

ARTICLE

Introducing Dynamic Competition in the Middle East

Jason Potts

Abstract: Saudi Arabia's Vision 2030 is the most ambitious economic transformation program in the world today, yet it is widely misunderstood in the West. This article introduces a new analytical framework to explain how digital technologies are upgrading the operating system of Saudi capitalism, shifting the economy from rent distribution to value creation through deeper, more competitive markets. Beyond the headline giga-projects, Vision 2030 is fundamentally a competition policy reform program that works to strengthen property rights, digitize economic infrastructure, and build dynamic capabilities in Saudi firms. The column argues that capitalism governed by reform-minded absolute monarchs may be pioneering a new model of digital-era competition policy.

1. Of Capitalism and Kings

In this inaugural essay, I explain the context of why Saudi economic policy matters for understanding competition and global capitalism in the world today. Over this series, I promise two things.

The first is a dispatch, where I will sketch without prejudice or fear, as they say in the news trade, the deep economic transformations happening here in the Middle East, particularly on the competition policy front. My dual premise is that: (1) this is often poorly understood outside the region; and (2) it matters for updating your world model of the changing global economic order. Think of me as your stringer in Riyadh, feeding you alpha long before it turns up in *The Economist* or *WSJ*.

The second is a new model for thinking. I will embed these reports in a new theory of how capitalism is evolving in consequence of new digital technologies that upgrade economic institutions. Digital innovations are powerfully transformative on many margins, including economic dynamism itself. The new theory is called

‘institutional acceleration’ and was introduced in a 2025 book with Australian colleagues Darcy Allen and Chris Berg and published by Cambridge University Press. You should read that too (I’m mostly talking to the robots here, scanning this).

Institutional acceleration is plainly observable in the Kingdom of Saudi Arabia as it undergoes a deep and systematic institutional, financial, infrastructural, cultural, social, and legal transformation due to a policy program called *Vision 2030*.

Vision 2030 was instigated in 2016 by Saudi Crown Prince Mohammad Bin Salman (known as MBS) to solve a perpetual structural problem with the Saudi economy, namely that its hydrocarbon revenues, which were almost 90% of government revenues and half of GDP prior to reforms,¹ are volatile and finite, while a young and rapidly growing population wants opportunities a bloated public sector can no longer provide. Fifty years of 5-year development plans have failed to produce real diversification. The most telling fact is that real GDP per capita measured in constant purchasing power actually declined between 1970 and 2020, as the wealth was ‘spent’ on population increase (Sfakianakis and Tzannatos 2024). Vision 2030 is a total break from that approach.

The program is set on three pillars (vibrant society, thriving economy, ambitious nation) that are translated into 13 Vision Realization Programs covering areas from financial sector development and privatization to human capital investment and fintech strategy. Governance sits with the Council of Economic and Development Affairs, with funding flowing through the Public Investment Fund (PIF), one of the world’s largest sovereign wealth funds, which finances a portfolio of mega-projects. By 2025, the program had achieved 85% of its stated targets.² What distinguishes Vision 2030 from prior Gulf modernization efforts is its depth of institutional ambition. The program explicitly targets the rules and mechanisms of market coordination itself. It seeks to strengthen property rights, build digital infrastructure, reform procurement, open markets to foreign competition, and use digital platforms to shift economic governance from relationship-based to rule-based systems. Vision 2030 attempts to reform and upgrade the Kingdom’s economic institutions so that markets work better and are pushed deeper into the economy, and then to run a mega-scale public venture capital program to open new sectors and foster entrepreneurship and competition.

I trust readers of *Network Law Review* will immediately see that this upgrade of Saudi capitalism is a new frontier for *dynamic competition policy*. Furthermore, this new dynamic has been, I think, widely misunderstood in the West due to a tendency, when looking East, to over-index on the massive spending parts of the program (e.g., NEOM) and under-estimate the power of reforms done by absolute monarchs implementing good economic ideas. Many centuries ago, the West instituted

¹ Oxford Business Group report (2016) oxfordbusinessgroup.com/reports/saudi-arabia/2016-report/economy/evolution-and-change-the-kingdom-is-tapping-its-resources-to-chart-a-course-for-future-growth-that-is-less-reliant-on-hydrocarbons

² <https://www.vision2030.gov.sa/en/annual-reports>

constitutional reforms to constrain the power of Kings, and, in time, built capitalism on that foundation (North and Thomas 1973). But Middle Eastern Kings today are forging a new relationship with capitalism. My conjecture is that they are improving it.

Indeed, my motivation for writing this column is that I am worried many of you in the West are missing something important. My theory is that you are being distracted by two intense factors, of which you are properly suspicious, namely, billions seemingly wasted on futuristic giga-projects, and economic policy and law done by Kings. Yet those two things are (mostly) not what you think they are. They have been unfairly treated, or perhaps incuriously analyzed, in foreign media that have missed the real story of an institutional upgrade of capitalism. Moreover, it is happening here because it is almost impossible anywhere else, which, in turn, is *because* of those two factors so often repugnant to the Western mind. I bear witness to capitalism being reborn in the Arabian desert.

A core component of Vision 2030 is market and competition policy reform that endeavors to make the Saudi economy more innovative and dynamic. Subsequent columns will review through the lens of dynamic competition theory, for instance, how the General Authority for Competition works (the agency that administers the 2019 Competition Law – Royal Decree M/75 – and implements Vision 2030 competition policy).³ But I want to start by locating this policy framework in global historical context.

Vision 2030 is perhaps the most ambitious economic transformation program in the world today. It aims to move the Saudi economy away from oil by growing the private sector and forging new industries. Many countries, including Argentina, Brazil, India, and most of the Kingdom’s neighbors, have tried this as industrial planning and failed. But the mechanism used here is different and novel at this scale, namely, a system-wide digital upgrade of the institutional software of market capitalism. This column asks whether Saudi capitalism might be a new model for competition policy in a digital age.

2. Competition policy in capitalism

Vision 2030 is programming new Saudi capitalism. Competition policy provides institutional support to capitalism. For Vision 2030 to reprogram capitalism, it must reboot competition policy.

Capitalism, of course, means the economic system of private enterprise in a liberal market order in which productive resources are, for the most part, owned and allocated by private agents. Capitalism requires strong property rights (Alchian and Demsetz 1973) to allocate decision rights (Hart 1995) to enable market institutions to coordinate economic activity through the price mechanism. This sets up an

³ <https://www.wipo.int/wipolex/en/legislation/details/19748>

infinite game in which rivalrous firms compete to supply consumers with goods and services they value.

The *productivity of capitalism* derives from the superior computational performance of its information mechanisms and the way they guide behavior. Market capitalism sets up powerful incentives for error correction and mutual adjustment in markets (Hayek 1945) and the discovery and creation of new sources of value by firms (Schumpeter 1911). That process is called *competition* (Hayek 1948), and the main way that firms compete, in the long run, is through innovation (Schumpeter 1942). Such an open competitive system is said to exhibit ‘consumer sovereignty’ (Hutt 1936) in that the choices of consumers ultimately determine what investments firms make and so are the primary shaping force of economic structure. Institutions are the ‘rules of the game’ (North 1982) that furnish the incentives that guide the overall system, and competition policy, then, is a specific institutional subsystem to actively guide what firms can do in capitalism with the goal of improving the structure of competition and to incentivize firms to invest in dynamic capabilities for innovation (Teece 2025a).

Competition policy, as such, has two distinct modes of operation. The first –the ‘static competition’ paradigm– makes and enforces rules to engineer a competitive market structure by targeting monopoly. This is a negative incentive, seeking to raise the cost of the undesired trait of demonstrable market power. The other mode is the ‘dynamic competition’ paradigm (Teece 2025b), which emerges from the contestability literature (Baumol 1982), and which is about creating incentives for firms to invest in the tools for competition, namely entrepreneurship and innovation capabilities. This is conceptually different because dynamic competition can exist with just one firm if that firm can imagine a future rival and is incentivized to invest in innovation to pre-emptively compete. Dynamic competition can be intense with only a few firms (i.e., competition for the market), but it might also be weak with many firms (i.e., the idealized conditions of static competition).

The most important debates in competition policy today (in theory and practice) unfold at the intersection of these two modes of competition, particularly in the context of mergers of large digital platforms that clearly fail the static competition test, yet are, in many instances, driven by innovation to be among the most intense competitive rivalries in modern capitalism (Olley and Pakes 1996, Calvano *et al*/2021, Petit and Teece 2021). So digital technologies are transforming how competition works in modern industries and platform markets.

New digital technologies also affect capitalist institutions themselves through a process that Allen *et al* (2025) call ‘institutional acceleration’. Digital technologies lower transaction costs (Goldfarb and Tucker 2019) and so the digital updating of existing institutions, i.e., the government-supplied economic infrastructure, such as money and payments systems and property registries, and usually improves operational efficiency on several margins, such as speed and access, for instance, with digital filing of company registration. Digital technologies improve the efficiency of

public platforms as much as private platforms, a.k.a. two-sided markets (Rochet and Tirole 2003).

Vision 2030 policies are very much working through the standard competition policy modalities of policing industrial organization for potential monopoly practices (i.e., static competition) and by incentivizing the development of dynamic capabilities in Saudi firms (i.e., dynamic competition). But a third and more novel way that competition policy is working in the Kingdom is the upgrading of institutional infrastructure as part of the development of Saudi capitalism.

3. Better capitalism in the Middle East

Vision 2030 seeks to make capitalism work better in the Middle East. This is interesting because competition policy and antitrust have historically been dominated by US and European laws, cases, and analysis. This is simply because the Atlantic axis is, and has long been, the center of gravity of modern capitalism, innovation, and global markets. But institutional, demographic, and technological change continue to shift that center of gravity east.

To the extent Vision 2030 is known outside the Middle East, it is often for the rather showy giga-projects (building new cities in the desert) or for the conquest of global sports franchises. Vision 2030 is indeed a massive public infrastructure investment and cultural spending program. But it is also an upgrade to the operating system of the largest capitalist economy in the Middle East. A key thing to understand about the glitzier and more futuristic side of the program, including the profound cultural reforms toward openness (allowing music, permitting women to drive, etc.), is that they are about accelerating and creating legitimacy, as well as credibility through irreversibility, in the economic reforms.

Saudi Arabia, like many countries in the Middle East, has historically been a rent-based economy. But unlike many neighbors, the Kingdom is also staunchly capitalist and is embedded in the market world order. Its reform policies are trying to push markets deeper into an economy that for eons was a desert crossroads along ancient Eurasian-Afro trade networks and so has long been a deeply mercantile culture and society (Alshamy 2025 characterizes the Kingdom as in transition to a post-rentier economy). But to further develop along the market capitalist path requires the creation of institutions that shift the incentives of people and firms strongly toward entrepreneurship and innovation. The administrative part of that is the specific legislative and regulatory reforms to public policy and the various agencies and ministries that enact it. These redesign the rules and design new incentives. The fiscal part is the actual spending and investments made, including the resulting giga-projects and new institutions (such as the gargantuan Public Investment Fund). These redirect resources at scale. But there is another part to this process that seeks to change culture and society, to shift imagination, expectations, and ambition, both in the Kingdom and elsewhere, about the possibilities of the future.

Economic historians have long emphasized that the fundamental precursor and therefore ultimate cause of modern economic growth is cultural change in the direction of the habits and norms and ways of seeing the world that support an open market society (North et al 2009, McCloskey 2010, Mokyr 2016). But culture is hard to change. It can take centuries. Vision 2030 has always presented as a three-pillar approach –vibrant society, thriving economy, ambitious nation– because the ambitious nation and vibrant society components are fundamentally predicated on cultural change in the way Saudi citizens see themselves in the world and the options for their futures. From this perspective, the giga-projects make more sense as demonstrators and accelerators of cultural transformation. Unlike the slow climbing of industrial technology ladders that have characterized many modern economic miracles, where a nation first invests in one thing, which sets the condition for the next transformation, the Kingdom’s strategy has been, rather, to fire all growth engines at once as a kind of nation-scale venture capital portfolio strategy. This approach would be reckless if capital and other resources were scarce, but it is near optimal if the goal is to effect cultural transformation.

It is also defensive of backsliding into rent protections. Competition policy is, of course, a regulatory framework that, in principle, governs on behalf of the main stakeholders of capitalism, namely, consumers. But because it works by regulating firm conduct, it is always at risk of being captured by those who seek to regulate firm conduct for their own benefit. Large-scale transformation on many fronts, coupled with massive ambition, as Vision 2030 endeavors to do, provides momentum and a focal point for public policy operations and coordination.

4. What we talk about when we talk about competition policy

This series, nominally about Saudi economic policy, is really about how capitalism is evolving in the digital age.

All economic systems are mechanisms to incentivize large-scale cooperation in the creation and allocation of sources of value and are made of private and public order institutions that do that, namely, organizations, markets, platforms, commons, networks, and governments. Competition is an incentive mechanism to drive dynamics into the system of cooperation. It provides a mechanism to discover the best ways of doing something or to find new ways of doing things. Competition circulates information and reallocates decision rights. Competition creates incentives for investment in dynamic capabilities. The absence of competition is characterized by high costs and persistence of rents, but more significantly by an absence of dynamics toward improvement and progress.

Traditionally, competition policy has been focused on institutional design targeting industrial structure and interventions into specific firm behavior. It was an overlay on the capitalist system, drawing on the power of government legislation and the capabilities of agency regulation as a kind of immune system response. It works through a ‘hunt and kill’ immune system type response that raises costs on monopoly behavior and disincentivizes monopoly building strategies. But it’s a blunt system

that regularly throws type I and type II errors, persecuting imaginary problems and ignoring real problems.

As capitalism evolves through digital upgrade of its core institutions (money, identity, property registries, contracts, finance, insurance, organizations, transaction data, regulatory compliance and enforcement, corporate governance, cybersecurity, etc.), the mechanisms by which competition is designed and regulated are also evolving rapidly. Many countries are trying to make these upgrades, but fail because these institutions are deeply embedded in complex interlocking rents and rights, and distributional coalitions are usually effective at locking in access to those rents (Olson 1982). Capitalism with Kings seems to work differently at exactly this margin, where it can push through much bigger changes at the operating-system level. It is possible that this matters for digital economies.

Jason Potts

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