uncertainties surrounding its future continued to grow. Its success was ultimately tied to the government's promises of economic and social benefits for the Saudi population. However, it was unclear whether KAEC and other economic cities would become socially isolated from the rest of the nation, potentially mirroring China's 'one country, two systems' approach, as observed in its Special Economic Zones. KAEC held the promise of initiating a new era of social reform and liberalization within the desert kingdom, acting as a platform for exploring new ways of being Saudi within a cosmopolitan, global framework focused on innovation, youth, and creativity, as opposed to rigid traditionalism. Alternatively, KAEC could have ended up as yet another instance of neoliberal development, prioritizing corporate interests and reinforcing the power of the ruling elite over society. As the city grew and evolved, further theoretical and empirical studies would be required to fully understand its significance for Saudi Arabia and its potential impact on other urban developments, both within the country and globally. Despite KAEC's budget being far beyond the reach of most nations in the Global South, it was viewed by many as a bold experiment in post-oil economic strategy.

KAEC represented a broader global trend of extravagant, corporate-led new cities, ostensibly created to ‘leapfrog’ economies by tackling challenges such as housing shortages, inadequate infrastructure, poverty, and other systemic issues in the Global South. Future research would explore how private cities like KAEC impact the rest of the country: Will KAEC stimulate widespread economic opportunities and foster a culture of entrepreneurship capable of diversifying the economy and nurturing knowledge-based industries? Will it serve as a catalyst for broader social transformation? Or will it become an isolated enclave for the elite, disconnected from the wider society? In the context of the global shift from managerial to entrepreneurial city models, KAEC may not be an anomaly but rather part of a growing international trend in urban development, offering a glimpse into the future of city planning.

In conclusion, Saudi Arabia's KAEC, represented a daring venture in managing the challenges of globalisation while preparing for a future less dependent on oil. These large-scale urban projects highlight the Kingdom's efforts to diversify its economy, integrate into global production systems, and present a modern image to the world. However, the success of these cities depends not only on their economic sustainability but also on their ability to balance the Kingdom's socio-political and religious frameworks with its global aspirations. The following chapter will delve deeper into this balancing act by focusing on the King Abdullah Financial District (KAFD), analysing how Saudi Arabia aims to utilize its urban development strategy to establish itself as a regional and international financial hub, further embedding itself in global economic networks.

Chapter 8: King Abdullah Financial District (KAFD): The inception and the current

1. Introduction

The King Abdullah Financial District (KAFD), announced in 2006, spans over 1.6 million square meters and represents one of the most ambitious urban development projects in Saudi Arabia’s history. Conceived as a "city within a city," KAFD is positioned along Riyadh’s primary artery, King Fahd Road, and features a collection of striking glass structures that symbolise a new era of urban and architectural innovation. The project not only redefines Riyadh’s skyline but also reflects the broader strategic objectives of the Saudi state to diversify its economy away from oil dependence. This aligns with Saudi Arabia’s Vision 2030, which seeks to establish the Kingdom as a global business hub and reduce vulnerability to fluctuations in the global oil market.

KAFD emerged as part of a wider wave of economic reforms designed to transform Saudi Arabia’s economic landscape. Key initiatives such as the development of special economic zones and financial districts were seen as instrumental in integrating Saudi Arabia into the global financial system. The creation of KAFD can thus be understood as part of a broader effort to position Riyadh as a global city akin to other financial centres in the Middle East like Dubai and Doha. These developments highlight the Kingdom’s attempt to assert its influence within the competitive landscape of the Gulf Cooperation Council (GCC), as the region's states vie to become the premier hubs for international commerce and finance.

The vision for Riyadh as a future financial powerhouse is anchored by KAFD, designed to serve as a beacon of Saudi Arabia's ambitions. However, beyond its architectural grandeur, KAFD embodies the country's deeper aspirations in state capitalism, where state-controlled entities such as the Public Investment Fund (PIF) play a central role in steering national economic priorities. This model reflects a unique blend of Islamic principles, particularly the emphasis on collective prosperity and state responsibility, combined with modern practices of global economic participation. KAFD's symbolic importance was underscored when, in 2011, it was designated as the largest development globally to pursue green building accreditation, signifying Saudi Arabia's commitment to sustainability amidst rapid urbanisation. Yet, this pursuit of sustainability can be viewed through the lens of Islamic stewardship—an ethical responsibility to protect and sustain the natural environment, aligning with broader religious values.

The master plan for KAFD, awarded through an international competition, was conceived by Henning Larsen Architects, a Danish firm. The participation of internationally renowned architecture firms such as HOK, Omrania, SOM, CallisonRTKL, Gensler, Zaha Hadid Architects, and Foster + Partners reflects the district's global outlook and its desire to align itself with other world-class financial centres. This collaboration with global firms underscores Saudi Arabia's strategy to embed itself within transnational flows of capital and expertise, further integrating the Kingdom within the global production networks. However, while these global networks offer immense opportunities, they also present challenges in maintaining a balance between modernization and cultural identity, a common theme within Islamic governance, where modernization must not erode religious values or social cohesion.

Despite its ambitious scope, KAFD faced numerous challenges, including significant delays and near-collapse in 2017. The intervention of the Public Investment Fund (PIF), which took over ownership from the Public Pension Agency (PPA), was crucial in rescuing the project (Salameh, 2016). This transition underscores the critical role that sovereign wealth funds, particularly the PIF, play in advancing Saudi Arabia's diversification agenda and fostering long-term economic resilience. The successful completion of the first phase in 2018, which saw parts of the district opened to the public, marked a significant milestone. The involvement of the PIF not only salvaged KAFD but also reinforced the centrality of state-led investment in shaping the future trajectory of the Kingdom's urban and economic development.

As noted by interviewee 9, an economic consultant from London, ***"KAFD's revival by the PIF is a prime example of how state intervention can stabilise major projects. While some may view state involvement as a limitation, in the Saudi context, it has been crucial to maintaining national control over strategic economic assets."*** This view reinforces the importance of state-led capitalism in the context of Saudi Arabia, where the state is seen as a guardian of national wealth, an idea rooted in Islamic principles of stewardship over resources.

2. The Origen:

The King Abdullah Financial District (KAFD) emerged as a flagship initiative aimed at transforming Riyadh's economic landscape, directly aligning with the ambitions of Vision 2030. The district's transition to ownership under the Public Investment Fund (PIF) was a pivotal step, reinforcing KAFD's potential as both a commercial hub and a catalyst for economic diversification.

Conceived in 2006, KAFD's development predated the strict social regulations that were prevalent in Saudi Arabia at the time. It was a progressive project, signalling a departure from long-standing conventions, particularly those concerning gender segregation. In contrast to traditional norms that governed public and private spaces, KAFD adopted a more inclusive design framework, fostering modernity and openness. Public and residential areas were created without the enforced separation of genders, a significant shift in the Kingdom's urban planning approach. The architecture of the district also reflected global metropolitan influences, with many apartments featuring floor-to-ceiling windows, reminiscent of urban designs found in cities such as New York and London (Ouroussoff, 2010).

I nterviewee 13, a senior researcher involved in KAFD's design, noted: ***"The decision to relax gender segregation in KAFD's public spaces was groundbreaking. It showed that the Kingdom could embrace modernity without losing its core values."*** This perspective illustrates how KAFD aligns with the Kingdom's broader efforts to foster greater social inclusivity.

There were initial concerns that KAFD would operate as a self-contained, exclusive zone, isolated from Riyadh's broader urban fabric (Salameh, 2017). However, as the city continued its trajectory of modernisation, KAFD gradually integrated into the capital's economic and social landscape. This integration is emblematic of Saudi Arabia's broader transition towards a more diverse and open society, illustrating the country's shifting socio-political dynamics. KAFD now stands as a symbol of Saudi Arabia's national transformation, reflecting its desire to foster inclusivity and global connectivity while maintaining its unique cultural identity. KAFD has since integrated more fully into Riyadh's economic and social landscape, illustrating Saudi Arabia's broader socio-political transition towards a more diverse and open society. KAFD now stands as a symbol of national transformation, reflecting the country's desire to foster global connectivity while maintaining its unique cultural and religious identity.

With its striking structures inspired by the local landscape, KAFD is playing a pivotal role in reshaping Riyadh's skyline (KAFD, n.d.). The district offers businesses state-of-the-art office spaces coupled with sustainable, smart city technologies, while also providing distinctive lifestyle opportunities through its high-end leisure and retail facilities (Chen, Godefroy et al., 2014). In alignment with Saudi Arabia's broader aspirations for greater inclusivity and progressiveness, KAFD is designed as a global district that fosters an internationally oriented economy. It aims to cultivate a workforce—comprising both men and women—who can actively compete in the global marketplace.

KAFD's role extends beyond its economic functions; it is also intended to facilitate social interaction between Saudi citizens and expatriates, helping to nurture a generation of professionals capable of thriving in an interconnected world. Its openness, combined with high-quality residential apartments and modern lifestyle amenities, is expected to attract foreign expertise, reinforcing KAFD's ambition to become a truly global financial centre. This openness aligns with Islamic teachings on tolerance and inclusivity, particularly in how diverse communities coexist. At the same time, KAFD's development can be seen as a reflection of Saudi Arabia's broader religious narrative, where progress and innovation are embraced as long as they align with the Kingdom's moral and ethical framework.

The architectural value of the district is notable, with contemporary buildings designed by some of the world's most renowned architects, including Zaha Hadid's Metro Station, Skidmore, Owings & Merrill’s Conference Centre, the PIF Tower by HOK and Omrania, and Norman Foster’s design for the Samba Bank. This trend of iconic architecture is part of a broader pattern seen in other Gulf states such as Qatar and the UAE, where cutting-edge designs serve the needs of various stakeholders, from corporate entities to government initiatives, further embedding these cities into the global architectural and financial landscape.

The frequent use of terms such as "iconic" and "world-class architects" is a familiar rhetorical strategy employed by stakeholders to increase the appeal of major developments. As discussed in the context of global cities and their branding, these descriptors serve as marketing tools, implying that a project’s involvement with renowned architects automatically elevates its status. Similarly, Straub (2022) states that the claim that a district is sustainable, as indicated by a LEED Platinum certification, enhances the project’s reputation. This narrative promotes the idea that KAFD, by enlisting elite professionals from various disciplines, has earned its "iconic" status. However, this idealised portrayal diverges from the complex realities of such large-scale projects.

Not all buildings designed by celebrated architects meet their intended goals, nor are all projects claiming sustainability inherently sustainable. A case in point is the significant use of glass in many of KAFD’s towers, which results in higher energy consumption for cooling, particularly during Riyadh's sweltering summers, when temperatures can soar to 50 degrees Celsius. This reliance on energy-intensive materials challenges the fundamental principles of sustainability, contradicting the image of environmental responsibility that the district seeks to project (Straub, 2022).

Nevertheless, a closer analysis of KAFD's architecture and urban planning reveals a deeper narrative that extends beyond these superficial markers of success. Rather than adopting cliché design motifs, the masterplan and architecture draw from the cultural and historical heritage of Saudi Arabia. The layout of the district echoes the organic structure of the UNESCO World Heritage Site of Diriyah, with its intricate streets and public spaces. Individual buildings further reflect the natural diversity of Saudi Arabia's landscape, while the manipulated geometries in the architectural forms recall the traditions of Islamic architecture. This approach contrasts sharply with the design philosophy behind other Saudi megaprojects like King Abdullah Economic City (KAEC), which took a more generic, "blank slate" approach.

In KAFD, each structure tells a story rooted in Saudi history and culture, despite being designed by internationally renowned firms such as Henning Larsen Architects (HLA), SOM, and Zaha Hadid Architects (ZHA). This underscores the unique position KAFD occupies within the broader narrative of global production networks, where even in globally-oriented developments, there is an effort to anchor the design in local identity and state-driven economic agendas. While KAFD aspires to be a global financial hub, it maintains a strong connection to the country's cultural legacy, setting it apart from other projects in the region that are more detached from their local context.

Projects like KAFD undeniably hold the potential to transform the urban landscape of Riyadh. However, a critical question remains: will such developments reinforce the existing fragmented urban form or serve as a catalyst for new approaches to urban design and social interaction? On the one hand, initiatives like KAFD risk exacerbating the socio-spatial divisions that already characterise the city, as they may primarily serve a specific socioeconomic group. By catering to affluent demographics, these developments could contribute to further segregation, reinforcing inequality and perpetuating the city’s fragmented urban fabric, where different enclaves are often isolated based on class and social status. Such an outcome would limit opportunities for interaction across societal boundaries, resulting in heightened social isolation.

Elsheshtawy (2021) argues that on the other hand, KAFD and similar projects present an opportunity to invigorate Riyadh’s urban environment with greater diversity and inclusivity. By integrating mixed-use spaces, pedestrian-friendly designs, and accessible amenities, developments like KAFD have the potential to foster social cohesion and promote interaction between different social groups. This could lead to the emergence of a more unified and vibrant urban fabric, where residents feel a shared sense of belonging and greater ownership of public spaces. If successful, such projects could contribute to reshaping Riyadh into a more dynamic and inclusive city.

However, the effectiveness of these physical developments in fostering social integration will ultimately depend on the broader social norms and policies that govern their use. Riyadh is experiencing a gradual process of liberalisation, reflected in changing cultural attitudes and increasing acceptance of diverse lifestyles and perspectives (Elsheshtawy, 2021). Yet, this process of liberalisation coexists with the state's firm control over dissent and individual freedoms, revealing the delicate balance between progress and restriction.

For KAFD and similar projects to truly contribute to social inclusivity and cohesion, Riyadh’s leadership must navigate this tension between liberalisation and control. The city's policymakers must be willing to allow for greater autonomy and freedom of expression among its residents, creating spaces that reflect openness and tolerance. Only through such an approach can Riyadh foster an urban environment where individuals from all walks of life can coexist harmoniously, participate fully in civic life, and express themselves freely.

However, whether the governing bodies are prepared to fully embrace this transformative shift remains uncertain. Achieving such an inclusive urban vision requires not only architectural innovation but also a deep reassessment of power dynamics and a commitment to fostering a more democratic and participatory urban society. Without this, projects like KAFD may fall short of their potential to create a truly inclusive and integrated city.

When evaluating a megaproject such as KAFD, it is imperative to adopt a comprehensive approach that accounts for the various factors influencing its performance. This not only includes an analysis of the opportunities and challenges inherent to the project but also an assessment of its broader social impact. The relationship between the project and the surrounding community's social fabric is crucial, as it can significantly shape the project's long-term viability and success. In the case of KAFD, understanding the particularities of Saudi society, and specifically the socio-cultural dynamics of Riyadh, is essential. Riyadh is often perceived as more conservative compared to other regions within the Kingdom such as Jedda, and this local context could present both challenges and opportunities for the district's integration and acceptance.

3. Economic and National Importance

KAFD serves as a pivotal financial hub in the Middle East, attracting a wide range of domestic and international financial institutions, banks, and corporations. By consolidating financial activities, the district aims to enhance sectoral efficiency and foster greater synergy across the financial landscape. This centralisation is not only about physical space but also about positioning Riyadh at the crossroads of regional and global capital flows, thereby deepening Saudi Arabia's integration into global production networks (GPNs).Beyond its role as a financial centre, KAFD plays an integral role in Saudi Arabia’s broader economic diversification efforts, which focus on reducing the nation's reliance on oil revenues by promoting growth in non-oil sectors such as finance, investment, and real estate. The district also offers a variety of accommodations, services, and amenities, supporting a thriving professional and residential community.

Positioned at the core of Saudi Arabia’s largest economy, KAFD aspires to become the Gulf’s leading financial hub. However, as is often the case with large-scale developments in the Kingdom, success will require more than just the construction of buildings. KAFD faces unique challenges, yet it also holds considerable promise and opportunity. The district's development generates significant employment opportunities across multiple sectors, contributing to both economic growth and efforts to address unemployment. Over the next 1.5 to 2 years, the workforce within KAFD is projected to expand from 80,000 to 100,000 employees, further solidifying its role in national economic development (Fahad, 2023).

As one UK-based executive mentioned in an interview, ***"What stands out about KAFD is its potential to mobilise a new generation of Saudi professionals who can engage with the global financial system while maintaining their cultural roots."***

This dual focus on economic engagement and cultural preservation reflects the Islamic principle of stewardship, where development is seen as a responsibility to empower communities while maintaining social harmony.

Yet, KAFD faces the challenge of particularly in terms of competing with well-established regional financial hubs like Dubai International Financial Centre (DIFC). As interviewee 18, an investor pointed out, ***"KAFD's infrastructure is world-class, but to compete with Dubai, it will need to offer regulatory advantages and a legal framework that encourages more foreign businesses to relocate."*** This insight highlights the regulatory challenge facing KAFD, which must balance state-led capitalism with the need for business-friendly reforms to attract and retain foreign direct investment (FDI).

Saudi Arabia has embarked on a series of transformative reforms aimed at reducing its heavy dependence on oil revenues, leading to notable growth in the non-oil sector, which averaged 4.8% in 2022. As the country approaches the midpoint of its Vision 2030 initiative, strides have been made in enhancing the regulatory and business landscape. However, significant challenges remain ahead. These include ensuring that large-scale development projects not only deliver financial returns but also boost productivity. Further key areas of focus involve fostering an innovation-driven economy, investing in human capital development, simplifying the fiscal and regulatory burdens on businesses, and closely monitoring the impact of industrial policies to mitigate risks associated with targeted interventions (Mati & Rehman, 2023). These challenges are compounded by regional competition, particularly from Dubai and Qatar, whose financial districts have established themselves as more accessible to international business.

One of the more strategic challenges for KAFD is whether its regulatory framework can adapt quickly enough to attract the level of foreign investment required to fuel its growth. The DIFC operates under English Common Law, making it far more attractive to global firms seeking legal certainty. In contrast, KAFD's regulatory environment, though improving, remains tied to Saudi national laws, which are seen as less liberalised. Interviewee 15, a Saudi director of hospitality observed in an interview, ***"While KAFD has the infrastructure, Dubai's DIFC offers a clearer legal framework, and businesses are drawn to that simplicity. Saudi Arabia needs to address these legal barriers if it wants to see KAFD thrive."*** This highlights the critical regulatory reforms needed for KAFD to reach its full potential in attracting multinational corporations.

To effectively manage and execute its ambitious megaprojects, Saudi Arabia must engage in strategic planning to align these developments with future market demand. This involves differentiating these projects from other major developments in the region, ensuring they stand out in an increasingly competitive landscape. Equally important is the establishment of a comprehensive legal and regulatory framework designed to attract and facilitate foreign investment, which is essential for the successful realisation of these projects (Deloitte, 2019).

One of the most significant of these megaprojects is KAFD, which has emerged as a cornerstone of Saudi Arabia's broader economic diversification agenda. By consolidating key financial activities within a centralised district in Riyadh, KAFD aims to stimulate the financial services sector and attract significant foreign investment. This project is integral to the Kingdom's efforts to pivot away from an oil-centric economy and foster the growth of sectors such as finance, investment, and real estate.

KAFD's ambition goes beyond merely creating a financial hub; it envisions a self-sustaining business ecosystem. By 2025, it is expected to accommodate around 100,000 residents and workers, fostering collaboration between a global workforce and local talent. Additionally, KAFD integrates residential spaces with more than 200,000 square metres of retail offerings, making it a 24/7 destination. The project aspires to blend both business and lifestyle, positioning itself as a dynamic urban centre that thrives on continuous activity and growth (Built Environment ME, 2023).

As a flagship initiative, KAFD stands as a testament to Saudi Arabia's dedication to modernisation and comprehensive economic transformation. The district is not only integral to the Kingdom's efforts to diversify its economy but also reinforces its ambition to become a prominent global financial centre. KAFD symbolises a key element of Saudi Arabia's broader economic reforms, contributing to the nation's long-term economic resilience and prosperity (Nair, 2023).

However, despite its ambitious goals and strategic importance, it remains uncertain whether KAFD has fully achieved its intended purpose. While the project aims to position Saudi Arabia as a global financial powerhouse and diversify its economy, the true impact of KAFD in driving sustainable economic growth and attracting significant foreign investment has yet to be fully realised. The project's success will depend not only on the completion of its infrastructure but also on how effectively it integrates with local and global markets, attracts key financial institutions, and fosters long-term economic productivity.

4. Driving Economic Diversification and Enhancing Foreign Investment

As part of its Vision 2030 strategy, Saudi Arabia aims to diversify its economy by attracting greater volumes of Foreign Direct Investment (FDI). However, there is a notable lack of comprehensive research on the specific factors that influence FDI flows into the Kingdom. This section seeks to fill that gap by thoroughly examining existing studies on the subject and drawing attention to key policy recommendations for bolstering investment (Lukic, 2022).

Gautam Sashittal, the CEO of KAFD, reported that between 2020 and 2021, Saudi Arabia saw a doubling of FDI, with non-oil sectors showing considerable expansion. Despite these gains, the Saudi Central Bank (SAMA) indicated a sharp decrease in inward investment in 2022, falling by 59% from $19.3 billion in 2021 to $7.9 billion. To address this decline and enhance the appeal of the Kingdom to global investors, the government has introduced the Regional Headquarters Program, a strategic initiative that requires multinational companies to establish regional head offices within Saudi Arabia if they wish to conduct business with government agencies.

To address this decline and make Saudi Arabia more attractive to global investors, the government introduced the Regional Headquarters Program (RHP), a strategic initiative that mandates multinational companies establish regional headquarters within Saudi Arabia if they wish to conduct business with government agencies. The RHP serves as both an incentive and a requirement, with the goal of centralising business activity within the Kingdom, particularly in Riyadh. Over 80 multinational companies have already set up their regional headquarters in Saudi Arabia, with many choosing KAFD as their base. This demonstrates KAFD’s pivotal role in driving economic diversification and attracting foreign businesses, while solidifying

Riyadh as a major regional hub. A UK-based corporate executive interviewed for this study emphasised, ***"We moved our regional headquarters to KAFD because of the government's clear commitment to make Riyadh a leading business hub. There's a lot of long-term potential, but more needs to be done to enhance transparency and regulatory consistency."*** This reflects a common sentiment among foreign investors: while KAFD offers state-of-the-art infrastructure and strategic incentives, its long-term success will depend on further regulatory reforms.

KAFD has developed over 1.6 million square metres of space, with 950,000 square metres dedicated to office spaces. The demand for office space in Riyadh has surged, with Grade A and Grade B office occupancy rates reaching 99.9% and 99.4%, respectively, according to CBRE, making KAFD a highly attractive proposition for businesses (Nair, 2023).

Several factors influence the flow of Foreign Direct Investment (FDI) into Saudi Arabia, including the country's WTO accession, increasing trade openness, improvements in institutional quality, and the Saudization Policy. The Saudization Policy, which aims to increase the employment of Saudi nationals in the private sector, represents both an opportunity and a challenge for foreign investors. While it contributes to the creation of a more skilled local workforce and reduces unemployment, it also introduces regulatory hurdles that some foreign businesses may find difficult to navigate. One senior executive in Riyadh highlighted this challenge: ***"Saudization is a noble goal, but for multinational companies, it can complicate hiring decisions and make it harder to attract the top international talent. There's a balance that needs to be struck to keep FDI flowing."***

This sentiment highlights the tension between the national objectives of Vision 2030—

promoting local employment—and the global realities of doing business, where multinational firms often seek flexibility in workforce composition.

To create a more favourable environment for foreign investment, the Saudi government needs to focus on enhancing regulatory frameworks to ensure they are stable, predictable, and non-discriminatory. Initiatives such as Vision 2030, which seeks to enhance institutional quality and economic diversification, remain crucial. Progress has already been made in this direction, with key developments such as the creation of the Future Investment Initiative and the announcement of the Saudi Aramco IPO, underscoring the country's reform efforts.

However, international incidents, such as the disappearance of journalist Jamal Khashoggi, have strained global partnerships and underscored the need for increased transparency and accountability within the Kingdom. For Saudi Arabia to achieve the goals of Vision 2030, policymakers must take decisive steps to reduce dependency on oil exports and transform the economic landscape. This transformation will require substantial investments in human capital, infrastructure, and innovation, ensuring that the economy becomes more diversified, resilient, and capable of withstanding external shocks (Lukic, 2022).

At the heart of Vision 2030 is a vision that aligns with Islamic values of fairness, economic justice, and social responsibility. While foreign investment is critical to the Kingdom's economic future, it must be balanced with ethical considerations that ensure wealth distribution benefits all segments of society. This reflects the Islamic principle of maslahah (public interest), which calls for policies that protect communal welfare while ensuring individual prosperity. As KAFD grows as a global financial hub, it will need to integrate social responsibility into its business model, ensuring that the benefits of economic diversification are widely shared.

5. Navigating Challenges, Controversies, and Building Consensus

The challenges confronting KAFD in Riyadh are multifaceted and demand careful management. Public concerns regarding sustainability and accountability are particularly pressing, requiring transparent communication and opportunities for public engagement. These issues are often compared to similar international projects, such as the Bank of America Tower in New York, which has faced similar scrutiny. Additionally, KAFD's relative physical and cultural isolation within Riyadh raises questions surrounding accessibility and security, creating further hurdles to its integration into the city's broader urban fabric.

Furthermore, KAFD's relative physical and cultural isolation within Riyadh presents additional challenges. Its location on the northern fringes of the city, surrounded by highways, raises concerns about accessibility and whether the district can be fully integrated into Riyadh's broader urban fabric. The separation of KAFD from the rest of Riyadh creates a sense of detachment, posing hurdles for public perception and reducing the sense of ownership among ordinary citizens. This isolation is not just physical but reflects broader cultural and social concerns—specifically, whether KAFD can maintain relevance for the wider Saudi population or remain an elite enclave focused solely on foreign businesses and expatriates. Interviewee 10, a Saudi urban planner, expressed this concern, ***"KAFD's design is impressive, but many Saudis feel it is disconnected from the rest of the city. The challenge is not just infrastructure but making KAFD feel like a part of Riyadh, rather than an isolated financial zone."*** This highlights the importance of bridging cultural and social gaps to ensure KAFD's long-term success.

While these obstacles are significant, strategic communication efforts to position KAFD as a global financial hub have shown potential. However, the persistent concerns related to transparency and sustainability remain crucial to its long-term success. Controversies surrounding cost overruns and governance have further emphasised the need for strong consensus-building among all relevant stakeholders, including policymakers, regulators, and local communities. Fostering collaboration among these groups is essential to addressing challenges and ensuring the project's success.

Ultimately, overcoming these challenges and resolving ongoing controversies will be key to solidifying KAFD's role as a major financial centre, helping to advance the broader goals of Saudi Vision 2030 and contributing to the Kingdom's economic transformation.

Public concerns and criticisms are inherent to the challenges that often accompany large-scale developments, particularly those that promise sustainability. For instance, as demonstrated in the case of the Bank of America Tower, sustainability claims can be scrutinised when actual energy consumption data contradicts initial environmental promises (Straub, 2022). This raises important parallels for KAFD, where sustainability is a central objective. Public concerns may emerge in questioning the district's true environmental impact and the effectiveness of its eco-friendly measures.

In the context of Islamic cities, urban development traditionally sought to foster community ties, emphasising accessibility and connectivity among neighbourhoods.

The separation of KAFD from the rest of Riyadh could be seen as misaligned with these Islamic principles of community integration. A Riyadh-based architect interviewed for this research noted, ***"In Islamic urbanism, the city is a place of gathering—where different groups mix and connect. KAFD, at least in its current form, feels detached from this tradition, more like an exclusive enclave."*** This insight underscores the need for KAFD to focus not just on being a global financial hub but also on fostering a sense of belonging within the local Saudi context.

Effectively addressing these criticisms is vital for maintaining accountability and fostering stakeholder consensus within KAFD. Gaining local support through strategic communication and community engagement is essential to overcoming controversies and ensuring long-term success. Urban habitats are incomplete without significant architectural structures, particularly tall buildings, which are crucial not only for the economic viability of urban areas but also for their aesthetic and cultural identity. High-rise buildings enhance real estate value, attract investments, and shape the character of a city's districts. However, concerns about KAFD's isolation have surfaced due to its location on the northern fringes of Riyadh, where the presence of highways separates it from the city's core, raising issues about accessibility.

Nicolai Ouroussoff, writing for the New York Times in 2010, likened the design of KAFD to a fusion of Wall Street in New York, La Défense in Paris, and Canary Wharf in London. Positioned as the financial heart of Saudi Arabia's largest economy, KAFD aims to establish itself as the leading financial hub in the Gulf (Ouroussoff, 2010).

As part of its broader economic transformation strategy, Saudi Arabia is actively working to bring the regional headquarters of multinational corporations back to the Kingdom. This move is aimed at fostering local job creation and accelerating knowledge transfer (Khan & Sophia, 2021). In 2021, the government implemented a bold policy: from 2024, companies lacking a regional HQ in Saudi Arabia will be disqualified from securing government contracts. While some exemptions exist, experts predict that this regulation could eventually extend to agreements with state-owned enterprises. Concerns are emerging among corporations, with some questioning whether future requirements might include more stringent conditions, such as increasing the number of executives based in the country or complying with stricter operational criteria.

The Kingdom's goal is clear: by 2030, it aims to host 480 regional HQs. This initiative is designed to encourage the long-term commitment of foreign firms, ensuring that a greater portion of their corporate expenditures stays within Saudi Arabia. Such efforts are also closely aligned with the objectives of Vision 2030, which seeks to diversify the economy beyond oil dependence. By attracting major international players to areas like KAFD, Saudi Arabia is positioning itself as a central hub for global business, underscoring its ambition to reshape its economic landscape (Hausheer, 2023).

However, this rapid transformation has sparked concerns, particularly among multinational corporations navigating the new regulatory requirements. Some are cautious about the potential long-term implications of the headquarters mandate, including the number of executives required to staff the Saudi-based HQ and the proportion of Saudi nationals to be employed. This reflects an ongoing tension between Saudi national policies, such as Saudization, and the desire for foreign firms to retain operational flexibility.

A foreign executive, reflecting on the challenges of relocation, stated, *"The headquarters policy has certainly pushed us to set up in KAFD, but there are still questions* *about long-term viability, especially regarding staffing and compliance with Saudization."* This underscores the delicate balance between encouraging foreign investment while adhering to domestic labour policies aimed at boosting local employment.

KAFD, one of the key developments in this strategy, is already seeing significant demand. According to reports, nearly 70% of its available office spaces have been pre-leased, with tenants ranging from global banks to legal and consultancy firms (Sashittal, 2023). Even residential units have seen strong demand, with many sold before any formal marketing campaigns (Chen, 2014). As of now, 80 companies have obtained licenses to establish their regional headquarters in KAFD, with PepsiCo being one of the notable firms. However, some corporations are navigating the new requirements cautiously, exploring legal and operational options to comply with the HQ mandate while minimizing their executive footprint in the country. Key considerations include the number of employees required to staff the Saudi-based HQ, the proportion of Saudi nationals to be hired, and the potential tax obligations that come with establishing operations in the Kingdom (Hausheer, 2023).

In its effort to assert itself as a leading regional business hub, Saudi Arabia has issued licenses to 180 companies, inviting them to establish their regional headquarters within the Kingdom. This initiative is part of a broader policy aimed at meeting the January deadline for international businesses to relocate to Saudi Arabia or risk losing access to lucrative government contracts. By March 2023, around 80 companies had already secured licenses, many of which are expected to set up operations in Riyadh's King Abdullah Financial District (KAFD). Although Saudi Arabia is expanding its business landscape, it faces the challenge of maintaining economic ties with the United Arab Emirates (UAE), which continues to serve as the primary regional business hub. Nonetheless, several multinational corporations have been drawn to Saudi Arabia due to attractive tax incentives and a simplified regulatory framework, particularly for those establishing operations in special economic zones, economic cities, and Riyadh's financial district.

The Saudi government has also recently announced the creation of a Riyadh Special Economic Zones Centre, which will oversee the development of new economic zones in the capital. This centre will play a pivotal role in issuing licenses to investors and providing essential services within these zones (Hammond, 2023a). Special economic zones, known for offering favourable tax policies and a more efficient regulatory environment, are seen as instrumental in attracting foreign businesses to the Kingdom. However, despite the ambitious infrastructure plans around KAFD, Riyadh's lack of a fully operational public transportation system continues to hinder its potential as a truly global city. The much-anticipated opening of the Riyadh metro is expected to significantly improve the city's connectivity, offering deeper insights into the capital's trajectory toward becoming a global financial centre (Hammond, 2023a).

For many businesses, relocating their regional headquarters to Riyadh offers access to government contracts, a key incentive driving several companies to shift from Dubai to the Saudi capital. Local firms are playing an important role in facilitating this relocation process. Despite Riyadh's larger population of 7.6 million, it currently lags behind Dubai as a regional business centre. Research from Infomineo reveals that only 30% of Fortune 500 companies in the Middle East and North Africa have chosen Riyadh as their base, with the remaining 70% maintaining their headquarters in Dubai. Despite this gap, Riyadh is determined to challenge Dubai's dominance and elevate its status as a leading financial and business hub in the region (Hammond, 2023b).

6. Insights from International Case Studies and Strategic Communication Approaches

This section offers a thorough analysis of accountability models and communication strategies employed within KAFD in Riyadh, drawing on lessons from international case studies. A key issue addressed is KAFD’s relative isolation, which can be compared to the early challenges faced by Ground Zero in Manhattan. Plans to integrate KAFD more seamlessly into Riyadh’s broader urban fabric are essential for overcoming this obstacle.

International examples such as Marina Bay Sands in Singapore provide valuable insights into the essential components of effective accountability frameworks. These include the importance of collaboration between stakeholders, transparency in decision-making, and active governmental involvement in ensuring project success. The analysis extends to the cultural context of the United Arab Emirates (UAE), where the creation of separate business enclaves and a strong emphasis on Emirati identity offer valuable lessons for KAFD's own development trajectory. Understanding these dynamics can inform how KAFD positions itself culturally and operationally.

The success of the Dubai International Financial Centre (DIFC) offers a key example of how strong regulatory frameworks can be established to ensure the smooth functioning of financial hubs. Drawing from such successful models can inform KAFD’s approach to creating an attractive and well-regulated business environment. Similarly, the innovative practices from New York City's High Line highlight the importance of incorporating sustainability, community engagement, and active stakeholder participation in urban development projects.

In terms of public perception, media partnerships have proven to be crucial in shaping KAFD's image. Collaborations with entities like the Saudi Research and Media Group and Al Nassr FC have helped enhance its visibility and foster community engagement. Moreover, KAFD's use of social networking platforms and the introduction of a mobile app are pivotal strategies in connecting with a global audience and improving accessibility to its services and amenities. These digital tools underscore the importance of effective governance, stakeholder involvement, and strategic communication in promoting and managing large-scale projects like KAFD.

Expanding our analysis beyond KAFD, this section undertakes a comparative exploration of accountability frameworks in megaprojects. Drawing from Straub's comprehensive architectural critique (2022) and the evaluation of KAFD by Chen et al. (2014), we investigate how KAFD measures up to international standards in governance and accountability. By delving into the complexities and challenges of implementing these models in large-scale developments, this section contributes to the broader discourse on creating effective governance structures for such projects. Ouroussoff (2010) compared KAFD to Ground Zero in Manhattan, highlighting its independence and relative isolation, primarily driven by security concerns. KAFD's masterplan emphasises the advantages of an "island site" (Ouroussoff, 2010).

Surrounded by highways, the district's physical isolation poses significant challenges for accessibility. The Wadi streets, many of which terminate in cul-de-sacs, contribute further to a sense of disconnection from the wider city of Riyadh. Most visitors to KAFD will likely drive to the area, parking in one of the four underground levels before taking an elevator to street level. Once there, they will navigate the district via over three kilometres of airconditioned skywalks. This design not only accommodates Riyadh’s harsh climate but also allows authorities to tightly control access and secure the area in the event of a security threat. A similar security-oriented approach was employed in the masterplan for Ground Zero in New York.

KAFD presently functions as an urban enclave, cut off by surrounding highways. Yet, several developments in the pipeline could change this dynamic. The Riyadh Metro, along with the highly anticipated Zaha Hadid-designed KAFD station, is likely to attract greater foot traffic and improve the district’s integration with the city. Additionally, the nearby Sports Boulevard project, if connected to KAFD, could play a transformative role, bringing increased vibrancy and footfall to the area, thus reducing its isolation (Elsheshtawy, 2021).

To develop a comprehensive understanding of accountability models in megaprojects, we examine international case studies that bear similarities to KAFD. A notable example is Marina Bay Sands in Singapore, a multifunctional development that, like KAFD, integrates entertainment, hospitality, and commercial spaces. The accountability framework of Marina Bay Sands is built on a public-private partnership, with the Singaporean government playing a central role in ensuring that the project adheres to regulatory requirements and sustainability standards.

By comparing the accountability mechanisms of Marina Bay Sands and KAFD, the critical role of government involvement in large-scale developments becomes clear. In Singapore, the government's active oversight and regulation of Marina Bay Sands ensures that the project aligns with broader national objectives. Similarly, greater collaboration between Saudi governmental bodies and private sector stakeholders could reinforce KAFD's accountability framework. Such partnerships would not only enhance compliance but also contribute to the overall success of the project, ensuring it aligns with the Kingdom's economic and developmental goals.

In UAE, there is a conscious effort to cultivate a narrow conception of Emirati identity, which is strongly rooted in the pure lineage of Bedouin heritage. This identity narrative frames the Bedouins as the sole indigenous inhabitants of the UAE, positioning them as the authentic custodians of the nation's cultural legacy. However, this construction marginalises the rich cultural diversity that has historically shaped the Gulf's hybrid populations. This selective identity, while acting as a political and cultural performance to reassure Emirati nationals—now a minority in their own country—excludes the many other populations that make up the UAE.

Despite the undeniable presence of diverse communities such as young Western expatriates, Arab refugees, and Southeast Asian labourers, this narrative presents non-Emiratis as a unified "other," never to be fully integrated into the national fabric. Traditional sports, such as falconry and camel racing, are promoted as symbols of national identity and citizenship. Yet, this portrayal of cultural authenticity faces challenges, particularly due to the imposition of a pan-Islamic narrative that overlooks the nuanced differences in Islamic traditions and history. This simplified and mythologised identity formation is part of a broader doctrine that resists more historically accurate or inclusive alternatives (Andraos, 2022). The cultural dynamics currently playing out in the UAE could similarly manifest in Riyadh, raising questions about how cultural identity is constructed in Saudi Arabia.

Over the last fifteen years, GCC nations have pursued cultural, economic, and foreign policies designed to elevate their standing as progressive and responsible global actors. Leveraging their vast oil wealth, these monarchies have invested in high-profile, international-facing projects such as renewable energy initiatives and strategic overseas assets in media. This unprecedented ambition has resulted in the construction of international museums, universities, and the development of zero-carbon cities in isolated enclaves. The impact of these soft power strategies has transformed the urban landscapes of the region, reflecting the aspirations of Gulf elites and the political economy of rentier states. This trend is driven by two key forces: the rise of legally and geographically separate enclaves since the 1970s and the growing ambitions of Gulf rulers to assert leadership in cultural, scientific, and normative domains since the early 2000s (Hertog, 2019).

The Dubai International Financial Centre (DIFC), spanning an area of 0.48 km², is strategically located behind the iconic Sheikh Zayed Road towers and across from the Emirates Towers. Since its inception, DIFC has evolved into a prominent development zone and public space, hosting some of the world's leading banks and financial institutions. The project encompasses a gross floor area of approximately 2.5 million square metres, with the capacity to accommodate up to 9,000 vehicles, spread across three basement levels and three podium parking floors.

(DIFC) stands as a key financial hub in the Middle East, accommodating a range of leading financial and business institutions in the UAE. Offering a secure and highly efficient business infrastructure, DIFC enables financial firms to access both the local UAE market and the global financial landscape. The Dubai Financial Services Authority (DFSA), which regulates business activities within the DIFC, oversees a broad spectrum of financial operations, including asset management, banking, credit services, securities trading, commodities trading, and investment fund management. The DFSA is responsible for authorising and registering companies and individuals to operate financial services within the DIFC Free Zone, one of the most prestigious financial centres in the region, home to numerous global financial firms.

The success of DIFC and other commercial enclaves in Dubai is supported by the existence of distinct regulatory frameworks that function independently from the broader state apparatus, both formally and informally. This autonomy allows these zones to bypass the bureaucratic inefficiencies and constraints typically associated with government systems. DIFC, in particular, operates under its own legal system and courts, staffed predominantly by retired British judges. The zone offers office space and luxury real estate, which are primarily available to foreign buyers who cannot purchase property outside these free zones.

As a senior economist at Bloomberg working in Saudi Arabia stated ***"What makes the DIFC model so successful is its ability to operate outside the traditional government bureaucracy. It has its own legal system, which is critical for attracting foreign investment. Investors know they're dealing with a predictable, transparent set of rules that aren't subject to the inefficiencies or inconsistencies of the broader state framework. That level of autonomy, especially with courts staffed by international judges, creates confidence."***

Dubai's commercial enclaves, including both traditional free zones and regulatory free zones like DIFC, have proven highly effective in fulfilling their economic functions. It is estimated that these zones contribute between a quarter and a third of Dubai's GDP, with many ranking highly on international performance indices (Hertog, 2019). While attempts to establish an international stock exchange through Nasdaq Dubai have not met expectations, DIFC has cemented its status as a leading hub for consulting, banking, and financial services in the region.

The Dubai model of large-scale, disconnected free zones has been replicated across the Gulf Cooperation Council (GCC) region and beyond. Abu Dhabi, for instance, now boasts four free zones that permit 100 percent foreign ownership. One of the most notable is the Abu Dhabi Global Market (ADGM), inspired by Dubai's DIFC and located on Sowwah Island, an urban megaproject developed by Mubadala. Similarly, Bahrain, Oman, and Qatar have established special economic or free zones, typically coupled with large-scale state-backed office and residential developments aimed at attracting foreign investment. The Qatar Financial Centre (QFC), created in 2005, a year after DIFC, goes even further by implementing a fully independent regulatory structure, complete with its own labour, immigration, court, and arbitration systems.

Unlike the DIFC, the QFC does not require companies to be physically based within the zone, providing greater flexibility for businesses. In contrast, Saudi Arabia has also sought to emulate Dubai's model through developments like King Abdullah Financial District (KAFD) and King Abdullah Economic City (KAEC). However, these projects have faced challenges in obtaining full free zone status due to resistance from entrenched government agencies. Additionally, Saudi Arabia's stricter cultural norms surrounding expatriate life have further impeded the economic potential of these developments (Hertog, 2019).

Neighbouring Gulf states have not only adopted Dubai’s free zone framework but also extended it to pursue even more ambitious objectives. The emerging soft power enclaves in Abu Dhabi, Qatar, and Saudi Arabia aim to create spaces conducive to international business while using oil revenues to establish parallel cultural and regulatory spheres that operate independently of traditional state structures. These zones bypass not only logistical or administrative obstacles but also cultural and social barriers. Their primary audience appears to be international, as reflected in their focus on global business standards. These developments range from cutting-edge renewable energy projects to the creation of world-class museums, universities, and research centres.

DIFC has established itself as a business-friendly hub by creating its own legal framework and court system, designed to streamline operations for financial institutions. In contrast, the KAFD operates within Saudi Arabia’s national legal system, which is often viewed as more conservative and less developed in comparison. DIFC's reputation for simplified processes, such as company setup, licensing, and operational efficiency, particularly benefits financial institutions and fintech firms. KAFD, on the other hand, is still in its formative stages and may face hurdles in achieving a similar ease of doing business. Nevertheless, ongoing efforts to attract international investors and businesses highlight the district's ambitions to grow as a global financial hub (Hertog, 2019).

While DIFC boasts a well-established ecosystem offering a wide array of financial services to both regional and global institutions, KAFD seeks to provide a comparable range of services. However, its ecosystem remains less mature at present. Despite these challenges, KAFD’s potential for growth is substantial, bolstered by Saudi Arabia's economic strength and its strategic geographical position within the region. As the Kingdom continues its efforts to diversify its economy, KAFD might have the chance to stand to become a key player in the financial landscape of the Middle East.

7. Conclusion

Narratives emerge in Riyadh's urban development: the classical approach, rooted in the city planning strategies, and the more recent humanisation initiative, which emphasises a shift towards a people-centric, downscaled urban environment. Both approaches coexist in Riyadh's current urban fabric. The city, like many global metropolises, often balances between the spectacular and the ordinary, with ambitious development projects sitting alongside everyday urban spaces.

Historically, urban development in Riyadh has leaned towards the spectacular, with a focus on creating grand, visually impressive projects that appeal to investors and enhance the city's global image. This emphasis has frequently resulted in real estate speculation and a reliance on car-dependent infrastructure, contributing to widespread urban sprawl. However, a shift is now underway, with growing attention being paid to public spaces, green areas, and facilities designed for community use, signalling a departure from previous planning priorities.

The humanization initiative is central to this new vision, prioritising the well-being of residents by creating more walkable, livable spaces that cater to daily needs. While Riyadh has long been regarded as an unfriendly city for pedestrians, recent efforts are transforming certain areas into more accessible, pedestrian-friendly environments with the development of urban parks and recreational spaces.

Despite these advancements, much remains to be done to fully realise this vision. Riyadh’s urban planners and officials are increasingly motivated to implement meaningful changes, balancing the large-scale, iconic projects that have defined the city’s growth with a renewed focus on smaller, community-oriented developments that enhance residents’ quality of life.

Looking towards the future, it is essential that Riyadh avoids falling into the pitfalls of speculative urban models, a concern heightened by the proliferation of giga-projects. These large-scale initiatives, central to Vision 2030, aim to diversify the Saudi economy away from its reliance on oil. Riyadh envisions a city where the extraordinary and the everyday coexist, ensuring that urban development serves the broader population, rather than an exclusive few. The King Abdullah Financial District (KAFD), originally proposed by MEDSTAR in the late 1990s, was a precursor to this ambition, preceding the now emerging projects such as Qiddiya, Diriyah Gate, The Cube, and The Sports Boulevard.

These large-scale projects stand in stark contrast to the stereotypical representations of Saudi Arabia commonly portrayed in the media—images of expansive deserts, rigid visa policies, oil wealth, religious policing, and restrictions on women’s rights. While these depictions reflect some of the Kingdom's historical and ongoing issues regarding democracy and human rights, they overlook the significant shifts underway. The recent focus on urban development and governance reforms signals a potential shift towards a more inclusive and modern urban environment. Despite these positive indicators, the overall success of Saudi Arabia’s national transformation remains uncertain.

As noted by Elsheshtawy, the societal changes in Riyadh are particularly striking: “The previous practices of religious police enforcing gender segregation in public spaces have largely disappeared. Today, if you visit Tahlia Street on the weekend, it is bustling with social activity; women are sitting in cafés independently. Such scenes were unimaginable only a few years ago. While the religious authorities still exist, their influence has been significantly reduced” (Elsheshtawy, 2021).

The anticipated opening of the Riyadh Metro and the Zaha Hadid-designed KAFD station is poised to significantly enhance the accessibility and integration of KAFD within the broader urban fabric. By improving connectivity, these developments have the potential to attract more people to the area and stimulate further urban growth. Additionally, neighbouring projects, such as the Sports Boulevard, if connected to KAFD, could play a pivotal role in transforming this part of Riyadh into a vibrant and densely populated district. Currently, KAFD, with its architectural grandeur and cutting-edge engineering, functions as a relatively isolated enclave, surrounded by highways and primarily accessible by car. However, these upcoming infrastructure projects may shift this dynamic, making the district more pedestrian-friendly and integrated within the city's core.

A comprehensive vision for Riyadh’s future development must go beyond focusing solely on large-scale projects. Instead, it should integrate smaller, human-scale interventions that have a tangible and lasting impact on residents' daily lives. While the grand, spectacular developments offer a striking image of the city from above, this "satellite view" only captures a partial reality. By placing greater emphasis on the human scale, Riyadh can create an urban environment that is not only iconic but also liveable and sustainable, catering to the needs of its diverse population.

Riyadh's ongoing transformation mirrors broader global trends in urban planning. Cities worldwide are increasingly shifting towards human-centred design, prioritising green spaces, walkability, and sustainability. This movement reflects a growing recognition of the importance of creating inclusive, resilient urban environments. By learning from these trends and adapting them to the unique context of Riyadh, the city has the opportunity to continue its growth in a way that balances the needs of its residents with the pressures of rapid urbanisation and economic development.

Riyadh's evolution from a small town to a sprawling metropolis reflects the significant influence of strategic urban planning. The city's development, characterised by both large-scale projects and more modest interventions, underscores the need for a balanced approach to urban growth. As Riyadh continues to expand, it will be important to strike a careful balance between ambitious development projects and the practical needs of its residents. This requires integrating bold urban visions with the everyday realities of urban life, ensuring that growth is inclusive and sustainable. The future of Riyadh will depend on its ability to navigate this balance, promoting a city that is resilient and adaptable in the face of ongoing urbanisation.

Chapter 9: Discussion and Conclusion

1. Introduction

This chapter brings this thesis to a conclusion by critically assessing how the key research objectives and questions have been addressed throughout the thesis. Rather than simply summarising the findings, it provides an analytical evaluation of the extent to which the objectives—particularly concerning Vision 2030 and Saudi Arabia's positioning in global flows—have been met.

To ground the analysis, the chapter draws on three detailed case studies: the role of Sovereign Wealth Funds (SWFs), particularly the Public Investment Fund (PIF), the development of the King Abdullah Financial District (KAFD), and the creation of King Abdullah Economic City (KAEC). These case studies are examined as practical implementations of Vision 2030's objectives, offering insight into both the potential and the challenges of Saudi Arabia's economic diversification strategy. By assessing these initiatives, the study evaluates whether Vision 2030 is achieving its stated goal of transforming the Kingdom into a global hub for economic and religious flows.

The analysis begins by placing the study's findings within broader theoretical frameworks, notably state capitalism, global cities theory, and global production networks (GPNs). The role of the PIF and SWFs is evaluated through the lens of state capitalism, assessing how state-controlled financial instruments are mobilised to drive economic transformation. KAFD and KAEC, on the other hand, are analysed as attempts to create global cities within Saudi Arabia, serving as benchmarks for the Kingdom's integration into global production networks.

One of the key focuses of this chapter is on how Vision 2030 has evolved since its inception in 2016 and the empirical benchmarks by which its success or shortcomings may be judged by 2023, the midpoint to 2030. The study critically examines whether Saudi Arabia's aspirations to become a global hub are being realised, comparing its efforts to other regional and global examples of successful diversification. The case studies provide concrete points of comparison for evaluating the effectiveness of Vision 2030 against similar projects in other economies.

The chapter also reflects on the methodological limitations encountered, particularly how they might have shaped the findings and their implications. These limitations are discussed in relation to state capitalism and global production networks literature in relation to KAFD and KAEC, underscoring the complexity of researching an evolving national policy like Vision 2030. By integrating the study's findings with established literature, this chapter contributes to the academic discourse on state-led development and economic transformation in oil-dependent economies.

Finally, the chapter identifies potential avenues for future research, particularly in areas where Vision 2030 may intersect with emerging global trends such as green energy transitions and post-oil economic models. Additionally, the case studies of PIF, KAFD, and KAEC raise questions about the long-term sustainability of state-driven economic projects, offering fertile ground for further academic inquiry.

2. Assessing Saudi Arabia's Progress Toward Becoming a Hub for Global Flows under Vision 2030

The goal of this thesis has been to examine the intersection of Saudi Arabia's political economy—its politics, economy, society, and religion—and to assess its capacity to emerge as a regional hub for global flows beyond oil and Islam. Within this context, Vision 2030 serves as the central vehicle for the Kingdom's efforts to achieve economic diversification. Since its launch in 2016, Vision 2030 has aimed to reduce Saudi Arabia's dependency on oil and establish the Kingdom as a leader in sectors such as finance, tourism, technology, and entertainment.

Since its inception, significant steps have been taken to modernise Saudi Arabia's economy, especially through the growth of PIF and the state's efforts to attract foreign investment. The Aramco IPO in 2019 was one of the most significant financial milestones of this initiative, raising nearly $30 billion from the sale of a 1.5% stake in the company, followed by additional share offerings in 2022. These IPOs provided a crucial injection of capital for PIF, which plays a central role in financing Vision 2030's Mega and Gega-projects, such as Neom, The Line, and the Red Sea, among others.

However, Aramco's IPO and the expansion of the PIF highlight the circular nature of state financing under Vision 2030. Both Aramco and PIF are state-controlled entities, and the proceeds from the Aramco IPO largely represent state funds circulating within state-owned enterprises rather than the generation of new, external capital. This dynamic raises concerns about whether Vision 2030's funding structure is sustainable in the long term, as the state continues to rely on oil revenues to finance its diversification efforts.

From an analytical perspective, the Aramco IPO has not only provided PIF with resources but also raised questions about the long-term role of Aramco in Saudi Arabia's economy. Although a portion of Aramco's shares were sold to the public, the Saudi government still retains majority control, ensuring that the company's strategic decisions remain aligned with national policies. While the IPO has introduced new governance structures and external shareholders, Aramco's dependence on oil revenues continues to underpin much of Saudi Arabia's economic activity. This underscores the paradox of Vision 2030, while the state seeks to reduce oil dependency, it still relies heavily on oil-generated wealth to finance its transition.

For the PIF, the proceeds from the Aramco IPO have enabled it to become one of the world's largest sovereign wealth funds, with assets growing from $160 billion in 2016 to over $700 billion by 2023 (Almutairi, 2022). This capital has been funnelled into a wide array of infrastructure projects and investments aimed at diversifying the Kingdom's economic base. However, the reliance on Aramco's revenues to bolster PIF's financial capacity reveals an underlying dependency on the oil sector to drive diversification—a contradiction that complicates the goals of Vision 2030.

At the same time, Aramco itself has been affected by the IPO. Although the company remains the world's largest oil producer, the partial listing introduced new dynamics in terms of corporate governance, transparency, and accountability. Aramco now has to balance the interests of external shareholders with those of the Saudi state. Nonetheless, given the state's majority control of the company, the strategic direction of Aramco remains closely tied to national interests. While the IPO was framed as a way to diversify the economy, Aramco's long-term position is still largely tied to global oil demand—a dependency that becomes more pressing as the world moves toward renewable energy and decarbonisation (IEA, 2022).

3. Achievements and Shortcomings of Vision 2030 So Far

Vision 2030 has made important strides, particularly in the areas of social reform and efforts to open up the economy to foreign direct investment (FDI). Social reforms have been a key part of the Vision, with significant progress in areas such as women's labour force participation, which has increased from 19% in 2016 to over 35% by 2023 (Vision 2030 Progress Report, 2023). Furthermore, the Kingdom has introduced new sectors, such as entertainment, which have seen rapid growth with the opening of cinemas, hosting of international events, and the expansion of tourism initiatives.

In economic terms, Saudi Arabia's efforts to attract FDI have also been moderately successful, with FDI inflows increasing from $7.5 billion in 2017 to $21.5 billion in 2021 (Saudi Arabian Monetary Authority, 2022). These figures suggest that Saudi Arabia is becoming more integrated into global financial networks. However, despite these gains, there are notable shortcomings in the implementation of certain large-scale projects. For instance, King Abdullah Economic City (KAEC), initially envisioned as a major industrial and residential hub, has struggled to achieve the level of investment and population growth anticipated, with occupancy and business activity falling short of initial projections (Hertog, 2020).

Moreover, while PIF has become a major player in Saudi Arabia's diversification strategy, its investments remain heavily tied to oil-derived revenues. This creates a dependency loop in which the state uses oil-generated wealth to fund projects aimed at reducing oil dependency. As state capitalism theory suggests, such a model can lead to inefficiencies and may limit the effectiveness of diversification efforts if the private sector is not sufficiently engaged (Hertog, 2010).

3.1 Broader Challenges and Comparative Lessons

A critical issue that remains unresolved is the extent to which Vision 2030 can overcome the structural barriers that hinder economic diversification. Riyadh's regulatory environment is still seen as restrictive by global standards, especially compared to more flexible and open economies like Dubai and Singapore. These cities have successfully diversified their economies by fostering private-sector-led growth and creating a regulatory framework that attracts foreign capital and global talent (Yeung, 2000). Saudi Arabia, by contrast, continues to rely on state-led initiatives, which, while necessary for the Kingdom's unique political context, may limit the agility needed to adapt to rapid global economic shifts. Additionally, the global energy transition poses a significant challenge to Saudi Arabia's long-term plans. While oil revenues have temporarily surged due to geopolitical factors like the Russia-Ukraine conflict, the global push toward renewable energy is accelerating, particularly in Europe and other Western economies (IEA, 2022). This trend underscores the urgency for Saudi Arabia to diversify its economy, as the Kingdom's future role in the global economy may be constrained if it fails to reduce its reliance on fossil fuels.

4. Research Contribution

First, this thesis contributes significantly to the ongoing scholarly discourse surrounding Saudi Arabia's political economy and the broader economic diversification efforts under Vision 2030. By examining the barriers and challenges that Saudi Arabia faces in achieving its ambitious goals, this research offers new insights into the underlying dynamics of state-led economic reform and the socio-political factors that shape its trajectory. Specifically, this thesis identifies three primary factors affecting Vision 2030: oil dependency, the role of religion, and the complexities of economic diversification. Through a comprehensive analysis of these elements, the thesis provides a conceptual framework that could be adopted by other Gulf Cooperation Council (GCC) countries facing similar challenges. States like Kuwait, Qatar, Oman, Bahrain, and the United Arab Emirates share Saudi Arabia’s goal of reducing oil dependency and pursuing economic diversification. This research, therefore, not only advances understanding of Saudi Arabia’s situation but also offers valuable lessons for other MENA countries in shaping their own long-term development strategies.

One of the core findings of this research is the intricate relationship between the Saudi state and its citizens, particularly in how the state manages its economy and governs key sectors. The Saudi bureaucracy, shaped by various factions within the royal family, operates in a complex structure where state-owned enterprises (SOEs), such as Aramco, play a central role in driving economic growth.

Vision 2030 sets ambitious goals for reducing state dominance and encouraging the growth of the private sector, yet the partial privatisation of Aramco highlights the tensions between these objectives and the state's desire to maintain political control. While Aramco’s IPO has raised funds to support Vision 2030’s projects, the broader privatisation agenda remains constrained by the state's deep involvement in key economic sectors like oil. The state’s reluctance to fully relinquish control over its economic assets reflects the challenges of moving from a state-capitalist model to a more market-driven economy.

Secondly, the ongoing social reforms under Vision 2030 have introduced new dynamics in the relationship between the state and society. The gradual liberalisation of cultural and social norms, including increased participation of women in the workforce and the expansion of the entertainment sector, represents important steps in aligning Saudi society with the goals of Vision 2030. However, these reforms also raise questions about the long-term impact on traditional religious structures, particularly the role of Wahhabism in shaping public life. The reduction in the influence of the religious police and the introduction of new social freedoms have created a shifting social landscape that the state must carefully navigate to maintain public support for its modernisation efforts.

Third, while Vision 2030 seeks to reduce oil dependency, this research identifies oil as a persistent factor that both supports and constrains Saudi Arabia’s economic transition. The proceeds from the Aramco IPO have bolstered the PIF, allowing the state to finance large-scale infrastructure projects. However, the Kingdom's continued reliance on oil revenues to drive economic diversification reveals the complexities of reducing dependence on hydrocarbons. This underscores the broader challenge of governance in the Kingdom, where the state’s control over key economic assets continues to shape the pace and direction of reforms.

The thesis also highlights that while Saudi Arabia’s oil revenues have enabled significant development and social welfare improvements, they also create a reliance on external market forces—such as global oil prices—that can impact domestic stability. The challenge for Saudi Arabia lies in balancing its continued leadership in the global oil market while also preparing for a future where renewable energy plays an increasingly dominant role in the world economy.

Thus, while Vision 2030 aims to diversify away from oil, the governance structures built around state-led oil wealth management pose challenges to fully realising these goals. The research finds that the pace of reforms in non-oil sectors—such as tourism, logistics, and finance—depends heavily on the state's ability to create regulatory frameworks that encourage private sector participation and innovation.

Another core finding is the tension between social liberalisation and religious conservatism. The Wahhabi tradition has long served as a foundation for Saudi legitimacy, and Vision 2030's reforms challenge this status quo by introducing new norms that encourage openness to the global economy. As the Kingdom opens up to foreign investment and tourism, it must balance these economic goals with the demands of its religious establishment.

The research finds that, unlike Dubai, which has successfully positioned itself as a global hub for tourism and finance, Saudi Arabia's path to diversification is more complex. Religious restrictions continue to shape public life and limit the scope of certain economic activities, particularly in the tourism sector. This highlights the importance of maintaining social stability while pursuing economic reforms, ensuring that the state's drive toward modernisation does not alienate key segments of the population.

This thesis emphasises that the success of Vision 2030 is tied to broader issues of political economy and governance. While economic reforms are central to the Kingdom's long-term vision, political reforms—particularly in terms of governance structures—will be equally crucial. The thesis argues that governance reform is necessary to create a more efficient, accountable, and transparent system that can support sustainable economic growth beyond oil. Improving governance will require a shift toward a more inclusive decision-making process, as well as a clear commitment to reducing bureaucratic inefficiencies and increasing private sector participation. While the Saudi state has taken important steps toward modernisation, this research suggests that the long-term success of Vision 2030 will depend on how effectively the Kingdom can institutionalise these changes across both the political and economic spheres.

4.1 Theoretical Implications for International Political Economy (IPE)

This thesis broadens the scope of inquiry within the field of International Political Economy (IPE) by addressing the often-overlooked roles of religion and culture in shaping state behaviour and economic policies. In traditional IPE frameworks, secular approaches have dominated the analysis of state power, economic interactions, and global flows. However, as this thesis argues, the exclusion of religion from these frameworks limits the ability of scholars to fully understand the complexities of states like Saudi Arabia, where religion remains central to both political legitimacy and economic governance.

The Crown Prince’s reforms, which seek to reshape Saudi society while maintaining its Islamic identity, underscore the need for an expanded theoretical framework in IPE that incorporates religion as a central element of state policy. Religion plays a crucial role in shaping social contracts, legitimising political authority, and influencing the ways in which states engage with the global economy. By bringing religion into the analysis of IPE, this thesis provides a more nuanced understanding of the Saudi state’s position within the global political economy and the challenges it faces in navigating modernisation while maintaining its religious foundations.

The exclusion of religion from traditional IPE analysis stems from the assumption that modernisation inevitably leads to secularisation, a perspective that has been challenged by the resurgence of religious movements in recent decades. The case of Saudi Arabia demonstrates that religion remains a powerful force in both domestic governance and international interactions. As Faiz Sheikh notes, religion is an essential component of International Relations (IR), and its influence extends into the economic sphere as well. This thesis builds on Sheikh's work by arguing that religion, particularly Islam, should be considered a central variable in IPE analysis.

By incorporating religion into the analysis of state behaviour, this thesis provides a more comprehensive understanding of the ways in which Saudi Arabia navigates its role in the global economy. The Kingdom's efforts to position itself as a hub for global flows through Vision 2030 must be understood in the context of its religious identity and the ongoing efforts to balance modernisation with the preservation of Islamic traditions. This intersection of religion, politics, and economics is not unique to Saudi Arabia but is relevant to other states where religious authority plays a significant role in shaping national policies.

The relationship between the Saudi state and the religious clergy is one of mutual dependence, with both entities benefiting from the other's legitimacy. Historically, the Wahhabi clergy has provided religious justification for the House of Saud, ensuring political stability in exchange for influence over social and legal policies. However, as the state moves toward modernisation under Vision 2030, this relationship is being redefined. The Crown Prince's efforts to curb the power of the religious establishment reflect a strategic shift in the state's approach to governance, one that seeks to balance religious authority with the demands of a modern economy.

While the Wahhabi establishment has not openly resisted these reforms, the future relationship between the state and the clergy remains uncertain. The continued success of Vision 2030 will depend on how well the state can maintain its Islamic legitimacy while pursuing an agenda of economic liberalization. By analysing the interaction between the state and religion through the lens of IPE, this thesis highlights the importance of understanding non-secular states within the global economy and the unique challenges they face.

5. Saudi Arabia in a Changing World Order

Saudi Arabia occupies a critical position in a rapidly changing world order, shaped by both material (oil) and immaterial (religion) elements. To understand this duality, we must frame Saudi Arabia's role within the broader context of Global Production Networks (GPNs), state capitalism, and global cities theory. This section will explore how Saudi Arabia's ambitions to transition from an oil-dependent economy toward becoming a global hub for non-oil flows intersects with these concepts, while also positioning the Kingdom within a global order increasingly shaped by intangible religious and cultural forces.

6. Oil, State Capitalism, and GPNs in the Global Economic Order

Saudi Arabia has historically maintained its relevance in the global order through its dominant position in the global oil market and its leadership within OPEC. From the perspective of state capitalism, Saudi Arabia exemplifies a model where the state, through state-owned enterprises (SOEs) such as Aramco, plays a pivotal role in controlling and managing critical resources (Hertog, 2010). This heavy reliance on state control has allowed

Saudi Arabia to act as both an ally and a challenger within the US-led liberal world order, using its oil wealth strategically to stabilise or influence global oil prices.

In the context of Global Production Networks (GPNs), oil is a material commodity that flows through complex, globalised supply chains, influencing global production, trade, and finance. Saudi Arabia's role as a key producer means that it occupies a central node within these networks. Yet, as the global energy transition accelerates, the Kingdom's position within these networks may become increasingly precarious. The shift toward renewable energy and the growing emphasis on sustainability pose a threat to Saudi Arabia's continued dominance in the oil-based global production network. This presents a challenge to Saudi Arabia's ambitions under Vision 2030, which aims to diversify the economy and position the Kingdom as a hub for non-oil-based global flows.

The Aramco IPO, discussed earlier, illustrates the circular nature of state financing within Saudi Arabia's state-capitalist model, where oil revenues are used to fund the state's diversification projects. While the IPO allowed the Public Investment Fund (PIF) to expand its financial capacity, this move did not fundamentally shift Saudi Arabia's reliance on oil revenues (Almutairi, 2022). The ongoing tension between oil dependency and economic diversification highlights the challenges Saudi Arabia faces in fully integrating into GPNs beyond oil.

6.1 Global Cities and Saudi Arabia's Aspirations

Vision 2030 outlines Saudi Arabia's ambition to transform cities like Riyadh, Jeddah, and Neom into global cities—urban centres that play a central role in global economic networks by attracting foreign investment, talent, and innovation. According to global cities theory, these urban hubs are essential nodes in the global economy, acting as sites for the concentration of capital, knowledge, and infrastructure (Sassen, 2001). However, Saudi Arabia's path to becoming a global city hub is complicated by both its reliance on state capitalism and the interplay of religion and cultural conservatism.

In contrast to Dubai—a prime example of a successful global city in the Middle East—Saudi cities are still in the process of building the infrastructure and regulatory frameworks necessary to attract global capital and multinational corporations. For instance, Neom is envisioned as a futuristic smart city that will drive the Kingdom's transition to a knowledge-based economy. However, the success of such projects depends on whether Saudi Arabia can cultivate a business environment that balances religious norms with the economic liberalisation needed to attract global flows of capital and talent (Dunford & Yeung, 2015).

While much of Saudi Arabia's influence stems from its oil wealth, it holds a different kind of power through its religious authority as the custodian of Islam's holiest sites. This influence, while immaterial, plays a critical role in shaping the global order from a cultural and religious perspective. In this sense, Saudi Arabia occupies a unique position within an alternative world order—one that is organised around faith, religious authority, and tradition rather than purely material economic power.

The concept of state capitalism also intersects with Saudi Arabia's religious legitimacy, as the state continues to derive a significant portion of its authority from its role as the protector of Islamic institutions. This dual legitimacy—rooted in both religion and resource control—reinforces Saudi Arabia's role as a key player in both the material world order (through oil) and the immaterial religious order (through Islam). However, as state capitalism typically relies on control over tangible economic resources, Saudi Arabia's leadership in the Islamic world offers a different dimension of power that is not easily quantifiable but remains critical for its global influence.

6.2 Competing World Orders: Material and Religious

Saudi Arabia's dual role as a global oil producer and the centre of the Islamic world positions it within two competing world orders. On the one hand, it is deeply integrated into the US-led liberal world order, where material resources like oil, trade, and finance dominate global interactions. On the other hand, Saudi Arabia is also at the centre of a religious world order, where intangible elements like faith, religion, and culture shape the Kingdom's role in the international system.

In this context, Saudi Arabia's reluctance to adopt Western-style democracy can be better understood. The religious foundations of the state create an alternative form of legitimacy that does not rely on liberal democratic values but instead draws on Islamic traditions and the state's role as the custodian of Mecca and Medina. This highlights the limitations of Western frameworks in explaining non-Western political systems, particularly those where religion plays a central role in governance and legitimacy.

7. Conclusion: Saudi Arabia's Place in the Changing World Order

Saudi Arabia's position in the world order is shaped by its dual reliance on material resources (oil) and immaterial authority (religion). As the world moves toward greater economic and technological specialisation, Saudi Arabia's role within the global production network will face significant challenges. However, its religious influence remains a critical, yet often overlooked, aspect of its global power. The Kingdom's future trajectory within the world order will depend on how successfully it can balance its material power with the immaterial influence derived from its role in Islam. This dual role raises important questions about how we conceptualise world orders: Are we dealing with multiple world orders—one material and one religious—and how do they interact? By positioning itself at the intersection of these competing systems, Saudi Arabia highlights the complexity of global politics in the 21st century and the need to incorporate non-material factors into the analysis of state power within the global political economy.

This thesis has explored Saudi Arabia's ambitions to become a hub for global flows under the framework of Vision 2030, delving into the economic, political, and cultural dynamics that shape its transition. By engaging with theories of state capitalism, Global Production Networks (GPNs), and global cities, and by analysing case studies like Aramco, PIF, KAEC, and KAFD, this research has highlighted the interconnected challenges Saudi Arabia faces in its attempt to shift from an oil-dependent economy to a diversified, globally integrated one.

At the heart of Saudi Arabia's transformation lies its state-capitalist model, where the state, through sovereign wealth funds like PIF and state-owned enterprises (SOEs) such as Aramco, continues to play a dominant role in shaping the national economy. As this research has shown, this model has allowed the Kingdom to mobilize vast resources to fund Vision 2030 initiatives. However, as highlighted by Hertog (2010) in his analysis of state capitalism, there is an inherent tension between state-led development and the need to foster a more dynamic private sector. This creates a paradoxical situation: the state is using its immense oil wealth—the very resource it seeks to reduce dependence on—to finance its diversification efforts.

The case of Aramco's IPO, which was designed to generate capital for Vision 2030, exemplifies this tension. While it enabled the Public Investment Fund (PIF) to expand its investments in non-oil sectors, the circular flow of capital from Aramco to PIF remains tied to oil revenues. This raises important questions about the sustainability of such a model in the long run, especially as the global economy transitions toward renewable energy and sustainable growth. Further exploration of this financial dependency loop is necessary to understand how Saudi Arabia can realistically integrate into Global Production Networks (GPNs) in industries like tourism, technology, and finance, which are key to Vision 2030's success.

In the context of global cities theory (Sassen, 2001), this thesis has explored Saudi Arabia's ambition to transform Riyadh, Jeddah, and Neom into global economic hubs capable of attracting foreign investment, multinational corporations, and knowledge-based industries. However, as the case studies of King Abdullah Financial District (KAFD) and King Abdullah Economic City (KAEC) reveal, the process of turning these cities into globally competitive centres has been far from smooth. Both projects have encountered delays and difficulties in attracting foreign investment, underscoring the infrastructural and regulatory challenges that Saudi Arabia must overcome if its cities are to rival regional hubs like Dubai.

The Vision 2030 project places heavy emphasis on the development of infrastructure and modern urban environments, but this alone does not guarantee success. The success of global cities is predicated on their ability to foster flows of capital, talent, and information, often by creating liberal business environments and enabling high levels of innovation. Saudi

Arabia's challenge, as this research highlights, is how to reconcile its conservative social norms and religious constraints with the openness required to attract global flows. While Neom is promoted as a futuristic, liberal, and open city, its success depends on the state's ability to balance religious and social conservatism with the demands of global investors who seek transparency, legal protections, and a dynamic workforce.

A key element of this research has been to analyse the evolving relationship between the Saudi state and religious institutions, particularly the role of Wahhabism in shaping the Kingdom's socio-political environment. Historically, the Wahhabi clergy has provided the state with religious legitimacy, allowing it to enforce a strict interpretation of Islam that governs much of public life. However, Vision 2030 represents a clear break from the past in many ways, particularly in its efforts to curtail the influence of religious authorities. The reduction in the powers of the religious police and the promotion of social reforms—such as women's empowerment and the opening up of the entertainment sector—signal a shift in the state's approach to governance.

However, this shift is not without its complications. As discussed in the thesis, religion remains a powerful force in Saudi society, and any attempt to modernize or liberalize the country must navigate the conservative religious framework that shapes public opinion and governance. Future research should explore how the balance of power between the state and religious institutions continues to evolve, particularly as the state seeks to expand its global influence while maintaining religious legitimacy. Moreover, the role of religion in the state's identity as the custodian of Islam's holiest sites offers a unique form of soft power that must be considered within the broader context of International Political Economy (IPE).

State Capitalism, Social Change, and Global Flows. The intersection of state capitalism and social transformation is another critical area of focus within this thesis. Saudi Arabia's state-led model has enabled the Kingdom to centralise control over its vast economic resources, but it also limits the dynamism needed to integrate fully into global production and trade networks. Global cities like Dubai and Singapore have leveraged private sector growth and market liberalisation to become hubs for global flows, while Saudi Arabia's path is more constrained by the political and social centralisation that characterises state capitalism.

The thesis also emphasises that social structure plays a central role in shaping the outcome of these economic reforms. Vision 2030 not only targets the economic dimension but also seeks to modernise social norms by empowering young Saudis, promoting women's participation in the workforce, and expanding cultural opportunities. However, these reforms must contend with the deep-rooted conservative traditions that continue to influence decision-making at various levels. As future research will need to address, how can the state-led reforms under Vision 2030 create bottom-up social changes without destabilising the social contract that binds the Saudi monarchy to its population? Understanding the intersectionality of social status, religion, and political agency is crucial to exploring how these changes take hold in Saudi Arabia's top-down political system.

Finally, this thesis has analysed Saudi Arabia's dual role in the global order, shaped by both material powers through its oil wealth and immaterial influence as the centre of the Islamic world. The control of oil reserves gives the Kingdom considerable leverage in the global economic system, as evidenced by its role in OPEC and its influence on global energy markets. At the same time, Saudi Arabia's role as the custodian of Mecca and Medina provides it with a unique form of religious soft power, shaping its relationships with other Muslim-majority nations and giving it a distinct place within the global political economy.

This duality raises important questions for future research on how Saudi Arabia balances its religious identity with its economic ambitions. How does the Kingdom's religious authority interact with the global demands of economic diversification and modernisation? Further study is required to understand how Saudi Arabia will continue to position itself within a world order that is increasingly shifting toward multipolarity and renewable energy.

In conclusion, this thesis has provided a comprehensive analysis of Saudi Arabia's efforts to diversify its economy and become a hub for global flows. By drawing on theoretical frameworks from state capitalism, Global Production Networks (GPNs), and global cities theory, the research highlights the challenges the Kingdom faces as it seeks to reconcile its historical reliance on oil, its religious and social structure, and its desire for global integration. The findings suggest that Saudi Arabia's trajectory will be shaped by the complex interplay of these forces, and further research is needed to explore how these dynamics evolve in the years ahead.

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Appendix 1: Fieldwork questions.

Nassar Alnassar

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Interview questions

My research objectives are to document and analyse the institutional, political, religious, and economic processes undertaken by the Kingdom of Saudi with the aim of establishing the country as a regional hub for global flows.

General questions

1. Do you see Saudi Arabia as a regional hegemon? Why?

2. Would you describe Saudi Arabia as a gateway, financial centre, hub, or launching pad? How do you compare it with regional hubs such as Dubai, and Qatar?

3. What are the political, social, and economic challenges facing Saudi Arabia as they aim to become a regional hub?

4. Does Saudi Arabia offer something to international stakeholders that cannot be found elsewhere in the region?

5. Can Saudi Arabia be a regional hegemon but not a regional hub for global flows (finance, trade, logistics, infrastructure, military, people, ideas, etc.)?

6. What role do you believe big powers have in Saudi Arabia, for instance, the USA and China?

Saudi Arabia as a hub for financial flows

7. What are the main changes in finance (investment and banking) in Saudi Arabia over the last years? At a domestic level? And the movement of capital flows into and out of Saudi Arabia?

8. What are the main areas of interest for international financial actors within Saudi Arabia?

9. Do you see Saudi Arabia as meeting the requirements of an international financial centre: role of the rule of law; the protection of contract and private property; appropriate sets of financial regulations; openness to capital movements; etc.?

10. What, in your opinion, are the barriers to entry for investment into Saudi Arabia?

11. How is the global economic context influencing investment decisions in Saudi Arabia?

12. In what ways does Saudi Arabia's state support or facilitate the growth of the financial sector? Is it enough?

Impact religion on goal to be a regional hub

13. Given that Saudi Arabia is an Islamic state, how does that affect the goal to become a regional hub for global flows?

14. To what extent would international companies feel apprehensive about investing in Saudi? What are the specific areas of concern, i.e., staffing, freedom of movement, risk of political problems, compliance with Sharia, etc.?

15. Would you consider re-constructing your business model to comply with Saudi's Sharia law?

16. Do you think it is essential to have Sharia-compliant avenues for investment and mainstream finance?

Diversification of the Saudi economy & goal to be a hub

17. How do you evaluate Saudi Arabia's interest in renewable energy and moving to a post-carbon economy?

18. Is this a critical factor in the country becoming a regional hub, or will it see its power diminish?

19. Is diversification of the economy an incentive to invest in Saudi Arabia? Why?

20. Any final points you would like to add?

Appendix 2: Consent form template

Project Number:

Study Number:

Participant anonymised initials:

CONSENT FORM

Title of Project:

Name of Researcher(s):

Please initial box

1. I confirm that I have read and understood the Information Sheet provided to me for the above study/project, I have had the opportunity to ask questions and I am happy with the answers. ☐

1. I understand the purpose of the study, what I will be asked to do, and any risks/benefits involved. ☐

2. I understand that my participation is voluntary and that I am free to withdraw at any time, without giving a reason. ☐

3. I understand that personal information about me that is collected over the course of this project will be stored securely and will only be used for purposes that I have agreed to. I understand that information about me will only be told to others with my permission, except as required by law. ☐ ☐

4. I understand that the results of this study may be published, but these publications will not contain my name or any identifiable information about me unless I consent to being identified using the "Yes" checkbox below.

   ☐ Yes, I am happy to be identified.

   ☐ No, I don't want to be identified. Please keep my identity anonymous.

5. [OPTIONAL – REMOVE IF NOT SUITABLE I understand that the Researchers may be required to share any information I give, including personal data, where I am at risk of serious harm.] ☐ ☐

6. I agree to take part in this study

___________________________	_________________	_____________________
Name of Participant	Date	Signature

___________________________	_________________	_____________________
Name of Researcher	Date	Signature

Appendix 3– Grey Literature

AGBI – Discusses KAFD's growing importance in foreign direct investment (FDI) and its contribution to Saudi Arabia's economic diversification. The district plays a crucial role in attracting global firms and creating a business ecosystem, particularly in non-oil sectors, here (AGBI, 2023)

Foreign Companies Rush To Set Up Riyadh Offices as Saudi Deadline for Move Expires: Highlights the rush of multinational companies to establish regional headquarters in Riyadh, particularly in KAFD

Frank Kane: Rothschild Move Confirms the New Allure of Riyadh: Discusses the significance of Rothschild & Co.'s move to Riyadh and how KAFD is increasingly becoming attractive to financial firms as part of Saudi Vision 2030 here (AGBI,2024)

Gulf Construction Online: KAFD to transform into 'special business zone': Discusses KAFD's transformation into a special business zone to attract investors

How Riyadh's King Abdullah Financial District's Future Has Shifted: Highlights the shift in direction for KAFD under Saudi Vision 2030

JLL Establishes Its Regional Headquarters at KAFD: Details JLL's decision to move its regional headquarters to KAFD

KAFD may cause office space glut: Explores the risk of oversupply in Riyadh's office space market due to the development of KAFD

Kamco Invest to relocate its Saudi office to King Abdullah Financial District: Details Kamco Invest's relocation to KAFD as part of its strategy to expand in Saudi Arabia

MEED: Riyadh to salvage economic cities and financial district: Discusses the government's efforts to repurpose KAFD and boost its economic role

MEED: Riyadh to transfer ownership of financial district: Reports on the transfer of KAFD's ownership to the Public Investment Fund (PIF)

Pfizer Saudi moves its Saudi headquarters to KAFD: Details Pfizer's strategic move to establish its headquarters at KAFD.

Public Investment Fund (PIF) – The KAFD is managed by the PIF and is being developed as a world-class, sustainable business and lifestyle hub. It integrates smart city solutions, including

LEED-certified buildings, district cooling, and solar energy, to promote eco-friendly living. Learn more about the district's infrastructure and strategic significance here. (PIF, 2023)

Rothschild opens new office in Riyadh's KAFD: Focuses on Rothschild & Co.'s decision to open an office in KAFD

Saudi Arabia reinforces deadline for companies to move regional HQs: Reports on Saudi Arabia's strict enforcement of the 2024 deadline for companies to establish regional headquarters in Riyadh.

Saudi Arabia: 44 foreign companies to relocate to Riyadh including PepsiCo, Deloitte: Analyses the relocation of major multinational companies to Riyadh under the Vision 2030 plan.

Saudi deadline on regional HQs has foreign firms scrambling: Describes the pressures on foreign firms to meet the headquarters deadline, with KAFD as a focal point.

Saudi Vision 2030: Outlines the major objectives of Vision 2030, including the development of KAFD as a financial hub

Saudi's KAFD Seals New Partnerships at PIF Private Sector Forum: Highlights new partnerships to boost the KAFD's development as a business hub

Saudis to Overhaul Floundering Financial District, Economic Cities: Explores the challenges faced by KAFD and Saudi Arabia's economic cities

Setup in Saudi – This source provides an in-depth analysis of KAFD's economic impact, highlighting how the district is expected to accommodate 50,000 residents and provide around 43,000 jobs. It also emphasises KAFD's role in attracting multinational corporations and fostering foreign direct investment (FDI) in Saudi Arabia here (setupinsaudi, 2023).

SUSTG – This article focuses on the challenges KAFD faced and how its future is being reshaped under Vision 2030. It addresses the project's revised master plan, aimed at transforming KAFD into a special business zone with competitive regulations and direct connections to Riyadh’s international airport. For more details, you can visit this link.

The UAE-Saudi Arabia Rivalry Becomes a Rift: Discusses the economic competition between the UAE and Saudi Arabia, with KAFD playing a central role.

US Builder to Manage Riyadh KAFD Business Hub Expansion Reports on the involvement of a US construction firm in expanding KAFD’s business hub, reflecting the district’s growing role in Riyadh’s urban landscape here (AGBI, 2023)

Appendix 4 – Interviewees

Interviewee	Sector	Occupation
1	Private Equity	Partner in Private Equity based in UAE
2	Economist	Senior Economist
3	Political Advisor	Political Advisor
4	UK Policy / Think Tank	Energy Expert and former UK Policymaker
5	Academic	Lecturer MENA politics
6	Finance	World leading consultancy
7	Academic	Saudi Academic
8	Journalist / Think Tank	Editor in chief / formerly think tank
9	Political / Economic	Political Economic Consultant
10	Energy	Energy Consultant and Former Diplomat
11	Political	Consultant and Former Diplomat
12	Energy	Senior Economist at Energy Company
13	Infrastructure	Senior Researcher at an infrastructure mega project
14	Entertainment	Senior Manager Entertainment
15	Hospitality	Director in Hospitality
16	Research / Consultancy	Senior Analyst - Oil and Gas
17	Academic / Consultancy	Senior Lecturer in London
18	Investor	Investor
19	Real Estate / Private Equity	Director in Real Estate Private Equity
20	Infrastructure / Consultancy	Senior Consultant involved in the giga project