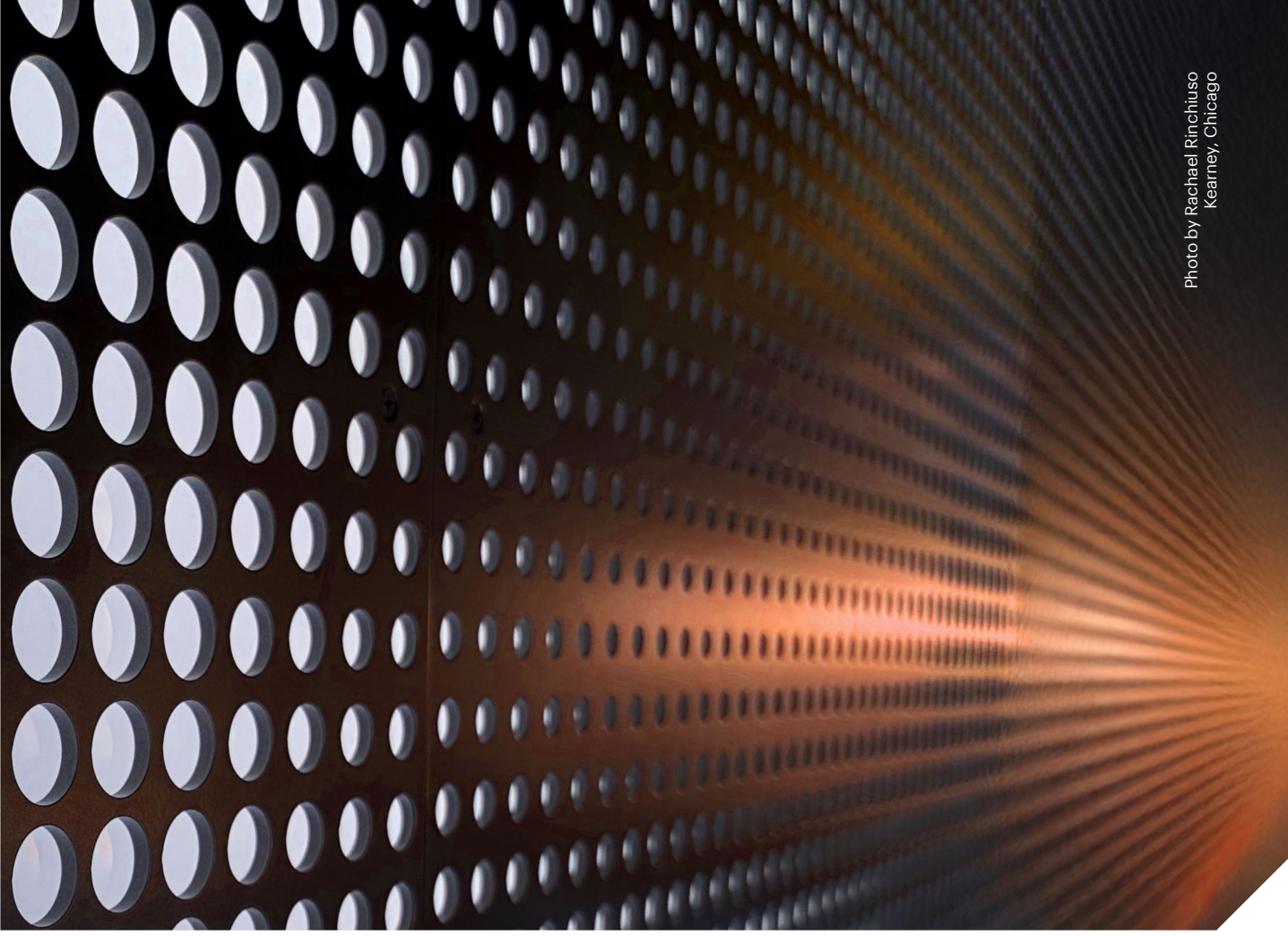

Photo by Rachael Rinchiuso
Kearney, Chicago

Nexus point

The Middle East at the center of global change

June 2025

Kearney Foresight
National Transformations Institute

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The National Transformations Institute, part of the Kearney Foresight network, is dedicated to helping senior government and business leaders anticipate and drive the diverse and accelerating transformations under way globally. The work of our National Transformations Institute centers on the application of the formal techniques of strategic foresight, policy design and analysis, and economic modeling.

When headwinds and tailwinds collide

We have only seen the beginning, but of what exactly?

When opposing weather systems meet, headwinds and tailwinds collide—concentrating energy at the frontier of their convergence. Sailors refer to the resulting condition as "confused seas." Wave patterns are disorganized, barometric pressure is erratic, and winds are turbulent. At the midpoint of 2025, this is where we are.

The global strategic operating environment facing businesses and government institutions is now well into a critical juncture. Whether this historic period of accelerating structural change began with September 11 or the global financial crisis or the pandemic, it is now clear—including in the still unfolding disruption of the international economic order—that we have entered an entirely new period.

In virtually every dimension, from geopolitical order and economic growth to social cohesion and technological change, headwinds and tailwinds are colliding. The volatile uncertainty we are witnessing today reflects deeper forces of structural change that will continue to transform the global operating environment. Between now and 2030, the rising turbulence that we are likely to witness will not only be a function of the convergence of diverse forces—it will also be fueled by intentional disruption driven by an increasingly widespread conviction that traditional structures of order must be dismantled so that something new can emerge.

The Middle East sits at the very center of this period of intensifying change—geographically and demographically, geopolitically and economically. Over the next five years, the global forces outlined in this report will increasingly converge on the Middle East, positioning the region at a crucial nexus point of disruptive transformation. The adaptive pressure on the region will be intense. If it is unable to respond effectively, the ramifications will be global—and in the direction of disorder.

The region's leading countries, however, have seen these forces coming—and they have relentlessly prepared. To the extent they succeed in navigating, harnessing, and capitalizing on these forces, not only will they accelerate their own transformations and that of the wider region, but they will also shape the global trajectory of these dynamics in the direction of order, stability, and inclusive progress.

This report outlines the internal logic and direction of six global forces of change that will reshape the world and the Middle East region through 2030, and it explores how the decisions of the region's leading countries will in turn decisively influence the evolution of these forces with profound implications for the world. These include:

1. Deepening geopolitical entropy
2. Evolving geoeconomic fragmentation
3. Atomizing climate response
4. Widening macroeconomic divergence
5. Reweaving of the social fabric
6. Accelerating knowledge creation

Deepening geopolitical entropy

1

The rise of global geopolitical instability is palpable—and measurable. The stabilizing forces of the international order—from economic interdependence to agreed rules of engagement—are weakening, and the use of force is once again ascendant as an instrument of national power. From Ukraine to Sudan, from Syria to the Scarborough Shoal, and from Kashmir to the Taiwan Strait, geopolitical entropy is increasing—and with it, the prevalence and risk of conflict.

This disordering dynamic is being fueled by the shifting incentives and evolving capabilities of a widening range of global and regional powers in the context of the fading influence of global institutions. The logic of this vicious cycle suggests the most likely direction of the global geopolitical environment through 2030—and how we can both prepare for it and shape it. Even more than in prior periods, the Middle East is at the nexus of these geopolitical dynamics, and its near-term trajectory will shape the global environment decisively for decades to come—as an arena and source of conflict or as a connecting bridge of stability and peace.

Inexorable escalation

Great power rivalry has risen steadily for more than a decade, but it is now at risk of reaching a fever pitch. Fueled by technological competition, trade war, ideological divergence, and the perception of a closing window of opportunity to shape the rules of the global order for the long term, the world's leading powers have demonstrated a new willingness to compete on the edges of direct conflict.

While there are clear opportunities and concerted efforts to de-escalate these dynamics, it is now all too possible for them to spiral out of control. The increasing accessibility of lethal military capabilities, and the shifting geostrategic orientation of leading powers, have created space for a range of emerging regional powers to exert increasing influence.

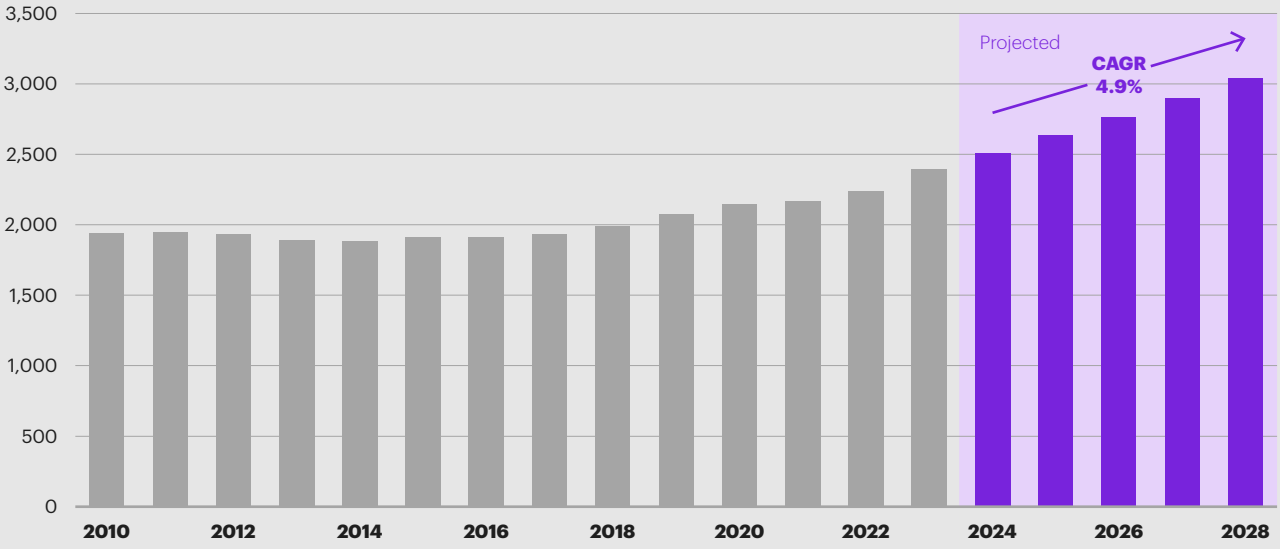
The result of this increasingly multipolar and ungoverned environment is an inexorable escalation in security competition—and with it, military spending, which increased for the ninth year in a row in 2023, with a 6.8 percent increase from the prior year, pushing global spending to the highest ever recorded (see figure 1). We witnessed the power of these emerging security imperatives in Germany's decision in March of 2025 to amend its constitution to exempt defense spending of GDP from debit limits, signaling a historic shift toward sustained military rearmament.

While military spending is highly concentrated—the United States, China, Russia, India, and Saudi Arabia together account for 61 percent of worldwide spending—2023 marked the first time since 2009 that arms expenditures increased simultaneously across Europe, the Americas, Asia and Oceania, the Middle East, and Africa.

This rising defense expenditure reflects a deepening and destabilizing security dilemma, in which each country is compelled to increase its investments in security in response to the investments of others. In parallel, geopolitical alliances are evolving, driven by the pressure to choose sides in the great power competition, and the countervailing incentives to reduce exposure to geopolitical coercion through new forms of multilateral and mini-lateral security cooperation.

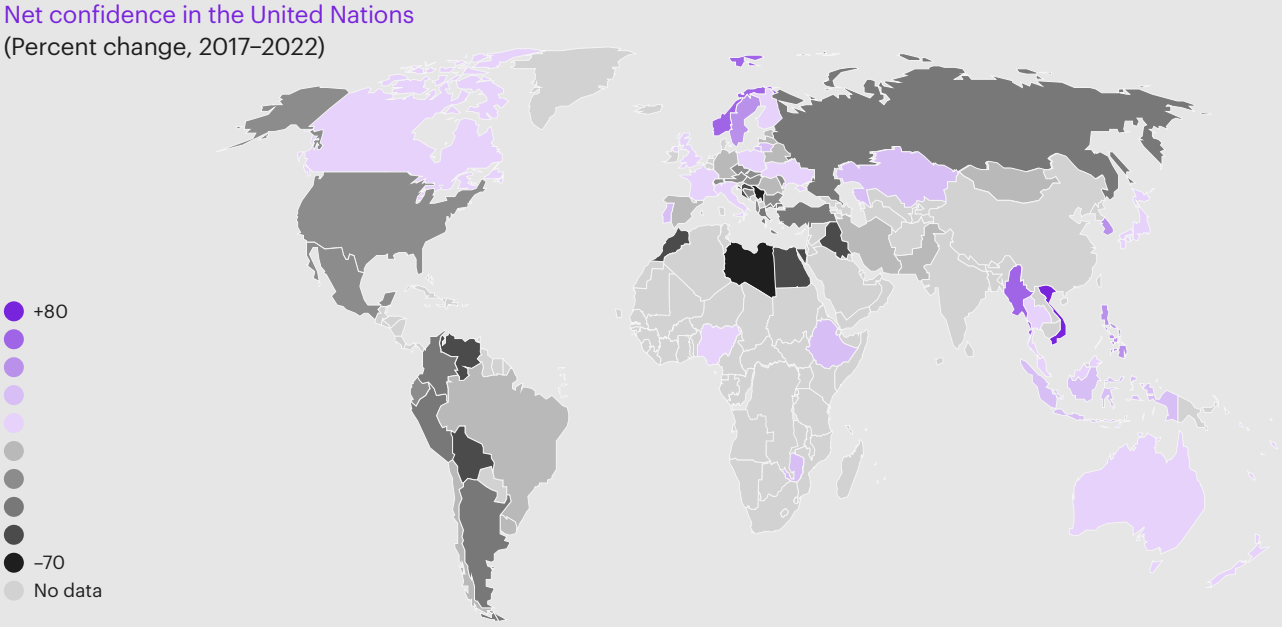
Figure 1
Global military spending is on the rise

Global military expenditure
(2010–2030) (USD billion)



Sources: Stockholm International Peace Research Institute, MarketsandMarkets; Kearney analysis

Figure 2
Confidence in the UN has declined



Sources: IPI Global Observatory; Kearney analysis

Rules in retreat

This escalating security dilemma is also being fueled by a rapidly unraveling global consensus on the rules of engagement, and the weakening power and legitimacy of the institutions of global governance. As confidence in these institutions wanes, and as they are intentionally disrupted, their effectiveness and relevance fade.

Long-horizon surveys of United Nations member states show that overall confidence in the UN has declined since the 1990s. The same is true of other international organizations around the globe. Only half the countries surveyed held a net positive view of the UN, with confidence especially low in several countries where it has deployed peace operations to address longstanding conflicts (see figure 2). In a recent survey, 75 percent of experts across public, private, and nonprofit sectors claimed they expect the UN to be less capable of solving challenges core to its mission in 2035 than it is today.

This loss of confidence is eroding the institutions themselves. As countries lose faith in the ability of an organization to fulfill its mandate, their financial and political support for it declines. Lacking confidence in collective security, countries must then seek alternative means of ensuring their individual security.

This process is resulting in the emergence of new governance institutions, diluting the global power and influence of any single framework. The net effect is a self-reinforcing cascade, in which the systems and institutions of global order are likely to atomize further through 2030—or coalesce into something entirely new.

Engine of entropy

This convergence of intensifying great power rivalry, rapidly declining interdependence, and weakening institutions of global governance is making the international order ever more anarchic. Over the next five years, its defining characteristic is likely to be volatile flux.

There is a rising sense that the international community is unwilling or unable to intervene in geopolitical crises, as illustrated by the devastating civil war in Sudan, which a UNICEF spokesman called "a crisis of neglect." Current and potential aggressors understand such inaction to mean that the members of the global community will not intervene to halt even the bloodiest conflicts—barring cases in which states have their own immediate national security interests at stake.

In that context, as the commitments of great powers and the capabilities of the institutions of collective security become less clear, many will see opportunities for brinkmanship—aggressive risk taking in pursuit of decisive strategic returns. Beyond the conflict in Ukraine, the stunning overturn of the Assad regime in Syria and the subsequent actions of neighboring powers to secure strategic advantage amid the chaos are stark examples of dynamics likely to become more prevalent through 2030, as military capabilities improve and traditional deterrents lose their preventive credibility.

Geopolitical entropy has thus emerged as a fundamental force that will transform the global operating environment over the next five years and beyond. Its most immediate and costly effects will be a function of the greater prevalence and increasing cost of kinetic and asymmetric conflict.

This trend is already visible. Incidents of political violence worldwide have risen 25 percent just in the past 12 months. In cyberspace—a domain for which the international community is struggling to build consensus on shared rules and norms of behavior—disruptive attacks are proliferating. The number of recorded state-sponsored cyberattacks has doubled over the past four years. And the probability of conflict in the space domain will rise through 2030.

The changing nature of the global security environment means not just that discrete conflicts will become more frequent, but that cascades of conflict across domains and regions will become more likely. As a result, geopolitical entropy will have effects far beyond any specific theater of combat, as the full spectrum of state and nonstate strategic actors adapt to a more volatile, fluid, and uncertain world.

As we will explore, this force will disrupt trade, redirect investment, stoke inflation and, most important, erode trust—the coin of the realm for economic growth and multilateral collaboration.

The intersection of intensifying great power rivalry and weakening institutions of global governance is making the international order ever more anarchic.

Epicenter: the Middle East at the heart of geopolitical change

The geostrategic position of the Middle East in relation to this rising volatility is crucial. Global geopolitical entropy has directly fueled regional instability and uncertainty. On the other hand, the strategic imperative to transform this entropy has led to new degrees of strategic autonomy and intensifying efforts to create a stable and inclusive regional security architecture.

The urgency is all too clear. Already home to three of the world's 10 most conflict-ridden countries, the region is now navigating a period of exceptionally rapid structural change. Without reliable guardrails, geopolitical opportunism and the reconfiguration of alliances risk creating new forms and levels of uncertainty across the region—and beyond.

The incentives shaping national behavior in the Middle East have shifted—toward brinkmanship for some, and toward bold, innovative diplomacy for others. Saudi Arabia, for example, not only restored diplomatic relations with Iran, convened the Joint Arab Islamic Extraordinary Summit, and led other efforts to de-escalate the conflict in Gaza, it also played an important diplomatic role in supporting efforts to achieve a ceasefire between India and Pakistan in May of 2025. The potential for a new, sustainable regional security architecture is also visible in the remarkable resilience of the Abraham Accords in the context of the conflict in Gaza, revealing an enduring commitment to peace in the region.

In the meantime, geopolitical entropy is already taking a measurable economic toll. Trade through the Red Sea dropped some 50 percent in the first two months of 2024 and has cost Egypt an estimated $6 billion in Suez Canal revenues. Dubai-based port operator DP World saw profits plummet by 60 percent in the first half of 2024.

Given the importance of the region to global energy markets, a geopolitically unstable Middle East would threaten the balance of the entire global economy, igniting a potentially dangerous competition for energy security worldwide. It would also become a potential flashpoint for direct great power conflict over energy access and trade flows.

Finally, volatility in the Middle East could contribute to the instability in North Africa, where the civil war in Sudan already presents a significant source of risk of regional contagion, particularly given that the nation shares borders with seven countries, each of which has vital interests at stake in the current conflict.

Conversely, to the extent that leading actors in the region succeed in establishing a stable, sustainable regional security architecture, the effects on the global geopolitical environment would be immediate. Energy markets would stabilize, easing a primary source of great power tension. Mass migration will slow, reducing a sensitive source of political friction. And great power rivalry could be relieved of one of its most stubborn and unstable fault lines.

In addition, the opportunities for multilateral collaboration on other global fronts will increase as the most divisive conflicts in the world are deescalated and ultimately brought to a close. Thus, as the nations of the Middle East create a new geopolitical framework for the region, they will be creating a bulwark of global stability rather than fueling a spiral of destructive competition.

How the Middle East responds to and emerges from this period of geopolitical entropy will determine its development for decades, across all dimensions. It will also decisively shape the geopolitical trajectory of the world, given its unique position at the epicenter of global change.

Evolving geoeconomic fragmentation

2

Well before the intentionally disruptive trade actions of the new US administration, it was clear that the global economic order the world has known since the end of the Cold War was reconfiguring. Countries at all levels of economic development face a new set of strategic imperatives. They are increasingly seeking to strengthen their resilience and reduce their exposure to economic coercion. This requires accelerating their efforts to shorten and diversify their supply chains, and to localize production where they can.

These autonomy-oriented economic policies come at a cost—namely, the threat of retaliatory tariffs and sanctions from all of those trade partners who now suddenly find themselves losing revenue and jobs.

The net effect, now clearly visible, is the transformation of globalization itself—from a more open and uniform worldwide trade system to one that is more distributed and networked, and increasingly fragmented in dysfunctional ways.

This shift will impose costs in competitiveness and growth, but it will also create opportunities. The Middle East, positioned at the crossroads of the global economy, will play an increasingly decisive role in how this transition unfolds—either as a geoeconomic fault line, or as an integrating hub of connectivity for flows of trade, investment, ideas, and people.

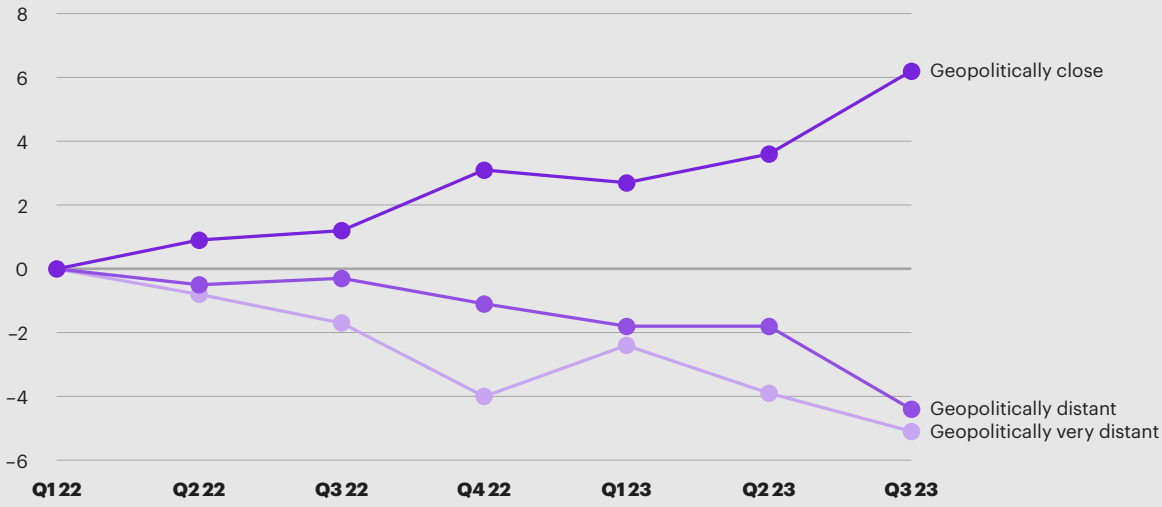
The autonomy imperative

The pandemic-driven supply shocks of 2020 and 2021 revealed to all countries the startling level of fragility inherent in their global interdependence. The economic sanctions imposed on Russia as a result of the conflict in Ukraine in 2022 illustrated how that interdependence can be used to exert pressure. In the aftermath, countries have prioritized resilience, particularly through strategic diversification.

Through this reconfiguration of value chains, countries are seeking to reduce their vulnerability—both to global supply shocks and to any threat of economic coercion from other nations. Given these dual requirements, diversification choices are increasingly reflecting geopolitical alignments, as countries trade more within blocs than between them. Bilateral trade between countries that are geopolitically affiliated is up about 6 percent since 2022, and down 6 percent between countries that are geopolitically at odds (see figure 3 on page 8).

Figure 3
Countries are increasingly geopolitically motivated in trade

Geopolitical relations and trade flows
(Percentage change in bilateral trade, 2022–2023)



Sources: Hinrich Foundation; Kearney analysis

Resurgent industrial policy

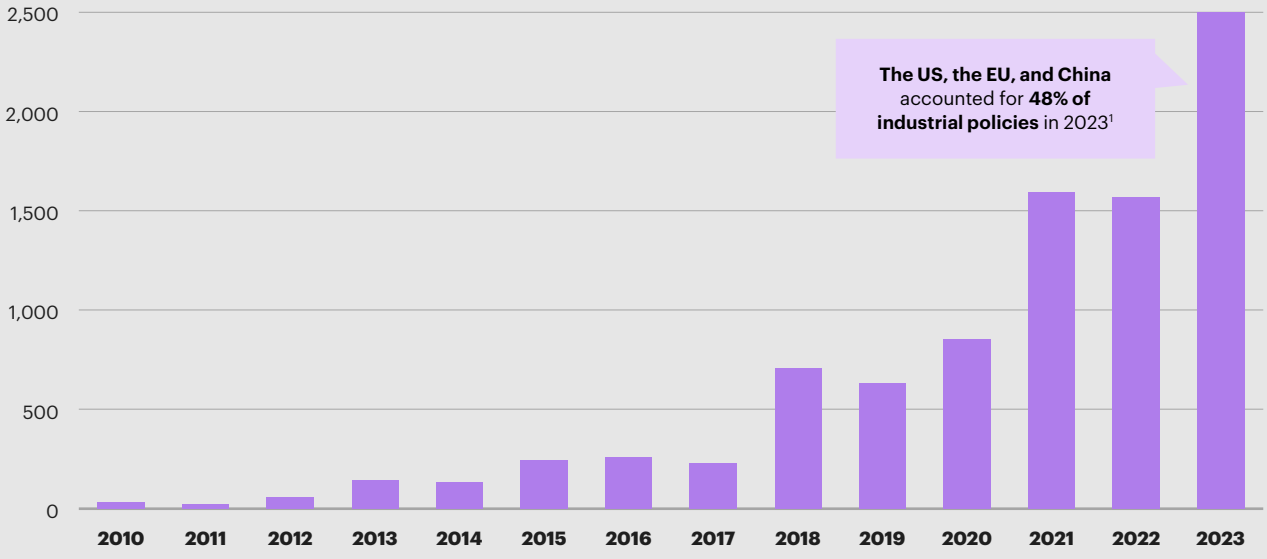
A resurgence of industrial policy around the world is compounding the forces driving geoeconomic fragmentation. Seeking to enhance strategic positioning abroad and advance domestic agendas at home, leading nations are implementing a growing number of protectionist and trade-distorting policies.

The United States, the European Union, and China together accounted for 48 percent of these policies in 2023, with such examples as America's Inflation Reduction Act and China's Made in China 2025 (see figure 4 on page 9). The election of Donald Trump to a second term, and the growing political power of economic nationalists across much of Europe, mean that such market-bending strategies—including tariffs, sanctions, and selective state supports for favored sectors and companies—are likely to become even more prominent features of the global trade landscape.

From one perspective, such interventions are directing national resources toward urgent priority areas that have suffered from relative underinvestment, such as advanced microchip manufacturing. But from another perspective, these policies can be read as semi-autarkic, winner-take-all approaches to the future. If executed imperfectly, such protectionist policies can lead not only to higher prices in the near term for consumers, but also to declining competition and slowed innovation in the longer run.

Figure 4
A new wave of industrial policy activity is being driven by advanced economies

Total number of trade-distortive and industrial policy interventions
(2010–2023)



[1] IMF
Sources: IMF; Kearney analysis

Self-reinforcing geoeconomic transformation

The net effect of this strategic diversification and the implementation of increasingly protectionist economic policies is a world rapidly moving away from a globally integrated flow of goods, and toward a new era of increasingly autonomous and dynamically networked national economies and regional blocs.

These atomizing dynamics are self-reinforcing, as nations react rationally to an increasingly fragmented and volatile economic landscape. The power of this cycle is measurable. There is a 74 percent likelihood of a large economy introducing a new subsidy following the introduction of a similar new subsidy in another large economy. This kind of tit-for-tat economic policymaking fuels geoeconomic rivalry, while further isolating industries and economies in the near term—and reducing their competitiveness in the long term.

To read this transformation of the economic order simply as deglobalization, however, would be a misdiagnosis. As trade decreases between geopolitical rivals, it is being supplanted by deepening trade relationships and new forms of strategic economic partnership among countries with aligned interests in the short, medium, or long term. A study by the World Trade Organization found that trade flows within hypothetical blocs of geopolitically aligned countries have been growing 4 percent faster than trade between those blocs since the conflict in Ukraine began in early 2022. Similarly, regional trade integration is deepening, which analysis suggests is more a reflection of "friend-shoring" than of "near-shoring."

The result of these combined forces is not deglobalization but rather a new form of globalization that prioritizes strategic autonomy, and favors trade with geopolitical allies and partners over economically expedient dealings with potential rivals.

By 2030, this splintering is likely to yield a global economic landscape that is more distributed and transactional, as the world transitions from the previous state of relatively stable globalization toward a new geoeconomic equilibrium that will be more globally fragmented, regionally oriented, and operationally volatile.

Advanced economies, in particular, will be more sensitive to shifting global flows of goods, with impacts compounded by their more aggressive use of inward-looking economic policies, including subsidies and trade restrictions. A decline and regionalization of foreign direct investment (FDI) can also be expected.

Yet there is enormous upside opportunity for countries that can demonstrate their value for investors from leading economies. Vietnam, Mexico, and Morocco are among the countries that have benefited from the resorting of supply chains that has occurred over the past five years amid rising US–China tensions. However, the new tariff environment—including the exceptionally severe pressure being placed on Southeast Asian countries—will also create space for new connector states, including India and the leading GCC countries. Thus, as the profile of trade and economic integration becomes more distributed, so too will centers of power, as rising economies accelerate into openings created by deteriorating trade relations.

Crossroads: the Middle East's role in the transformation of globalization

The countries of the Middle East are highly vulnerable to these global forces of geoeconomic fragmentation. The region is already characterized by very low intraregional trade, which represents 17.8 percent of total trade and 18.5 percent of total exports according to the IMF, and this despite the clear and compelling opportunities for integration given shared language and culture in addition to geographic proximity and economic complementarity. Nevertheless, as leading Middle Eastern economies—including Saudi Arabia and the United Arab Emirates—work to accelerate their national development and economic diversification strategies, global connectivity remains a fundamental imperative.

In the context of deepening geoeconomic divisions, the importance of the Middle East as a corridor for international connectivity has never been higher. To the extent that they are forced to choose sides between diverging powers, Middle Eastern nations may inadvertently contribute to and even accelerate these forces of geoeconomic fragmentation. This is very clearly not their strategic intent, but the pressure is rising.

Given their deep and invaluable economic connectivity across geopolitical blocs and strategic geographic position, leading Gulf Cooperation Council (GCC) countries are focused on strengthening their balanced posture. To the extent that they can resist pressures to favor any one country or bloc, they will serve as powerful counterweights to further fragmentation. In addition to their roles as global hubs, the leading economies of the Middle East can serve as economic bridges to the Global South, maximizing investment and economic development opportunities for developing economies within their own region, and throughout Africa and South Asia.

Ultimately, there is an economic strategy available to the countries of the Middle East that is both independently and collectively optimal—and they are pursuing it aggressively. The region is cultivating a great diversity of networked international partnership that is more resilient to great power rivalry. In parallel, they are selectively implementing industrial policies tailored toward the development of comparative advantages. If able to advance their economic development strategies in line with this delicate balance, the region will be able to cement its status as a central hub of global economic exchange, reaching far into the future.

Atomizing climate response

3

On one of the greatest existential questions of our time, the global community has come up short. The consensus on how to address climate change collectively—and faith in the ability and arrangements to do so—is diminishing.

Meanwhile, the crisis is increasingly acute. In November of last year, Southeast Asia experienced six months of rainfall in just five days, driving hundreds of thousands from their homes. Cyclone Chido, which left hundreds of thousands of people across Mozambique, Malawi, and the French overseas territory of Mayotte without power, water, or telecommunications services, was the worst to hit the archipelago of Comoros in a century. The fires that spread across the Los Angeles metropolitan area in January of 2025 are expected to be the costliest natural disaster in US history, with analysts projecting losses of $50 billion to $150 billion.

Given the current state of multilateral collaboration, the logic of the incentives shaping state behavior on climate action points to a bleak outlook for the global commons and for those suffering the worst effects. But these incentives also illuminate what must be done to counteract recent setbacks and generate solutions. The Middle East has outsized influence in shaping the trajectory of climate change—and a heightened incentive to redirect the projected course of its escalation.

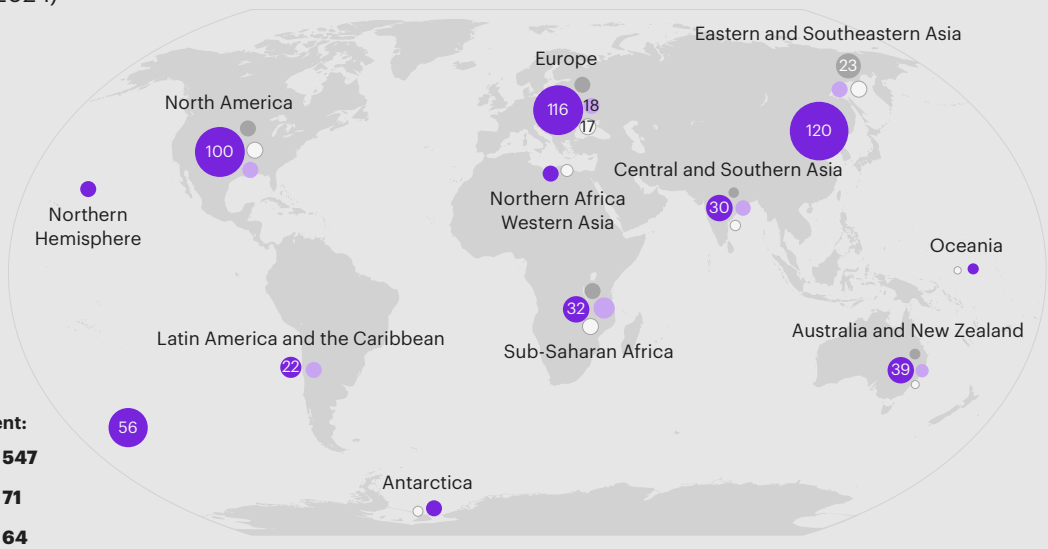
Intensifying climate change

Each new scientific report confirms what we already know—manmade carbon emissions are driving climate change, and with it more frequent and extreme weather events. Meanwhile, the cost of natural disasters has risen from an average of $50 billion per year in the 1980s to an average of $200 billion in the past 10 years (see figure 5 on page 12).

The resultant human suffering extends around the globe, yet the countries most vulnerable to the effects of climate change are often those that have contributed the least to creating it. Every indication is that even greater challenges lie ahead. In January of 2025, the European Union's Copernicus observation agency confirmed that "2024 was the hottest year on record, with average surface temperatures 1.6°C above preindustrial levels after greenhouse gas emissions hit a new high." This marks the first time that global temperatures have exceeded the 1.5°C threshold set by the Paris Agreement. Clearly, our collective progress is falling far short of our collective aspirations.

Figure 5
Climate change is driving more severe and likely extreme weather events

Impact of climate change on extreme weather events
(As of November 17, 2024)



How did climate change influence the weather event:

More severe or likely	**547**
Had no influence	**71**
Less severe or likely	**64**
Inconclusive	**53**

Sources: Carbon Brief; Kearney analysis

Declining faith in collective action

Addressing this reality is an existential challenge and a global strategic imperative. It represents the ultimate collective action problem in the classic sense first defined by Mancur Olson, as it features shared benefits and uneven costs; requires complex coordination and enforcement; and crucially also includes vital issues of intergenerational equity, as future generations will bear the most significant costs of inaction in the present.

Amid worsening geopolitical divisions, weakening international institutions, and divergent incentives across countries, sectors, and stakeholders, such efforts—and the required change—are not gaining momentum. Instead, they may well be losing it. The 2024 United Nations Climate Change Conference (COP29) in Baku, Azerbaijan, fell far short of its goals for climate finance, and has triggered deepening skepticism that the established process can yield the policies required to slow, halt, and ultimately reverse climate change.

At the same time, important progress has been made. The UAE Consensus that emerged from COP28 in Dubai "calls on Parties to contribute" to global efforts, including "[t]ransitioning away from fossil fuels in energy systems, in a just, orderly and equitable manner, accelerating action in this critical decade, so as to achieve net zero by 2050 in keeping with the science."

Efforts to negotiate binding commitments have faced the fundamental challenge of balancing the need to combat climate change with the fundamental imperatives of ensuring energy security, reducing energy poverty, and enabling inclusive growth. An estimated 3 billion people currently lack sufficient energy to maintain decent living standards. According to the UN, 660 million people still lack access to electricity and by 2030, 2 billion people will still be reliant on highly polluting fuels and technologies. Add to this the central role of energy access in driving economic development and reducing poverty. The conflict in Ukraine has also highlighted both the importance and fragility of near-term energy system resilience.

What is required is repeatedly stymied by competing national interests and the fact there is no one-size-fits-all approach to the energy transition. Smaller and more vulnerable countries must address the crucial issue of national energy security, even as they push for concerted multilateral action on the long-term global challenge. They require investment in renewables at scale, but also equitable access as those investments yield their potential.

There are now 75 different carbon-pricing instruments in operation worldwide.

An atomizing climate response

Without a shared and credible global commitment to a comprehensive way forward to address the root causes of climate change, the incentives of individual countries to contribute to such collective action may wane. In addition, given the very different strategic positions of countries with respect to the balance of addressing climate change globally and ensuring energy security and reducing energy poverty at the national level, governments are likely to increasingly focus on efforts to adapt to climate change, rather than to address its root causes through collective action.

On the current trajectory, this shift will be exacerbated by climate change itself. As global warming accelerates, severe climate events will continue to increase in frequency, intensity, and cost. This will force states to turn their focus toward climate adaptation, and to reducing the impact of extreme weather events on their populations, pulling finite resources away from mitigation efforts—resulting in further climate-related losses.

Some mitigation efforts will move forward, but mainly on national or mini-lateral levels rather than at the global scale required. As a result, the benefits of such an approach, while meaningful, will be limited.

Such a fragmented response will not only lag in effectiveness—it will also prove costly from a compliance perspective. Already, there is an emerging web of regulations, programs, and protocols that increase complexity of operations for businesses operating across national borders. There are now 75 different carbon-pricing instruments in operation worldwide.

Even for those companies that earnestly seek to do the right thing, the path toward doing so is strewn with regulatory intricacies that would not be as cumbersome if nations were to act in closer collaboration with one another.

These continued dynamics can only be expected to result in a wide miss of the Paris Agreement's target of a 43 percent reduction of emissions by 2030, and the negative impacts we are already experiencing will worsen. The ILO estimates that even a temperature rise of 1.5°C will reduce global working hours by 2.2 percent by 2030, costing the global economy $2.4 trillion.

The UN Office for Disaster Risk Reduction projects that the number of disasters per year globally may increase from around 400 in 2015 to 560 by 2030. The negative ramifications will be disproportionately felt by the same lower-income countries that are already facing the greatest economic challenges in adapting to climate effects.

The most plausible hope for a global solution will hinge on technology innovation—both to start reversing the negative environmental effects of our existing industrialized economy, and to build the way toward a more sustainable and circular green economy.

Climate change is projected to cost up to 14 percent of the Middle East's GDP by 2050 in the absence of mitigation measures.

Front lines: the Middle East at the crossroads of global energy transitions

The Middle East is particularly vulnerable to the devastating effects of climate change. Temperatures in the region are rising twice as quickly as in the rest of the world, and climate change is projected to cost up to 14 percent of the region's gross domestic product by 2050 in the absence of mitigation measures. Thus, the atomizing regulatory response now emerging is likely to accelerate global warming globally, with particularly profound consequences for the region.

The Middle East's response to this threat will be vital not only for its own future, but for that of the world as a whole, given the region's central role in hydrocarbon markets: some 10 percent of the global energy supply comes from the Middle East. As leading producers—after the United States—of hydrocarbons, the region's oil exporters are both indispensable sources of energy security for the developing world and bulwarks of global energy market stability.

In an intensely competitive global economy and given the investments required to drive their national transformations, diversifying the region's economies remains a uniquely complex challenge. In the absence of effective global coordination to activate the energy transition equitably and counter climate change, the near-term incentives to accelerate economic diversification may weaken. If, as a result, the Middle East is left behind in the energy transition (where it holds a natural leadership position) the region will suffer from deteriorating economic prospects as other countries and companies take the mantle.

There is another pathway for the region, however, and significant evidence of traction along it. In addition to their extensive endowments of fossil fuel resources, the energy-producing countries of the region are also rich in the resources that can fuel an energy transition—including reliable sunlight, abundant open space, powerful wind patterns, and political will. Most importantly, they are uniquely capable of making long-term, transformative investments at scale. Using these assets, leading GCC countries are positioning themselves centrally in a post-carbon global energy system, while enabling a smoother transition to their own net-zero futures.

They are making long-term investments in the technologies that will enable the global energy transition. For example, the UAE has invested $30 billion in Alterra—a fund that intends to mobilize $250 billion of investment by 2030 by using public investment to crowd-in private investment with the intent to bring "unprecedented scale to address humanity's most urgent challenge and supercharge the transition to a net-zero climate-resilient future."

Leading Middle Eastern nations are also investing heavily in technologies and systems that can reduce the carbon impact of hydrocarbons. For example, Saudi Arabia is investing decisively in green hydrogen, including what is expected to be a multibillion-dollar investment through Energy Solutions Co. They are also investing in carbon capture, utilization, and storage, including a recent investment in Spiritus to scale the technologies of direct air capture (DAC) of carbon removal.

To the extent these efforts succeed, the same nations that gained energy leadership through fossil fuels will be among the best positioned in the world to drive our global energy transitions forward. And in doing so, they are also uniquely positioned to enable inclusive energy security for all. This trajectory can generate greater security and stability for the Middle East, more inclusive energy security for the world, and the clean energy future we all want for the generations to come.

Leading GCC countries are positioning themselves centrally in a post-carbon global energy system.

Widening macroeconomic divergence

4

Amid weak and uneven growth, rising economic volatility, and rapid technological shifts, the global macroeconomic landscape is set to become even more unsettled. One major consequence will be a sharpening economic divergence as capital flows to a fortunate few "safe haven" countries, leaving others behind. These dynamics will generate both intense economic challenges and entirely new categories of opportunity.

The Middle East will hardly be immune from this pattern. Absent bold, disciplined economic policy among leading countries, the forces driving global divergence will deepen historic regional divides, reinforce stagnation, and fuel economic instability.

However, if the Gulf countries can accelerate their diversification and drive economic integration with their regional neighbors, the Middle East may have a chance to withstand the global force of divergence and even reverse its momentum, including by partnering with countries in Africa to accelerate the realization of that continent's vast growth potential.

Rising risk of stubborn inflation and interest rate volatility

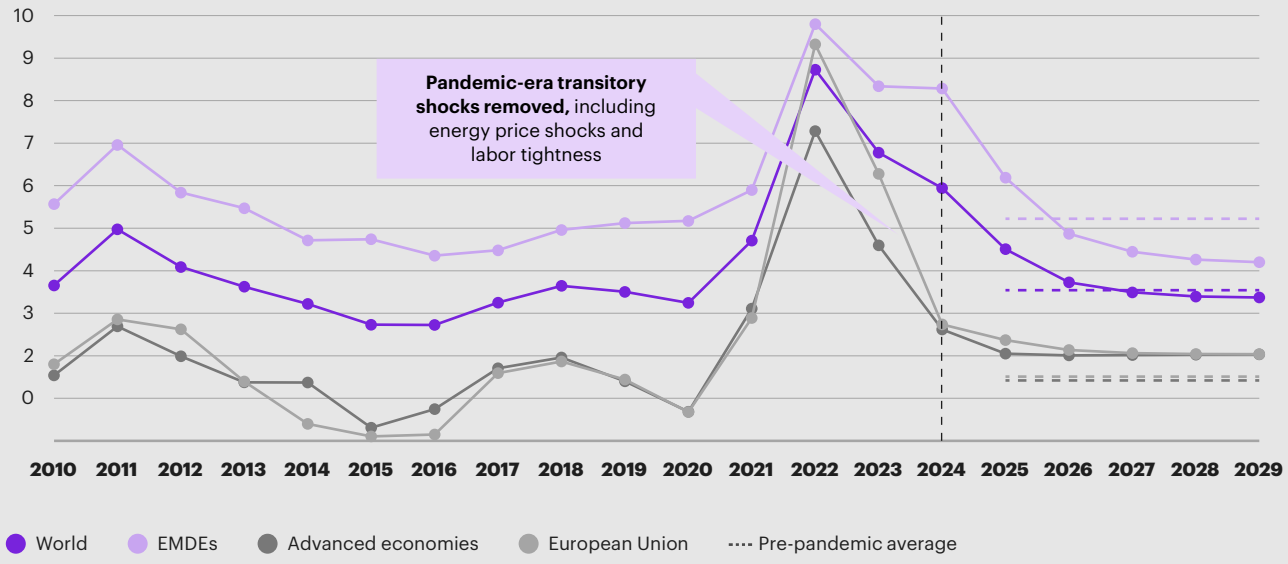
In the years following the COVID pandemic, inflation once again became a dominant global force. There has since been unmistakable progress in beating back this scourge. The International Monetary Fund (IMF) projects that headline inflation in 2025 will reach 3.5 percent, just below the 3.6 percent level that characterized the first two decades of the 21st century, and a steep decline from the peak of 9.4 percent in 2022 (see figure 6 on page 17).

The surge of the "cruelest tax" resulted from both economic shocks and policy errors, and its containment—without severe economic dislocation—represents a remarkable achievement. However, declaring victory would represent a profound mistake.

Figure 6

Inflation has fallen from pandemic peaks, but stability into the future remains far from certain

Inflation, Consumer Price Index (% YoY)



Sources: IMF; Kearney analysis

There are already signs of a potential resurgence of inflationary pressures. Globally, as of early 2025, two-thirds of countries faced inflation rates higher than their pre-pandemic average. Among developing economies, 20 still face double-digit inflation. Given exceptional near-term policy uncertainty; a discontinuously elevated tariff environment; the prospect of increasing geopolitical conflict and supply chain disruptions; and the increased psychological sensitivity of the markets to inflation risk, inflation volatility is increasingly likely. Even before the trade policy actions initiated in April, former US Treasury Secretary Larry Summers warned that we are "nearer a precipice of an inflation spiral." And if inflation volatility materializes, interest rate volatility will not be far behind.

Intensifying debt distress

The disruptive power of elevated interest rates is a function of the level of debt, which is rising unsustainably—a problem that weighs most heavily on the most fragile national economies. The IMF estimates that global public debt will reach 100 percent of global GDP by 2030, up from approximately 70 percent of GDP in 2000. But this is only a baseline estimate. In a more adverse (but unsettlingly plausible) scenario, it could reach 115 percent as early as 2026.

While the IMF measure of debt at risk of default has declined somewhat for advanced economies, it remains remarkably high at 134 percent of GDP. For emerging and developing economies, the same measure is now at 88 percent—and rising.

The sources of all this red ink are not hard to identify. National security threats, climate change, and flagging economic growth represent inescapable strategic imperatives that demand government spending even before responses to specific strategic shocks become necessary. At the same time, however, populism is making tax increases politically impossible in many countries.

As a result, the rise of global public debt is likely to continue unsustainably, creating an increased probability of financial shocks. Any coordinated global responses to those shocks will become increasingly difficult in an ever more geopolitically divided world.

The vast and growing primary deficits in China, the United States, and other systematically important countries represent a central threat to global financial stability (see figure 7). While these countries have the resources and policy instruments to navigate this instability, their fiscal and monetary choices could fuel further volatility for emerging markets and developing economies. As it is said, "When elephants fight, it is the grass that suffers."

Given their rising debts, emerging markets and developing economies face a period of rising sovereign risk. If anything, the problem is compounded by the limited share of debt denominated in local currencies, and the prospect of interest rate volatility.

Financial system transformation

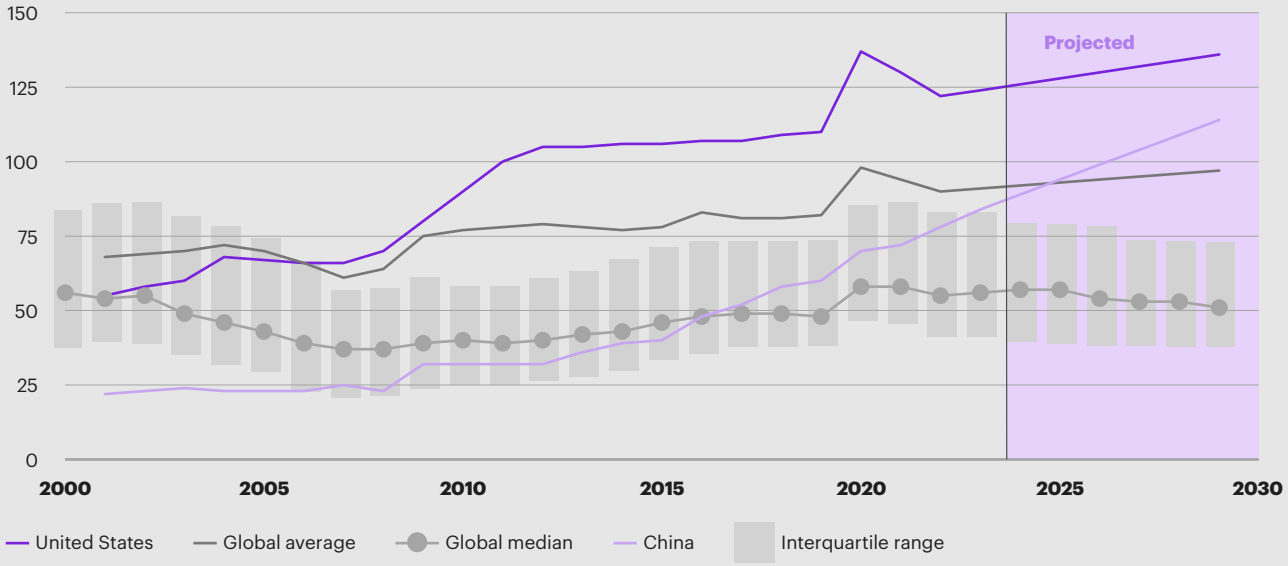
As the global macroeconomic environment enters a volatile, potentially unstable period, it also will be shaped in significant ways by the transformation of the global financial system. One major development is the rising importance of the non-bank financial intermediation ecosystem, which encompasses the institutions, infrastructure, and financial activities that operate outside the traditional banking system.

This ecosystem is a dynamic, innovative source of alternative funding channels, increased access to credit, improved efficiency, and enhanced risk management. As a result, it constitutes an important engine of economic growth and adaptive capacity for the global economy, including by facilitating global flows of capital.

At the same time, non-bank financing can be a source of volatility and elevated risk. Because non-bank financial institutions (NBFIs) operate without the same level of regulatory scrutiny as the traditional banking system, national and international authorities often lack the mechanisms or the authority to monitor and publicize their vulnerabilities.

Figure 7
Global debt continues to rise unsustainably

Public debt-to-GDP ratio
(Percent of GDP, 2000–2029)



Sources: IMF; Kearney analysis

Even with those vulnerabilities, the NBFI sector is experiencing stunning growth. In 2023, it expanded by 8.5 percent—far outstripping the banking sector's 3.3 percent growth rate over the same period—and it now comprises 49.1 percent of total financial assets.

In parallel, the rise of digital currencies is set to accelerate significantly. At least 130 countries are considering the introduction of central bank digital currencies (CBDCs), and the growth of cryptocurrencies is set to expand even further in light of a more permissive regulatory posture in the United States. The Trump administration has promised to make the United States the "crypto capital of the world" and has scaled back cryptocurrency enforcement.

This trend holds vast potential to expand financial inclusion, enable efficient cross-border transactions, and (at least in the case of CBDCs) improve transparency and security through the real-time tracking of economic activity. However, cryptocurrencies present risks and drawbacks of their own. As they proliferate in their various forms, and as the odds for any clear global consensus on their governance fades, digital currencies are set to become even less regulated by public authorities.

It is vitally important to note that the challenge of governing crypto currencies and other digital markets is particularly daunting for national governments with limited resources. This creates a significant potential for the further growth of the illicit economy worldwide. If digital currencies are to realize their potential, it will be imperative that their advocates find ways to mitigate the risks associated with large volumes of financial transactions occurring beyond the reach of public oversight institutions.

Productivity renaissance—for those that can seize it

While the global economy has demonstrated remarkable resilience through the pandemic and the current period of geopolitical and geoeconomic volatility, these developments have taken a toll on economic growth. The current forecast of global economic growth for 2029 is 3.1 percent—far below the 3.8 percent worldwide growth rate for the period of 2000–2019.

Yet the primary cause of this anemia is a decades-long slowdown in productivity. The IMF estimates that changes in total factor productivity (TFP) accounted for more than 50 percent of the decline in the medium-term growth outlook for advanced and emerging national economies, and virtually all of the decline in low-income countries.

However, there are two dynamics that point clearly to the opportunity for a productivity renaissance. First, a growing body of evidence and scholarship is revealing how productivity growth can be reignited. Much of that evidence comes from the United States, where productivity has grown by a rate of at least 2 percent for five straight quarters, reaching 2.2 percent in the third quarter of 2024. This continues a five-year trend of quarterly year-over-year productivity growth of 2.1 percent, up from an annual average growth rate of 1.5 percent during the period of 2007–2019.

This improvement is a central explanation of why the US was able to engineer such an unprecedented soft landing in its battle to contain inflation. Especially interesting is the contrast with other highly developed economies, including fellow member nations of the Organisation for Economic Co-Operation and Development (OECD). Over the past decade, average annual OECD productivity growth has fallen to approximately 0.8 percent. Even China, after decades of historic productivity growth, has experienced a significant slowdown since the global financial crisis. Aggregate growth in TFP there slowed from 2.8 percent in the decade preceding 2008 to 0.7 percent in the period 2009–2018, and has remained lackluster post-COVID.

The productivity gap between the US and other leading economies is particularly evident in the tech sector—which itself is a leading engine of productivity gains. The IMF estimates that the productivity of American technology firms has increased by 40 percent since 2005, while remaining largely unchanged for their European counterparts.

This disparity in the tech industry points to some potential explanations of the broader gap between the US and other top economies—and suggests a path forward for countries looking to kickstart their own productivity.

Among these explanations is a difference in levels of investment in innovation. While American and European public investment in R&D is comparable, at about 0.7 percent of GDP, American private R&D spending as a share of sales is more than double that found in Europe. Another potential factor is America's relatively flexible labor market. Analysis of the surge in US productivity following the pandemic makes clear the value of lighter labor market regulation as a means of facilitating allocative efficiency. The IMF found that "the surge in reallocation of workers across jobs within and across industries, a crucial characteristic of the post-pandemic labor market, has further boosted productivity growth in sectors with the most labor churn."

Finally, multiple studies make it clear that market dynamism in the form of entrepreneurial activity is crucial to fueling productivity. This is another area in which the United States is outpacing Europe. According to the IMF, the US generates more start-ups and more of them become large firms. The most rapidly growing American young companies employ six times more people as a share of total employment than those in Europe.

Mario Draghi's landmark competitiveness report for the European Commission also emphasizes this key difference, arguing that "innovative companies that want to scale up in Europe are hindered at every stage by inconsistent and restrictive regulations." In the 2008–2021 period, 30 percent of European start-ups that ultimately were valued at more than $1 billion relocated their headquarters outside of the EU—primarily to the US.

The second major dynamic that we anticipate will drive accelerating productivity gains is the emergence of increasingly capable artificial intelligence. The magnitude of AI's potential impact on productivity growth has been the subject of a plethora of recent analysis, and while the projected range is wide, the implication is clear—AI has the potential to transform productivity growth for those countries that can harness it effectively and responsibly.

Goldman Sachs assesses the potential shift in US productivity growth over the next 10 years to be as much as 1.5 percent annually or some 15 percent in aggregate "assuming widespread adoption" of AI. At the lower end of the spectrum, Darren Acemoglu estimates that AI will have an aggregate growth impact of less than 0.53 percent over 10 years. The OECD estimates a positive impact of 0.53 percent annually or approximately 5.4 percent over 10 years. JP Morgan's estimate is somewhere between these, at 17.5 percent over 20 years.

Given the range of estimates—and there are many others on the more optimistic end of the spectrum—it is reasonable to estimate that AI can accelerate productivity growth over the next 10 years by approximately 7 percent. What is crucial is that this cannot be viewed as a foregone conclusion. It will hinge on policy choices and on readiness developed over time, which of course greatly favors the most advanced economies. As Acemoglu emphasizes, what is most important is that policymakers and business leaders enable the deployment of AI in ways that are human-complementary, rather than geared primarily toward what can otherwise be unproductive human displacement.

Increasing productivity has the potential to transform the global growth outlook. However, this will require the rare political will for structural reform, and the resources to make decisive investment in R&D, human capital, and infrastructure over many years. Given these challenges, it is unfortunately most likely that through 2030 the gap in productivity growth will widen—with profound consequences for nations on both sides of the divide.

Compounding economic divergence

Looking out to 2030, the increasing risk of interest rate volatility, the rising global public debt burden, the transformation of the global financial system, and the evolution of productivity are coming together in ways very likely to compound economic divergence.

Leading economies will be able to manage, and in some cases shape, inflation and interest rate dynamics—albeit with some difficulty. Emerging and developing economies, on the other hand, will be ever more subject to sovereign risk and contagion given their enduring fiscal constraints and rising debt.

As the financial system undergoes deep disruption, the ability of resource-constrained governments to harness the potential pro-growth benefits of that transformation will be limited. And while the emerging opportunity of a productivity renaissance fueled by structural reform and the human-complementary application of AI is real, capitalizing on it will require resources and capabilities that are not accessible to all.

The net effect of this deepening economic divergence will be volatility. The risk of financial crises and contagion will rise—and with it the risk of social and political instability. As we approach 2030, these dynamics will create powerful competitive incentives for all countries. These incentives will drive new forms of economic partnership and collaboration. Ultimately, therefore, how countries navigate the emerging macroeconomic environment will be determined by their adaptive capacity, including their ability to make bold, innovative, and often difficult policy choices.

Bridging the fault line: from divergence to integrated growth in the Middle East

The global force of compounding economic divergence will severely test the socioeconomic fault lines between oil-exporting nations and their neighbors throughout the Middle East and North Africa (MENA). Within countries, the MENA region is already the most economically unequal region in the world, with the top 10 percent maintaining a 58 percent share of national income compared to 36 percent in Europe and approximately 45 percent in North America.

The World Bank has noticed a "troubling increase" in poverty across the MENA region—the only region in which poverty rose in both lower-middle and upper-middle income categories. While this inequality within countries creates systemic vulnerabilities and suggests the extent to which the region as a whole is susceptible to the global force of divergence, the gaps between the region's oil exporters and others in terms of resilience reveal more about its challenges and opportunities going forward.

The region's oil exporters in general, and the GCC countries in particular, have demonstrated exceptional adaptive capacity and resilience in navigating the global pandemic and the historic geopolitical and trade shocks that have shaken the region since then. Despite these challenges, leading GCC countries have relentlessly continued to drive economic reform, investing in economic diversification, labor force participation, and innovation capacity. They have also been able to achieve price stability despite inflation spikes globally. Although their historic surpluses have narrowed as a result of the shocks of recent years, agreed OPEC+ production increases, and the financial requirements of their ambitious national strategies, they remain exceptionally well-positioned to manage the period through 2030, except to the extent that the vulnerabilities of their non-oil-exporting neighbors may create cascades of instability.

On the other hand, the region's non-oil economies are vulnerable to the forces of compounding economic divergence. In terms of debt, in 2023 the debt-to-GDP ratio among MENA oil-importing nations was 300 percent higher than that of MENA oil exporters—and 50 percent higher than the average for emerging market and developing economies (EMDE). Lebanon and Bahrain each have debt-to-GDP ratios well beyond 100 percent, and Egypt is nearing that mark. These debt levels are made more challenging by tight external financing conditions and the declining flows of foreign assistance even before the United States cut 90 percent of USAID awards and essentially shuttered the organization.

In addition, MENA oil importers have been directly exposed to the surge of high-intensity violent conflict. Beyond the incalculable human costs of these conflicts, they have also had profound economic impacts, including with respect to productivity. The IMF estimates that in countries experiencing such shocks, total factor productivity (TFP) is 10 percent lower for five years following the conflict. Severe climate events have a similar impact.

Taken together, these factors suggest that the non-oil economies of the region are highly vulnerable to falling further behind over the next five years. If the countries are unable to respond collectively to the global forces of divergence, the region will be at risk of slowing growth and economic instability.

In a region already facing high unemployment, particularly among young people, an inability to transform labor markets and generate quality work opportunities will find the region left behind the rest of the world. Slowing growth and instability in the region would be not only a drag on the global economy, but also could contribute to deepening geopolitical volatility.

Fortunately, there are several clear countervailing forces that indicate the region is set to turn in the other direction. To the extent that the leading Gulf states continue to successfully deliver against their economic diversification plans, their strength will directly reinforce the stability of the entire regional economy. Most importantly, by driving deeper regional economic integration, the Middle East can convert the economic complementarities of its diverse countries into sources of competitiveness and inclusive growth.

This process is under way. The leading countries of the region have been intensifying their efforts to deepen regional integration across sectors—and to build on those ties through a widening set of innovative international partnerships. For example, Saudi Arabia's National Industrial Strategy places regional integration at the heart of one of its strategic objectives, with the intent of contributing "to transforming the region into a major and competitive industrial center."

The success of these efforts would generate new opportunities and impetus for the non-oil-producing states of the region to further diversify their own economies, particularly in the manufacturing sector. This would help absorb low-skilled labor in the region, contributing to turning around the productivity growth decline. If these integration and diversification campaigns can take root, then an engine of ever more inclusive economic growth can emerge at a crucial demographic and geographic nexus point of the global economy—a source of growth and stability for the entire global economy precisely when it is most needed.

Reweaving of the social fabric

5

As nations face intense economic, geopolitical, and ecological pressures, the social fabric is under enormous strain. With political and societal discontent rising across a diverse array of countries worldwide, an age of destabilization and uncertainty is well under way.

This situation is all the more precarious because it is arising within a shifting information environment, enabled by pervasive digital exchange, as rapidly evolving technologies reshape the patterns and means of human interaction.

The outcome of all this, in the near term, will be the degradation or destruction of many traditional sources of stability, but also the creation of new forms of connection, new communities, and new collaborations—new forms of social fabric.

Societies in the Middle East will reflect these dynamics, and their responses to them will, in turn, shape how the world moves forward in this new era.

A fading consensus on truth

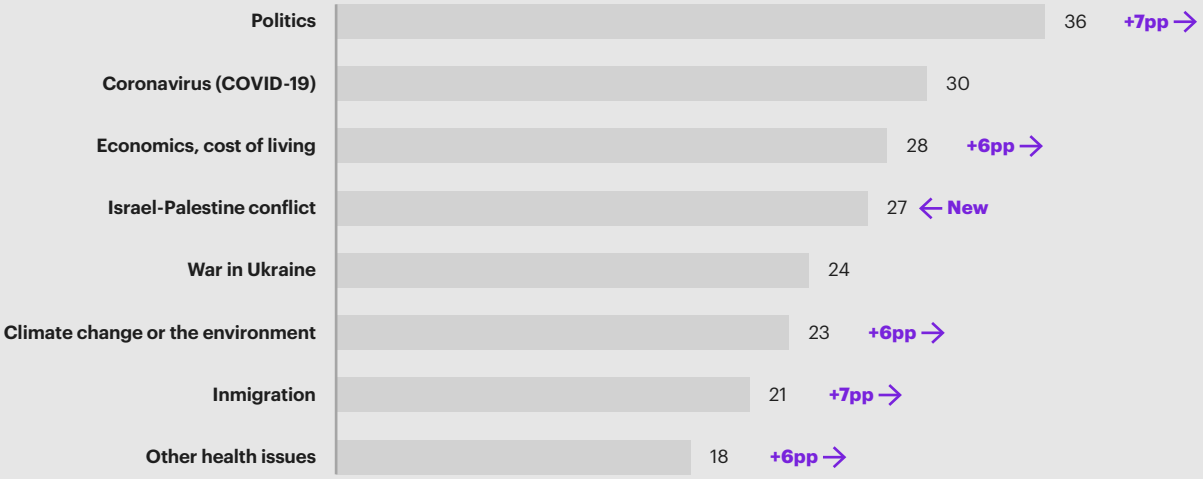
Our shared conception of reality, upon which a functioning society is built, is at risk of vanishing. The information landscape has become increasingly fractured and driven by opinion-based rather than fact-based reporting. A growing number of news outlets specifically cater to readers and viewers of a specific ideological perspective, while audiences have turned more and more to social media as a news source, despite widespread misgivings about the potential for misinformation on online platforms (see figure 8 on page 24).

A generational shift in news consumption is fueling further disruption of the information environment. Young people in particular report favoring short video content platforms such as TikTok and Snapchat over traditional news sources, or even legacy social media outlets such as Meta (formerly Facebook) and X (formerly Twitter). With 66 percent of young people (aged 18–24) in a global survey across 47 countries accessing short news videos each week, TikTok has overtaken Twitter (now X) as a global news source for the first time.

Figure 8

There are more individuals seeing false or misleading information online

Proportion of survey respondents that say they have seen false or misleading information about each topic in the last week – all markets (%)



Sources: Reuters Institute; Kearney analysis

The newer platforms often direct viewers to "alternative" news sources or influencers, who frequently lack the journalistic experience, professional standards, or fact-checking resources that newspapers, magazines, and broadcast networks have upheld—with varying levels of fidelity and success—for generations. As a result of this shift, the information environment will only become more diffuse, and misinformation more ubiquitous.

The proliferation of deepfakes and other information-distorting applications of artificial intelligence will radically escalate these risks. As the technologies of deception become more sophisticated, the essential task of telling truth from fiction will only become more challenging.

In an information environment where even basic facts are regarded as grounds for debate—rather than as a common ground for understanding—how will societies come to agreement on anything?

The technological reordering of social relations

As the digital revolution continues to contribute to the disruption of the information environment, it is also driving a broader reordering of social interaction. Many of the traditional institutions and norms of social interaction are eroding, supplanted by digital venues of exchange. We see this in the shifts from community sports leagues to e-gaming, from office meetings to remote working, and from in-person "meet cutes" to dating apps.

In some cases, these channels and venues of engagement are creating new opportunities for connection—bringing together individuals who would have had no impetus or opportunity to meet otherwise. Platforms such as Reddit and Discord provide spaces for individuals to bond over niche interests in ways that traditional structures may not accommodate. The live streaming platform Twitch, most commonly used by gamers, has become a potentially powerful tool for political engagement, offering an unmediated venue for its young users to engage with digitally savvy leaders and activists. Remote work, enabled by online collaboration tools and enhanced video conferencing platforms, has yielded undeniable benefits for those who are able to take advantage of it.

In these ways, among others, our increasingly networked culture is offering a wide range of opportunities to connect, with potential for positive benefits to spill offline into the real world. Certain forms of online engagement are positively linked to well-being for stigmatized group members and can even drive offline civic engagement.

But the detrimental effects of our online lives are also well documented. At the individual level, social media has been linked to loneliness and social isolation. Its mental health effects on children have become such a concern that Australia recently passed the world's first ban on social media use for children under 16. In the workplace, there are signs that this more atomized environment may also be a less innovative one—and less professionally supportive, especially for researchers in science and engineering, as well as for individuals just starting out in their careers.

In addition, researchers have found that as individuals naturally gravitate toward online sources that reflect their own prior interests and perspectives, they unwittingly create echo chambers that reinforce their existing views—and crowd out any voices that might challenge those views. As algorithms make further recommendations along these same lines, individuals become even more insulated within their cloistered networks.

While the agglomeration of like-minded individuals in neighborhoods, cities, or regions is nothing new, the algorithm-fueled acceleration of such sorting has served to reinforce a form of digital segregation. Therefore, while the technologies constantly at our fingertips offer incredible means of connection, they often do so in ways that are increasingly isolating and divisive.

Our increasingly networked culture is offering a wide range of opportunities to connect, with potential for positive benefits to spill offline into the real world.

Inequality and an intensifying concentration of wealth

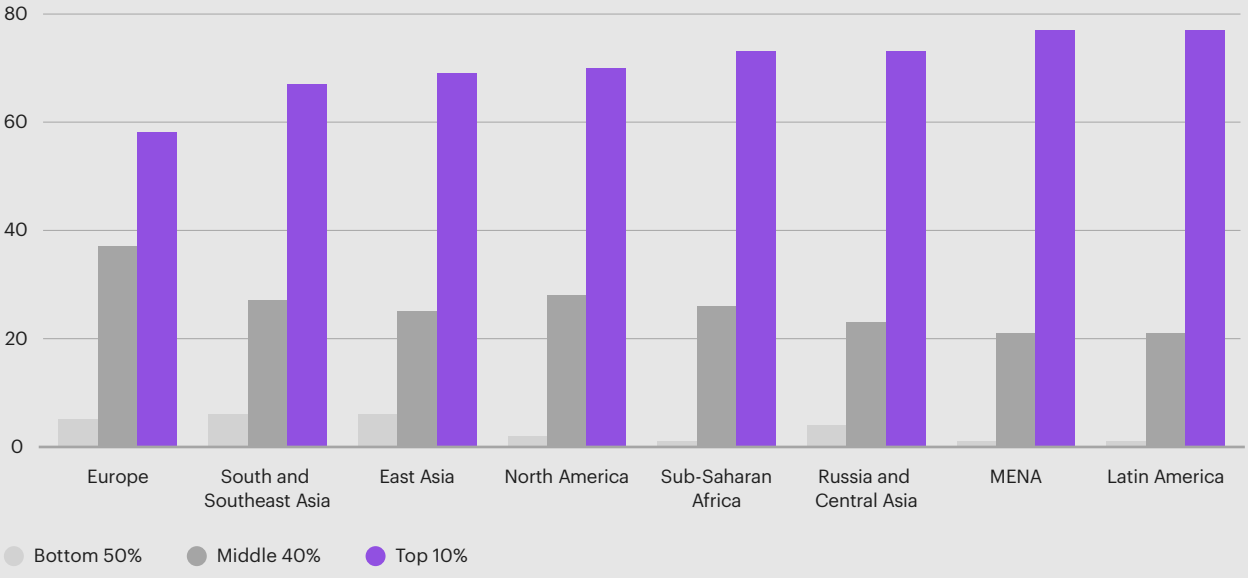
Meanwhile, several nations are experiencing another development that threatens social cohesion—a rise in economic inequality. The gap between the average incomes of the richest 10 percent and poorest 50 percent of households has nearly doubled within countries since the 1980s.

This general trend has manifested throughout the globe. Inequality has remained stubbornly high in regions where stark disparities have long been a feature of life, such as Latin America, the Middle East and North Africa, and sub-Saharan Africa. In recent decades, though, rising inequality has become a more prominent reality even in relatively affluent nations that long prided themselves on general equality of opportunity, notably the United States.

An especially clear manifestation of this overall trend is the extreme concentration of wealth (see figure 9). The world's richest 10 percent own between 60 and 80 percent of overall wealth, while the poorest half typically owns less than 5 percent. This gap is only widening: the bottom 50 percent of the world's wealth holders captured only 2 percent of global wealth growth over the past 25 years, while the top 1 percent captured 38 percent.

Figure 9
The extreme concentration of wealth is evident across the globe

Wealth inequity across the world
(Share of wealth, %, 2021)



Sources: World Inequality Report; Kearney analysis

The fraying—and reconstitution—of the social fabric

These combined forces have a strong centrifugal tendency, pulling resources and energy away from a stabilizing middle ground. Societies have already begun to change markedly as a result—and every indication is that they will continue to do so. The outcome will be toward a wholly new society—retaining texture from the old, but reconstituted in perhaps unfamiliar ways, and potentially featuring starker divisions.

This fraying of social cohesion is a direct outcome of a widespread trust deficit. In the absence of a shared sense of truth, skepticism of national leaders has reached historically high levels. Among people surveyed across 28 countries, 63 percent said they believe government leaders are purposely trying to mislead the public. Intensifying economic disparities fuel further division, with seven in 10 respondents saying the system is biased in favor of the rich—and low-income respondents indicating far lower trust levels than those with higher incomes.

With these resentments and suspicions so widespread, and human interaction increasingly conducted within more ideologically and culturally homogeneous communities, it is no wonder that the traditional connections that formerly assuaged our political divides are weakening—or have disappeared already.

And yet, the same forces that have contributed so much to this corrosion also offer some sources of hope for the restoration of a sense of community—albeit on terms very different from before.

Some forms of personal engagement will indeed die, but new ones will emerge, as seen in the growth of vibrant online communities that connect individuals who might never come together in "real life." These interactions will connect different people, through different means and for different reasons, than the institutions and organizations that characterized the pre-Internet world. The algorithmic selectivity of these connections will bring some people together—even as they simultaneously drive other communities apart.

By 2030, the outcome of this altered constitution of the social fabric is likely to result in greater polarization and sociopolitical disruption. In fact, there are ample signs that this process has already begun.

In 2024, more than half the world's population lived in nations that experienced democratic elections—and nearly all of those contests reflected deep discontent with existing political structures. Among democracies that held elections over the past year, more than 80 percent saw the incumbent party lose seats or vote share.

Unless countries can form new bonds of trust across their societies, overcoming the forces of chronic division, this elevated level of political and social oscillation can be expected to continue, and to intensify.

Unless countries can form new bonds of trust across their societies, the elevated level of political and social oscillation can be expected to continue.

Scaling trust: the Middle East in an era of worldwide social transformation

The countries of the Middle East are in some ways isolated from these dynamics, and in others highly vulnerable to them. The region has a disproportionately large youth population in comparison to most of the world, as well as some of the world's highest Internet usage rates. In fact, seven of the 10 nations with the highest rates of social media usage are in the Middle East. This creates both vulnerabilities and opportunities. Large youth populations are primary engines of economic growth, but in the context of significant economic inequality and the growing challenge of job creation, they can also be fertile ground for instability.

While job creation is gaining momentum in the GCC countries, in the MENA region more broadly, youth unemployment reached 33 percent in 2023, and had been above 25 percent for the two preceding decades. Given their deep engagement in social media, the youth of the Middle East are shaping not just the culture of their region, but also of the world as a whole. The nature of this influence will hinge on whether this age cohort can sustain a sense of trust as their region and the world rapidly evolve.

In those nations with governments widely considered weak or illegitimate, where trust is already at very low levels, lack of social consensus can erode any remaining foundations of trust. Given a history of spillover from one country to the next, the stability of each country is consequential for the entire region—and the world. The 2015 migrant crisis, in which some 1.3 million refugees sought asylum in Europe, contributed to political disarray in some of the world's most affluent and economically powerful nations, including Germany, France, Italy, and the United Kingdom. Its effects are still being felt today, notably in a lasting public antipathy toward migrants.

While still deeply in flux, recent developments in the Middle East offer grounds for optimism. Syria is now entering the dawn of a new political era. With a new government in place and Hezbollah severely weakened, Lebanon is entering a period of tentative hope. Libya also may be approaching a new era of stability. Of course, much will hinge on the trajectory of the conflict in Gaza and the recent ceasefire. There is still an acute level of fragility and tension across much of the region, but also hope that the worst is over.

And the region has other enduring reasons for optimism. It is home to some of the most high-trust countries in the world. The UAE and Saudi Arabia rank among the top five countries in the world on the 2024 Edelman Trust Index. This high level of trust applies to the population at large, as well as government and business. These countries and others are making significant investments in preserving and fortifying the social and cultural foundations of their countries and people. In Saudi Arabia, the UAE, and Qatar, for example, national transformation strategies have included substantial focus on celebrating and showcasing national culture and heritage. Such initiatives—which deepen a community's connection and trust—can serve as threads in the reweaving of the social fabric.

In addition, these countries have demonstrated how comprehensive approaches to national long-term goal setting can unite citizens and drive coherent action for decades to deliver transformative outcomes. They have become case studies in the power of aligning on shared values and priorities distilled into a coherent and widely supported vision to orient the efforts of individuals, communities, businesses, and the government. And the successes of these national transformation efforts are increasingly becoming models for other countries facing the challenge of strengthening social fabric in the context of disruptive change.

Leading GCC countries have demonstrated how comprehensive approaches to national long-term goal setting can unite citizens and drive coherent action for decades.

Accelerated knowledge creation

6

The quickening pace of scientific discovery and technological innovation is ushering humanity into a potentially transformative new era. We are seeing the convergence of several highly potent tech applications, including agentic AI, high-precision world modeling, and institutional innovation in the generation and use of new knowledge.

Together, these novel capabilities are making it possible to integrate and analyze knowledge across domains faster and more comprehensively than ever before, and to generate, test, and refine scientific hypotheses and solution designs on an unprecedented scale. This, in turn, is generating a "meta-analytic" revolution, in which data and findings from prior research are systematically analyzed to yield further, even more robust findings.[1] This capacity promises to revolutionize a vast range of fields, including biomedicine, climate science, energy, food security, water resource management, and post-conflict reconstruction.

As we stand on the precipice of this new era of discovery, the Middle East has a unique opportunity to harness these technologies, not only to address its own regional challenges, but also to influence and shape global innovation.

[1] The intersection of forces described in this chapter will enable not just meta-analysis of discrete issues to refine findings, but also new forms of analysis of complex, multi-variate issues (for example, public health, food security, carbon capture) to design and test solutions. The term "meta-analytic" is used to refer to this attribute of the emerging knowledge-creation environment.

Agentic artificial intelligence and the rise of exponential meta-analysis

Artificial intelligence is in the early days of a radically new phase, in which it will be less limited to executing predefined tasks reactively, and increasingly capable of autonomously taking action to achieve goals and make decisions based on data it encounters. These agentic characteristics make these systems exceptionally well-suited to generating and refining knowledge by identifying patterns, correlations, and causal relationships across domains at a vast scale and with unprecedented efficiency—far beyond human capabilities.

As a result, organizations will increasingly be able to apply these systems to unlock problems once thought insurmountable. The ability of agentic AI to set subgoals and pursue multidimensional objectives will increasingly allow it to work across traditionally siloed domains of knowledge and integrate insights from diverse disciplines.

We have already seen AlphaFold, an AI system developed by Google DeepMind, resolve the structures of more than 200 million proteins in under two years, a task that would have taken human researchers decades to complete. This breakthrough has accelerated the development of new drugs by predicting molecular interactions with 50 percent greater accuracy than traditional models, thereby radically streamlining the drug discovery process.

Microsoft has recently applied similar technology to create what is, at least in theory, a more resource-efficient and stable battery material that was previously "unknown to us and not present in nature." This involved first digitally screening more than 32 million potential materials, identifying 500,000 stable candidates, and then building a prototype of the new material.

In agriculture, there is evidence that predictive algorithm-based irrigation management systems can, by proactively responding to changing environmental conditions in the complex context of farming, generate water savings of 27 percent and energy savings of 57 percent on a highly scalable basis. More recently, the agentic AI lab assistants being developed by DeepMind and BioNTech are already facilitating collaboration across disciplines and the identification of unforeseen connections, and soon are expected to be able to design and plan experiments to test hypotheses.

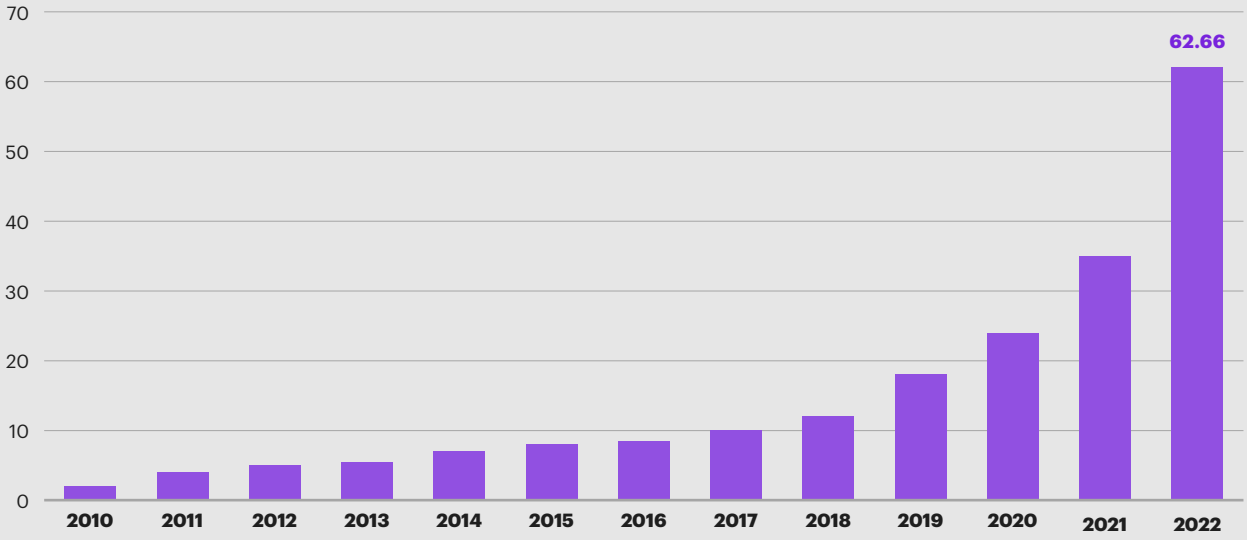
These are just the earliest ripples in what is likely to become a transformative wave (see figure 10 on page 31). The reach of this technology is all but certain to increase significantly as computational power increases and new agentic AI systems emerge. In addition, these AI models will become increasingly self-improving and more reliably scalable as they integrate large language model (LLM) technology with traditional programming, enabling them to achieve entirely new levels of both the flexibility that LLM enables and the precision and security provided by more deterministic traditional algorithms.

This trend is also already being fueled by the increasing reasoning capabilities of the technology itself, which is of course crucial for scientific discovery and knowledge creation. For example, OpenAI's recently released "01" models are explicitly designed for scientists and developers using new forms of reinforcement learning to deliver ever more reliable, scientifically validated responses.

At present, however, agentic AI systems can only reach so far. They are largely constrained to pursue objectives in environments encoded in data—for example, the data already generated by research laboratories and analyzed by scientists. However, the universe of environments encoded in data will soon expand exponentially, giving us the opportunity to apply the cross-disciplinary power of agentic AI to domains of real-world data beyond that which has already been codified.

Figure 10
There has been an explosion in the number of AI patents

AI patents granted
(Number of AI patents, thousands, 2010–2022)



Sources: Center for Security and Emerging Technology 2023, 2024 AI Index report; Kearney analysis

The accelerating emergence of real-time, high-precision world models

Our ability to create real-time, high-precision models of reality is on the cusp of a discontinuous leap forward. World models are "generative AI models that understand the dynamics of the real world, including physics and spatial properties. They understand the physical qualities of real-world environments by learning to represent and predict dynamics such as motion, force, and spatial relationships from sensory data."

These models—highly advanced forms of digital twins—are encoded reflections of complex realities, such as urban environments, industrial value chains, or natural ecosystems. As they evolve, these models will powerfully accelerate knowledge creation by providing agentic AI with access not only to information from across domains and disciplines, but also to dynamic, encoded representations of the world itself. This will generate simulations that lend unprecedented accuracy to weather forecasts, scientific experiments, policy assessment and design, and an extraordinary range of other complex projects.

What is accelerating the evolution of these world models is the confluence of two forces. First is the proliferation of ever more affordable, effective, and compact sensors, embedded in everything from infrastructure to wearable devices. These advanced sensors capture diverse streams of data—from geospatial patterns to environmental conditions—providing the raw material for building highly detailed digital replicas.

The US Air Force's Model One initiative integrates data from a vast array of advanced sensors in multiple domains (air, space, cyber, and ground) into a unified set of world models for training battlefield AI and accelerating innovation and reducing its cost. In another example far from the battlefield, NASA partnered with IBM to create an "AI geospatial foundation model" that integrates inputs from space-based, aerial, and ground sensors to enable a wide range of AI-powered studies targeted to addressing environmental challenges. Crucially, it also made the model universally available to empower researchers around the world.

The second gathering force that is driving the increasing sophistication and scope of world models is the accelerating advance of multimodal AI models.[2] Unlike traditional AI systems, which specialize in single data types, multimodal models seamlessly process textual, visual, numerical, and environmental inputs to create rich, unified representations of complex systems. By synthesizing these diverse data streams, multimodal AI enables world models to evolve from fragmented data sets into coherent, actionable simulations of reality.

According to the Stanford AI Index, this rise of "strong" multimodal foundations reflects such an increase in reasoning abilities that traditional benchmarks no longer apply. Whereas the original release of ChatGPT was unimodal, with inputs and outputs limited to text, multimodal AI models process inputs from diverse data sources and media. By doing so, as IBM explains, it enables a more comprehensive and nuanced understanding of the data. This, in turn, "allows the AI to make better-informed decisions and generate more accurate outputs." In short, multimodal AI models are the engines that process and integrate in real time the data represented in world models. As their advance accelerates, so too will the precision of world models—and their ability to simulate future scenarios with high resolution. This, in turn, will allow us to deploy agentic AI systems to anticipate and prepare for risks and opportunities that are over the horizon, transforming our foresight capabilities and thereby our adaptive capacity.

By 2030, these real-time, high-precision world models will provide agentic AI systems with an almost limitless field for knowledge creation—integrating existing knowledge and innovations from across disciplines with real-time, encoded representations of the world itself. This synergy holds the potential to transform knowledge creation, problem-solving, and decision-making, potentially allowing humanity to simulate and solve challenges with precision and foresight unimaginable just a decade ago. Realizing this potential, however, will require more than technological advance. It will require the accelerated evolution of our institutions.

[2] "A multimodal model is a ML (machine learning) model that is capable of processing information from different modalities, including images, videos, and text."

Institutional evolution in knowledge systems

The full promise of agentic AI and ever more sophisticated world models hinges on a fundamental factor: the capacity of human institutions to evolve. Institutions—governments, universities, corporations, and nonprofits—are not merely consumers of technology; they are its directors, gatekeepers, enablers, and regulators. Each of these roles becomes only more crucial as AI becomes ever more powerful.

Despite the geopolitical entropy and geoeconomic fragmentation that increasingly characterizes the global environment, there are signs of a growing willingness among many institutions to adapt, collaborate, and innovate to use these tools. This trend is accelerating and will decisively shape the trajectory of knowledge creation into 2030 and beyond.

Central to this transformation is the growing willingness of institutions to dismantle barriers that have long constrained the sharing of scientific knowledge, policy insights, and innovation. By enabling AI systems to access and synthesize this wealth of previously siloed information, institutions are beginning to facilitate the accelerated creation of novel insights and solutions that would have been impossible in more closed systems.

Although many legacy political and economic barriers to the sharing of knowledge assets persist, and many new ones are emerging, there are also many examples of a shift toward the more intentional pooling of knowledge in win–win models—at least in cases where proprietary intellectual property and national security are not at stake.

The European Commission's Horizon Europe program has not only expanded cross-disciplinary collaboration, but also mandated open science practices, ensuring that research outputs and data are freely accessible. This approach provides agentic AI systems with the access to the diverse knowledge sources they need to generate novel, multidisciplinary solutions to global challenges such as climate adaptation, public health crises, and clean energy innovation.

Similarly, the US National Institutes of Health Data Commons initiative is revolutionizing biomedical research by making vast datasets openly available to researchers and AI systems. The explicit intent of the effort is to foster novel, previously impossible scientific research, "including hypothesis generation, discovery, and validation."

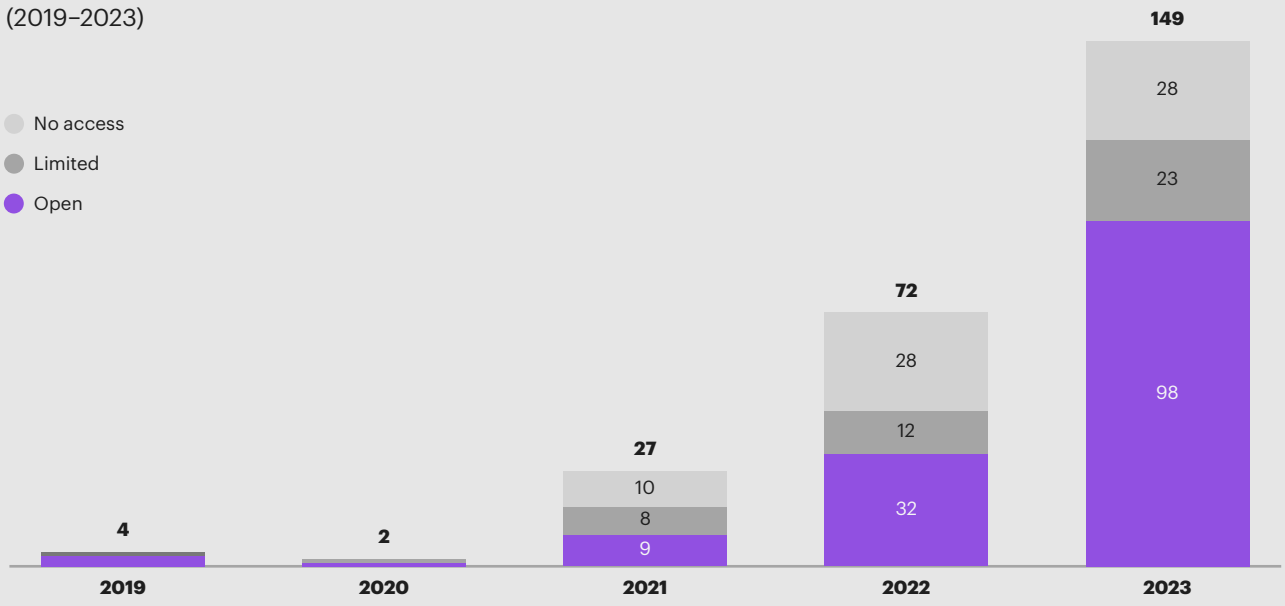
By breaking down longstanding barriers to collaboration, these and other institutions are enabling agentic AI to create connections across domains and disciplines, unlocking transformative possibilities for innovation.

Open-access initiatives are a cornerstone of this transformation—and are rapidly proliferating (see figure 11 on page 34). The Human Genome Project, for example, set a precedent by making its findings freely available, accelerating advancements in genetics and biotechnology. Another profoundly significant development is the rise of federated learning systems, which allow organizations to share insights without compromising proprietary data.

Equally important is the structural and educational evolution within institutions themselves. Organizations are not only making knowledge more accessible, but are also equipping their scientists, policymakers, and professionals with the tools and expertise to effectively deploy agentic AI and advanced modeling.

Figure 11

Open foundation models are rapidly expanding amid greater collaboration opportunities



Sources: Bommasani et Ai., 2024 AI Index report; Kearney analysis

Academic institutions are at the forefront of this effort. For example, MIT's Schwarzman College of Computing is integrating AI into disciplines as diverse as biology, ethics, and urban planning, ensuring that students and researchers can increasingly harness the power of advanced technologies. Stanford University's Human-Centered AI Initiative emphasizes interdisciplinary research and training to prepare individuals for the ethical and practical implications of AI in society.

Nowhere is this institutional innovation more urgent than in government. In Singapore, the government's National AI Strategy 2.0 includes initiatives to train public servants in AI applications, and to support researchers through scholarships and internships—creating a workforce ready to integrate AI into governance, public services, and scientific innovation.

This dual evolution—breaking barriers to knowledge sharing and building structures to empower individuals within institutions—represents a critical inflection point. As these changes accelerate, institutions will not only amplify the capabilities of agentic AI and world models, but will also transform the way knowledge is created, applied, and shared.

Together, these shifts are poised to redefine innovation across scientific, social, and economic domains, ensuring that the world's most pressing challenges are met with unprecedented clarity and speed.

Accelerating knowledge creation: the emergent meta-analytic revolution

The convergence of these trends is fueling an unprecedented acceleration of knowledge creation that will advance the frontiers of discovery in the physical and social sciences, technological innovation, public policy design, and beyond. This dynamic will have both collaborative and competitive dynamics.

In domains where the benefits of knowledge sharing outweigh the value of proprietary knowledge, the process will be extremely rapid. In areas of high competition, such as national security, it will also accelerate—fueled by competitive rivalry in addition to collaboration among allies. The unpredictable pace of advancements will also create sudden shifts in military and intelligence capabilities that may prove destabilizing. In the private sector, it will supercharge innovation as an engine of competitive advantage and fuel an explosion of new business models.

This discontinuous acceleration of knowledge creation will be transformative across global systems. By enabling faster, more valuable knowledge discovery across domains, this force will reshape industries, redefine how nations and organizations approach problem-solving and innovation, and foster new forms of international collaboration.

At the same time, the rapid and uneven distribution of these capabilities could exacerbate global inequalities, particularly in developing regions. Nevertheless, the force of accelerated knowledge creation holds the potential to enable transformative progress against humanity's greatest challenges, offering unprecedented clarity and speed in addressing shared global goals.

The force of accelerated knowledge creation holds the potential to enable transformative progress against humanity's greatest challenges.

The world's laboratory: regional consequences for the Middle East and GCC

The Middle East is uniquely positioned to benefit from and contribute to the accelerating global force of knowledge creation. Historically, the Middle East has been a global center of scientific progress, contributing foundational knowledge in fields such as mathematics, medicine, and astronomy. Today, this legacy continues, with Saudi Arabia and the United Arab Emirates at the forefront of the region's innovation agenda. Leading GCC countries, given their financial resources and ambitious national strategies, are already investing heavily in innovation, artificial intelligence, and institutional evolution.

Saudi Arabia, as part of its $100 billion Project Transcendence initiative, announced in May the formation of Humain—a PIF-owned company that will operate across the artificial intelligence value chain as the Kingdom aims to become one of the top five countries in AI by 2030. It is also building other components necessary to create a knowledge creation engine. Projects such as NEOM's The Line use digital twins to integrate urban design with AI-powered sustainability solutions, creating high-resolution, real-time models to optimize resource use and carbon neutrality. And the King Abdulaziz City for Science and Technology (KACST) is leading efforts in AI and biotech, while fostering partnerships in a wide range of advanced technologies.

The UAE, through its National AI Strategy 2031, has positioned itself as a global hub for AI, investing in AI-powered climate adaptation, renewable energy, and smart cities. Last year, the country announced an AI investment firm targeting $100 billion in assets under management. In May of 2025, they announced a partnership with the United States to build the largest AI campus outside of the United States. The UAE is also using digital twin technology, including in Dubai's Digital Twin project, to enhance urban planning and optimize infrastructure management. Institutions such as the Mohammed bin Rashid Space Centre integrate AI models into Earth observation to tackle water and food security challenges. Crucially, the UAE is investing heavily in human capital with respect to AI—and is home to the world's first graduate-level, research-based AI university.

These countries, and some of their neighbors, also have the crucial resources required to solve one of the technology sector's greatest challenges when it comes to sustaining and even accelerating AI advancements, as well as making the technology more environmentally sustainable.

Data centers—a fundamental requirement for the continued storage and processing of massive volumes of data—are in short supply. Their continued buildout will require land, investment capacity, energy, and political will—all of which can be found in the Middle East. The region's balanced global position and relationships with countries and companies leading in AI innovation around the world also position it well to build win–win relationships that support the global development of these world-shifting technologies, while expanding their own innovative capacity.

These and related efforts position the Middle East not only to accelerate solutions to regional challenges such as food security, water scarcity, and climate adaptation, but also to spearhead globally relevant innovations. If successful, this transformation could catalyze inclusive growth and regional stability, while creating solutions that benefit both the Middle East and the world.

Conclusion

What is coming next—deepening disorder or new forms of stability and progress? Will geopolitical rivalry drag the world into a spiral of cascading violence, or will a new stable balance emerge? Will economic fragmentation deepen, or might new, more networked, distributed, and resilient forms of globalization emerge? Will the advance of technology fuel economic divergence and erode social cohesion, or will it enable discontinuous collective progress and transformative solutions to our shared challenges?

The answers will hinge on the adaptive capacity of our institutions, the foresight and courage of our leaders, and the ingenuity and agency of every one of us.

Nowhere will this be more true than in the Middle East. Its leading countries have created dynamic laboratories of institutional innovation and national transformation centered not on resisting the forces shaping the future, but on harnessing them. To the extent they succeed in doing so, the region will become an engine of inclusive global growth and an enabler of a new, more stable and more peaceful international order.

Leading countries of the Middle East have created dynamic laboratories of institutional innovation and national transformation centered not on resisting the forces shaping the future, but on harnessing them.

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