

"How the US elections matter for the Middle East", Op-ed in The National, 2 Nov 2020

The op-ed by Dr. Nasser Saidi, titled "[How the US elections matter for the Middle East](#)", appeared in The National on 2nd Nov 2020 and is reposted below.

How the US elections matter for the Middle East

The bottom line is that the outcome of the US elections will directly impact a host of global issues

The opinion polls largely predict a win for Joe Biden on Tuesday.

FiveThirtyEight, a political analysis website, in its extensive analysis and simulations too favours Mr Biden, barring a major polling error. But a contested election is probably on the cards, given the likelihood that more than 90 million postal ballots – mostly Democrats – are likely to be systematically challenged by Republicans.

With a day left for the US Presidential elections, what would a potential change of guard at the White House mean for the Middle East? What is at stake?

First, a potential return to multilateralism and international co-operation from the current unilateral policies of withdrawal from the Paris climate accord, the Trans-Pacific Partnership or the World Health Organisation or the Iran nuclear deal.

International co-operation – such as the Global Access Facility – will be critical when the vaccine for Covid-19 is ready and needs to be distributed globally.

A widespread availability of vaccines is a global public good. A discriminatory or preferential national treatment would be detrimental to the global economy and hamper recovery from the pandemic.

More broadly, a US reversion to multilateralism would be welcomed internationally. This would mean less confrontation on trade, tariffs and investment policies with China, the EU, Canada-Mexico and others. This would lead to a win globally and – by encouraging non-US trade and investment – result in a cheaper dollar.

Significantly, under a Biden administration, global policy uncertainty, which has been peaking, would diminish. This would, in turn, encourage trade, investment flow and global economic recovery.

Lower, volatile oil prices and a strong dollar along with US tariffs on aluminium and steel, have cost a number of Arab countries over the past four years.

Currently, GCC members are pegged to the dollar. Oil is priced in dollars, trade is dollar denominated – a strong dollar penalises sectors like trade, tourism, transport and logistics that these countries have relied on for economic diversification.

Given the Covid-19 lockdown and the global energy transition away from fossil fuels, it is unlikely – given weaker demand – that oil prices will revert to levels seen a few years ago: the IMF's latest World Economic Outlook puts oil prices, based on futures markets at \$41.69 in 2020 and \$46.70 in 2021 versus an average price of \$61.39 last year.

But a likely cheaper dollar under Mr Biden would support an economic recovery in the region, driven by the non-oil sector, tourism and services exports – and as countries reopen in phases – also in foreign investment in real estate.

The impact on the oil market will be more important.

A re-elected Trump administration would continue its policies: supporting US shale oil, encouraging drilling, rolling back climate-related regulations, supporting US oil and gas exports, thereby weakening oil prices.

By contrast, a Biden administration would be climate and environment policy friendly, would revert to the Paris Agreement and support renewable energy.

In a scenario where fossil fuel demand is already weak, an additional push towards renewables would reduce US supply but also demand.

The affect on oil prices would depend on the balance between demand and supply effects, and not necessarily downwards. Oil exporters in the region are still highly dependent on oil. Lower oil revenue implies limited fiscal room and higher fiscal deficits.

As real oil prices trend downward, fiscal sustainability becomes increasingly vulnerable. The risk of being left with stranded assets then becomes the elephant in the room.

According to the International Energy Agency, stranded assets refer to “those investments which have already been made but which, at some time prior to the end of their economic life, are no longer able to earn an economic return”.

The strategy imperative is the need to re-emphasise diversification policies, along with a policy to de-risk fuel assets.

National oil companies and state-owned enterprises, that are majority owners or operators of oil and gas assets, would need to pursue a plan of low-carbon energy transition – in addition to the unlocking of greater immediate value from fossil fuel assets.

Examples are the Aramco IPO and Adnoc’s pipeline network deals. This could be complemented by a major drive to accelerate investment in and an adoption of green energy policies, by both government entities and the private sector.

The bottom line is that the outcome of the US elections will directly impact a host of global issues – from dealing with Covid-19 and climate change, de-escalating confrontation and preventing a cold war with China, restoring confidence in multilateral agreements and institutions like the WHO, the WTO, the UN and geopolitics, along with repercussions on regional power struggles involving Israel, Iran, Turkey and a

number of Arab states.

Important as these issues are, the other bottom line is the need for a renewed focus of the regions' oil producers, on economic diversification strategies and de-risking fossil fuel assets within a well-designed, time-consistent energy transition strategy.

Dr Nasser H Saidi is a former Lebanese economy minister and founder of the economic advisory and business consultancy Nasser Saidi & Associates