Interview with Al Arabiya (Arabic) on the Global Economic Diversification Index, 17 Feb 2025

In this TV interview with Al Arabiya aired on 17th February 2025, Dr. Nasser Saidi highlighted the findings from the Global Economic Diversification Index that was released at the World Governments Summit 2025.

Watch the TV interview via this [link]()

ناصر السعيدي للعربية: السعودية والإمارات تحققان تقدما كبيرا في التنويع الاقتصادي

أميركا والصين وألمانيا تحافظ على الصدارة في مؤشر التنويع الاقتصادي

قال ناصر السعيدي رئيس شركة ناصر السعيدي وشركاه، إن التنويع الاقتصادي يعد من أهم العوامل التي تؤثر في استقرار الاقتصادات الخليجية على المدى الطويل.

وأضاف السعيدي في مقابلة مع "العربية Business"، أن مؤشر التنويع الاقتصادي الذي يشمل 115 دولة على مدار ربع قرن من عام 2000 إلى

2023 يعتمد على ثلاثة مكونات رئيسية: تنويع النشاط الاقتصادي، وتنويع التجارة الخارجية، وتنويع واردات الدولة.

وأوضح السعيدي أن تنويع النشاط الاقتصادي لا يعني فقط تقليل الاعتماد على النفط والغاز، بل يشمل تعزيز القطاعات الأخرى مثل السياحة والخدمات. أما تنويع التجارة الخارجية فيتعلق بتقليل الاعتماد على النفط والغاز كمصدر رئيسي للتجارة، حيث يمكن للتقلبات في أسعار النفط أن تؤثر بشكل كبير على الميزان التجاري وميزان المدفوعات.

وذكر أن تنويع واردات الدولة عبر تطبيق الضرائب على الشركات والخدمات أداة مهمة لتقليل المخاطر الاقتصادية.

وأشار السعيدي إلى أن الفترة بين 2020 و2024 شهدت تحسنًا ملحوظًا في بعض دول الخليج في مجال التنويع الاقتصادي، حيث أظهرت الإمارات والسعودية تحسنًا كبيرًا في هذا المجال.

وأوضح أن السعودية حققت زيادة قدرها 30 نقطة في هذا المؤشر من عام 2000 إلى 2023، بينما ارتفعت الإمارات 24 نقطة.

واعتبر السعيدي أن هذه التحسينات تؤثر بشكل إيجابي على استقرار الاقتصادين في البلدين وعلى المنطقة بشكل عام.

وأضاف أن جائحة كورونا أثرت بشكل كبير على القطاعات التي كانت تعتمد عليها دول الخليج مثل السياحة والتجارة، مما دفع الدول إلى تبني سياسات جديدة لتحفيز التنويع الاقتصادي.

وأفاد السعيد بأن التجارة الرقمية أصبحت جزءًا لا يتجزأ من مستقبل الاقتصاد الخليجي، وأن الاستمرار في تعزيز هذه المجالات سيسهم بشكل كبير في تحقيق التنويع الاقتصادي المطلوب.

ويراقب مؤشر التنويع الاقتصادي العالمي "EDI" أداء 115 دولة، بما في ذلك كبار مصدّري السلع الأساسية، خلال الفترة 2000-2023.

ويستند EDI إلى 25 مؤشراً لقياس التنويع الاقتصادي، من بينها ثلاثة مؤشرات رقمية تعكس التطورات في الاقتصاد الرقمي.

وحافظت الولايات المتحدة والصين وألمانيا على المراكز الثلاثة الأولى في مؤشر التنويع الاقتصادي العالمي لعام 2023.

وعند تحليل الدول التي تحتل المراتب بين 48 و67 في المؤشر، برزت مولدوفا، الإمارات وفيتنام كأمثلة بارزة على تحسن التصنيف، حيث تقدمت هذه الدول بعد أن كانت ضمن أقل 30 دولة تصنيفاً سابقاً.

Interview with Al Arabiya (Arabic) on Bahrain’s new global minimum tax, 5 Sep 2024

In this interview with Al Arabiya aired on 5th September 2024, Dr. Nasser Saidi discusses Bahrain’s plan to introduce the global minimum tax from Jan 2025.

Watch the TV interview at this link and the related news article is posted below:

خبير للعربية: "البحرين" تؤسس لنظام ضريبي جديد بدأته بفرض 15% على الشركات الأجنبية

توقع مضي دول مجلس التعاون الخليجي

في نفس الاتجاه

قال رئيس شركة ناصر السعيدي وشركاه، د. ناصر السعيدي، قرار البحرين فرض ضريبة على الشركات الكبيرة متعددة الجنسيات العاملة في البلاد اعتبارا من الأول من يناير المقبل خطوة جيدة وإصلاح ضريبي مهم.

وتوقع في مقابلة مع "العربية Business" أن تمضي دول مجلس التعاون الخليجي في نفس المسار، والإمارات ستطبق ضريبة بواقع 9% على أرباح الشركات ستطبق بنهاية العام وباقي الدول متوقع أن تمضي في نفس الاتجاه.

أشار إلى أن البحرين تؤسس لنظام ضريبي جديد يحسن استدامة الموارد على فترة وينوع الإيرادات ويشجع الاستثمار في البحرين نظرا توفير بيئة اقتصادية مالية حاضنة شفافة وهو أمر مهم للشركات الكبرى.

وحددت البحرين الضريبة بحد أدنى 15% على أرباح الشركات المتعددة الجنسيات التي تتجاوز إيراداتها العالمية 750 مليون يورو.

وذكر الجهاز الوطني للإيرادات أن هذه الخطوة تأتي تماشياً مع انضمام مملكة البحرين في العام 2018 إلى الإطار الشامل لمنظمة التعاون الاقتصادي والتنمية، وذلك دعماً لمشروع الإصلاح الضريبي إلى جانب أكثر من 140 دولة، بما في ذلك دول مجلس التعاون.

وقال إن البحرين حددت مستوى عادلا من الضريبة للشركات يجنبها الهروب من الضرائب أيضا.

"A GCC spaceport could bring

galactic gains", Op-ed in Arabian Gulf Business Insight (AGBI), 4 Jul 2024

The opinion piece titled "A GCC spaceport could bring galactic gains" was published in the Arabian Gulf Business Insight (AGBI) on 4th Jul 2024.

A slightly longer version of the article is posted below.

A GCC spaceport could bring galactic gains

It would support the development of the space economy in its multiple dimensions

The global commercial space economy is expected to grow, conservatively, to over $1.8 trillion by 2035 (from $630 bn in 2023) and become ubiquitous. As space technology costs rapidly decline, countries are developing space programs, investing in next generation launch vehicles (to land on the Moon and/ or Mars) and space exploration. Space transport and logistics systems, space-based production is becoming economical, and tourism more accessible [1]. Beyond spacecraft manufacturing (including launch vehicles), commercial space transportation and enabled industries [2], space technologies are integrated with day-to-day life. Such space-enabled activities are derived from three primary areas: Positioning, Navigation & Timing (PNT), Earth Observation (EO), and Satellite Communication & Connectivity (SatCom). In addition, worldwide government expenditures in space defence and security reached a historic high of over USD 58bn in 2023 and is accelerating in response to geopolitical fragmentation and Cold War II.

Space technologies support a growing proportion of earth-based activities ranging from day-to-day telecommunications or satellite-based internet connectivity in remote locations, GPS [3] for navigation (in cars or phones) to broadcasting (TV and radio via communications satellites). There are currently around 9,900 active satellites in various Earth orbits [4] – of these, 84% are located closer to earth (and are small satellites) and a large proportion are used to enable SatCom and EO.

The bottom line is that we are now increasingly space and satellite dependent. In 2001, only 14 nations operated satellites, but more than 90 now, driven by the reduction in the cost, size, weight, and power of satellites, with a larger number of smaller, distributed low-earth orbit satellites are being launched [5]. As the IoT becomes a reality, core earth-based infrastructure networks and systems – utilities, transportation, water, electricity, energy sources- will be increasing monitored, managed, integrated with and vulnerable to disruption from space (space wars are on the horizon!). Transport & logistics systems will become four-dimensional: land, water, air and space, and increasingly integrated. For the GCC space transportation – the movement of objects, such as satellites and vehicles carrying cargo, scientific payloads, or passengers, to, from, or in space – will complement their massive investments in air and sea transport and logistics infrastructure.

The GCC Space Race: why the GCC should develop a Spaceport

While the first Arab satellite (Arabsat) was launched in 1985, the UAE is rapidly developing its space activities. UAE is one of the original eight signatories of the Artemis Accords (a set of principles for exploration and conduct in space; Saudi and Bahrain signed these in 2022), it launched the Hope probe in 2020, sent the Rashid Rover to the Moon in 2022, with the next big project being a mission to the main asteroid belt between Mars and Jupiter.

The GCC are increasing their investments in the satellite industry (UAE's Yahsat [6] , Qatar's Es'hailSat satellite company) and developing and implementing space policies. Kuwait and Bahrain launched their first satellites in 2021, while Oman hosts a satellite monitoring station. Bahrain, Qatar, Saudi Arabia and the UAE have focused National Space Agencies. Oman announced its 10-year Policy and Executive Program in 2023 and a national space program.

Given the growing strategic importance of the space economy, the GCC should build a GCC-Spaceport from which satellites and spacecraft can be launched as part of their space strategies. Indeed, Oman recently announced plans to develop such a spaceport to be operational by 2030 [7].

Developing the space economy should be part of GCC economic diversification strategies and investment in new technologies. A WEF-McKinsey report [8] revealed that investments touched all-times highs of more than USD 70bn in 2021 and 2022. The report forecasts five sectors will generate 60% of the global space economy by 2035: (a) supply chain and transport with increased efficiency and cost-effectiveness via fleet management and supply-chain visibility; (b) food and beverage: supported by efficient last-mile delivery; (c) state-sponsored defence for surveillance; (d) retail, consumer and lifestyle, for online e-commerce services; and (e) digital communications for better connectivity.

Space exploration, space-based production and supply chains are rapidly growing. From a sustainability and climate monitoring standpoint, space-derived data is increasingly used in environmental monitoring (tracking biodiversity, managing natural resources, assessing the impact of disasters) and mitigating climate change risks (e.g. monitoring crop development, map deforestation due to mining projects). As climate change accelerates space-based applications include climate modelling (using AI), storm forecasting, precision farming, autonomous driving, the ability to identify and quantify emissions sources as well as space-based solar power plants. In financial services space uses range from risk modelling to inform insurance policies, to using geolocation to track harvests, flows of goods and impact trading markets. Satellite data can also be used to monitor compliance with the growing ESG market and "green finance" investments.

The GCC's geographic proximity to the equator provides a comparative advantage for locating a spaceport, providing low escape velocity from Earth. The GCC are also a geopolitically neutral location/hub, providing a reliable partner for the global space industry and countries wanting to access space, amid growing geopolitical tensions.

The GCC Space Port would support the development of the space economy in its multiple dimensions in the GCC, support commercial launch and space located activities, complement their land-sea-air transport infrastructure networks, as well as protect their space related assets. The focus on commercial space activities would also be complemented by commercial space economy financing: providing finance for satellites, space launches and space related activities.

Satellites and networks are increasingly becoming geostrategic assets, with infrastructure (both earth-based, sub-space and space based) becoming vulnerable to disruption or attack. A GCC Spaceport is integral to national security, providing the infrastructure for the launch of satellites, space vehicles as well as missiles.

Footnotes:

[1] Virgin Galactic, Blue Origin, and SpaceX's Crew Dragon spacecraft completed their first missions in 2021. Virgin Galactic and Blue Origin successfully completed seven revenue generating commercial flights (VG in early-Jun 2024). Tourism flights from SpaceX and Space Adventures, when launched, are expected to cost a fraction of the current amounts (a seat on a Virgin Galactic spacecraft is currently priced at about USD 450,000).

[2] Commercial space transportation and enabled industries include launch vehicle manufacturing and services industry, satellite manufacturing, ground equipment manufacturing, satellite services, satellite remote sensing, and distribution industries.

[3] GPS, or the Global Positioning Systems, were first designed by the US government as tools of war to guide missiles. Now, its public use is all around – we use it when exploring a new city or taking a car ride.

[4] https://orbit.ing-now.com

[5] On the downside, the large increase in space objects could become a risk to Earth's orbit: in this regard, the Space Sustainability Rating initiative was launched to foster voluntary action by satellite operators to reduce the risk of space debris, on-orbit collisions, and unsustainable space operations.

[6] Recently signing an agreement for geostationary satellites with Musk's SpaceX: https://www.agbi.com/tech/2024/07/yahsat-taps-musks-spacex-for-next-satellite-launches/

[7] https://www.thenationalnews.com/gulf-news/oman/2023/01/18/oman-is-building-the-middle-easts-first-spaceport/

[8]
https://www.weforum.org/publications/space-the-1-8-trillion-opportunity-for-global-economic-growth/

Comments on Saudi Arabia’s reduced spending plans in Al Monitor, 16 Jun 2024

Dr. Nasser Saidi’s comments on Saudi Arabia’s reduced spending plans appeared in the article titled “Why is Saudi Arabia cutting funding, reducing costs on ambitious projects?“ in Al Monitor’s 16th June 2024 edition. The comments are posted below.

Over the last few months, employees working for state-backed Saudi companies have been startled by unforeseen cost cuts. It started during the first quarter of 2024 and affected those working in diverse sectors across the kingdom, from the media to the country’s ambitious giga projects. Department spendings were significantly reduced, employees were made redundant and managements did everything big and small to save money, causing an atmosphere of tension and uncertainty.

“Government spending cuts are best understood as expenditure rationalization, improved decision-making and cost-benefit analysis of projects, including mega projects, in the light of achievements since the launch of Vision 2030,” Nasser Saidi,

former Lebanese economy and trade minister and founder of economic and business advisory consultancy Nasser Saidi & Associates, told Al-Monitor. "The Saudi economy remains in a transformation phase with increased policy emphasis on growing the non-oil sector for economic diversification and greater private sector participation."

"Significant diversification efforts have been underway, with Saudi diversifying in three dimensions: more diversified economic activity, more diversified trade and greater diversification of government revenues," said Saidi. "New sectors have been unlocked– not just overdependence on real estate and construction, including mining, tourism, entertainment and renewable energy."

Additionally, he underlined, "Saudi Arabia is fully engaged in the energy transition as witnessed through its great investments in clean and renewable energy and electric mobility and its undertaking of a de-risking of fossil fuel assets as witnessed by Aramco share sale."

Comments on Saudi Arabia's economic diversification in Al Arabiya News, 8 Apr 2024

Dr. Nasser Saidi's comments appeared in an Al Arabiya News article titled "Saudi Arabia's economic diversification: Driving growth beyond oil" published on 8th April 2024.

The comments are posted below.

Amidst the dynamic economic shifts within Saudi Arabia, experts underscore the essential contribution of the non-oil private sector to driving sustainable job creation and enhancing total factor productivity growth, contrasting it with the capital-intensive oil and gas sector's limitations in meeting the demands of the burgeoning young and educated population.

"With approximately 60 percent of the population under the age of 30, there is a pressing need to pivot toward the non-oil private enterprises, rather than relying solely on the public sector, as the primary driver of sustainable job creation and heightened total factor productivity growth," founder, president and chief economist at Nasser Saidi & Associates, Nasser Saidi, emphasized.

"Expansionary readings of the Saudi PMI for March 2024 echo the resilience and resurgence of the private sector following the challenges posed by the COVID-19 pandemic," he told Al Arabiya English. "The spike in demand has spurred a flurry of new orders and clientele, with export orders rebounding notably after a period of subdued activity. Noteworthy is the observed rise in employment alongside mild wage pressures, positioned to bolster the financial standing of firms and listed companies, thereby fortifying the overall health of the financial markets."

"Saudi Arabia is progressing steadily toward achieving the ambitious objectives outlined in Vision 2030, buoyed by supportive public investments and comprehensive policy and legal reforms," Saidi explained. "The Kingdom has pursued rapid diversification across three pivotal fronts: enhancing trade diversity to elevate non-oil trade share, boosting export value-added and expanding trade partnerships; pursuing government revenue diversification through VAT and other broad-based tax measures; and broadening production horizons to lessen reliance on oil-centric industries."

“A significant driver of this [GDP] growth, constituting 40 percent, is private consumption, fueled by the emergence of new sectors such as entertainment, hospitality and tourism,” Saidi mentioned. “Notably, social reforms have propelled a rise in female labor force participation rate, concurrently reducing the female unemployment rate to a historic low of 13.7 percent in Q4 2023. This shift towards dual-income households has not only elevated household income but has also facilitated increased consumption rates and wealth accumulation.”

He added: “These developments have been instrumental in bolstering the services sector, including retail, and catalyzing the digital economy, with women playing important roles in both arenas.”

Among the various non-oil sectors experiencing growth in Saudi Arabia, Saidi believes that tourism has strong potential, given the country’s capacity to attract cultural, historical, and religious tourists.

He noted that “Saudi Arabia made an exceptional achievement of hosting 27 million foreign tourists and 77 million domestic visitors in 2023, meeting previous targets set for 2030.”

“Strategic initiatives such as the development of resorts along the Red Sea and hosting major events like gaming conferences and concerts, coupled with facilitative measures like the unified GCC tourist visa and the upcoming Expo 2030, are projected to fortify tourism prospects,” Saidi stressed.

“Services-related industries such as financial services, wholesale and retail trade, restaurants, hotels, as well as transport and logistics, are expected to lead the upswing,” Saidi emphasized. “These sectors are anticipated to experience rapid development, reflecting a buoyant economic landscape. However, challenges may arise in the construction sector due to disruptions in Red Sea shipping, leading to increased costs

of construction inputs and potential cost overruns."

Saidi suggested a positive near-term outlook driven by several key factors. Those include the pipeline of Mega and Giga projects, preparations for Expo 2030 and the World Cup 2034, and the ongoing regional headquarters project, where licenses are being issued at a remarkable rate of ten per week.

"The Public Investment Fund's domestic investments in new and emerging sectors are also expected to provide crucial support to non-oil activity, further fueling economic growth."

Comments on the GCC diversification strategies in Arab News, 9 Mar 2024

Dr. Nasser Saidi's comments appeared in an Arab News article titled "Diversification strategies paying off for GCC economies" published on 9th March 2024.

The comments are posted below.

Speaking before the latest PMI report, Nasser Saidi, former Lebanese economy and trade minister and founder of Nasser Saidi & Associates told Arab News: "The Gulf is benefiting from investments that have been made over time."

He said: "I think one of the critical sectors is transport and logistics," further stating how "many countries don't have the airports, transport and facilities that the Gulf has developed, particularly the UAE, Qatar, and increasingly now

Saudi Arabia and to a lesser extent Oman."

Saidi continued: "As a result of it, tourism has developed very rapidly, and when you also open up the economy to tourist visas, facilities to establish businesses, and particularly you deal with COVID-19 very effectively, and you open up when the rest of the world was closed – the combination of these factors delivers the growth that we are witnessing now."

The economist believes that one of the undervalued aspects that contributed to non-oil growth is the fact that GCC health systems performed very well during COVID-19.

Saidi believes that the other big story for non-oil sector growth is the investment in renewable energy in the region.

"Despite the odds, these are the countries that are investing the most and the fastest in renewable energy because they have the advantage of solar power," he told Arab News, adding: "They're looking at this as a new opportunity of being able to go green and particularly (with) renewable energy, things like district cooling, things like a whole number of climate tech industries."

The economist said: "Desalination is a perfect one. The combination of these factors in addition to the further opening of the economies with free trade agreements are fostering growth."

Radio interview with Oryx Radio (in French) on the Korea-Middle East Forum and its importance, 6 Nov 2023

Dr. Nasser Saidi gave an interview to Oryx Radio (in French) on the Korea-Middle East Forum and its importance given the ongoing shift in economic relations towards Asia at a time of dislocation and fragmentation.
Listen to the interview:
https://nassersaidi.com/wp-content/uploads/2023/11/07-11-23-INVITE-NASSER-SAIDI-FORUM-COREE-ET-MO-HOUDA-ET-KARINE.PAD_.mp3

"The GCC should leverage its power to trade as a bloc", Op-ed in Arabian Gulf Business Insight (AGBI), 28 Jun 2023

The opinion piece titled "The GCC should leverage its power to trade as a bloc" appeared in theArabian Gulf Business Insight (AGBI) on 28th Jun 2023 and is posted below.

The GCC should leverage its power to trade as a bloc

Nasser Saidi

The GCC faces multiple headwinds as it seeks to achieve growth at a time of increasing global fragmentation, the West’s decoupling from China, climate change risks and the ongoing energy transition away from fossil fuels.

New policy tools are required to address these challenges and generate economic diversification. In particular, dynamic trade strategies will play a central role in realising regional success.

Total trade in goods as a percentage of GDP in the wider Mena region was 65.5 percent in 2021 (compared with 92.8 percent for the EU), indicating a relatively open regional economy.

Nonetheless, that number, ostensibly for the entire Mena area, is largely made up of the trade openness of the GCC bloc, high dependence on the trade of fossil fuels, and very low intra-regional commerce.

To date, the GCC and wider Middle East have missed a trick by failing to leverage the full potential of free trade agreements (FTAs) – international economic policy instruments that facilitate lowering tariffs, remove non-tariff barriers, liberalise access to markets and ease investment flows.

The Middle East and the GCC respectively have 38 and five regional trade agreements in force. This compares with 161 for Europe and 102 for East Asia.

More promisingly, earlier in June the UAE signed a bilateral comprehensive economic partnership agreement (Cepa) with Cambodia. This is its fifth Cepa, following those with India, Indonesia, Israel and Turkey. Another 10 or more are reportedly in the pipeline.

Focus on FTAs

The GCC needs FTAs to promote economic liberalisation, diversify output and lower its high dependence on fossil fuel exports, as well as to attract foreign direct investment and new technologies.

The capital-exporting GCC can use FTAs to protect its foreign investments and help forge new banking and financial links, notably with Asian markets.

In today’s turbulent geopolitical climate, diversifying investments and markets have become a strategic priority for the GCC, which holds more than $4 trillion in financial assets.

FTAs can provide a legal and regulatory framework as the GCC seeks to develop its international capital markets linkages, notably by facilitating the listing of foreign securities.

Against the backdrop of the global energy transition, the UAE and Saudi Arabia can carve a path towards becoming a global hub for renewable and climate financing, complementing their traditional role in oil and gas trade and investment.

To do this, the GCC needs to move towards reducing the existing hurdles for services. This means lowering barriers to entry and easing restrictions on operations.

Services are a strong driver of economic diversification and an accelerated strategy will increase domestic firms’ ability to participate in global value chain-based production.

In this regard, logistics are an important factor. The Mena region ranks just behind North America, Europe and Central Asia in the latest World Bank Logistics Performance Index, largely due to the high scores of the GCC region – the UAE is ranked 7th globally while Libya is 139th out of a total 150 nations.

A breakdown by country and sub-indices, however, shows that nine out of the 16 Mena nations achieve low scores in the timeliness sub-index.

To compete internationally, Mena countries must invest in facilitating trade, move towards digital trade facilitation – think e-commerce – and implement a cross-border paperless trading system.

This will result in more efficient supply chains, support regional trade integration, and increase participation in global value chains.

It will also require the dissemination of regular, timely, comparable and high-quality trade statistics to support evidence-based trade policy making.

Bloc power

The GCC should negotiate as a bloc to maximise its potential. As a first step, the customs union should be revived, leading to the re-development of the GCC Common Market.

Also, the bloc ought to move beyond goods trade agreements to negotiate comprehensive, wide-ranging, deep FTAs. It should modernise the old generation of double taxation agreements to take account of the importance of special economic zones and free zones.

Given the shift of the global economy towards Asia, the GCC should pivot away from historical trade patterns based mainly on energy, to deepen trade and investment relations with major new trade and investment partners, such as India, China, Japan and South Korea. It would also do well to explore links with emerging markets in Africa.

It is high time for the Gulf to negotiate FTAs with China, the African Continental Free Trade Area and the Association of Southeast Asian Nations.

Politically and strategically, a new generation of FTAs could signal a decision to engage on a wider diplomatic front, solidifying the region's international standing and reputation.

The GCC countries are looking to seal international trade and investment deals with a view to "regionalised globalisation", at a time when the rest of the global economy is fragmenting and much of the West is decoupling from China.

Such a strategy on the part of the GCC represents a building block to achieving greater geopolitical stability.

Dr Nasser Saidi is the president of Nasser Saidi and Associates. He was formerly chief economist and head of external relations at the DIFC Authority, Lebanon's economy minister and a vice governor of the Central Bank of Lebanon

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"China-GCC FTA will be a game changer", Op-ed in Arabian Gulf Business Insight (AGBI), 25 May 2023

The article titled "China-GCC FTA will be a game changer" appeared in theArabian Gulf Business Insight (AGBI) on 25th May 2023 and is posted below.

China-GCC FTA will be a game changer

Nasser Saidi & Aathira Prasad

Chinese President Xi Jinping’s historic visit to Saudi Arabia in December 2022 marked a transformation of the thus-far transactional relationship between the regions – leading to the long-awaited revival of negotiations of the China-GCC free trade agreement.

The meeting also spurred the signing of a comprehensive strategic partnership agreement and 34 investment agreements.

The visit birthed an active diplomatic role for China in the region, resulting in the reopening of relations between Saudi and Iran, while Saudi and the UAE assume observer status in the Shanghai Cooperation Organisation.

These developments herald détente and stabilisation in the Middle East, thereby favouring trade, investment and growth, and facilitating the potential reconstruction of countries destroyed by war and violence – starting with Yemen.

Economic diversification

China already accounts for one-fifth of the GCC’s total trade, a larger share than trade with the EU or US. China is the largest export market for the GCC – with energy at its core – as well as a major source of investment.

In 2022 the GCC accounted for around 8 percent of China’s total imports, according to the PRC General Administration of Customs. Oil accounted for 90 percent of the GCC’s exports to China last year. China is also the largest non-oil trading partner and second-largest trading partner of the Mena region.

A China-GCC FTA, potentially by 2024, is a game changer that would galvanise Middle Eastern economic transformation. An FTA that removes trade barriers – with tariffs expected to decline by 90 percent – would boost trade and investment linkages.

A China-GCC FTA is likely to be a deep trade agreement, going beyond international trade to encompass agreement on non-tariff barriers, direct investment, tech, e-commerce and services, labour standards, taxation, competition, intellectual property rights, climate, the environment, and public procurement (including mega-projects).

Laws and regulations would be modernised to accommodate the provisions of the FTA, thereby accelerating domestic economic reforms in the GCC.

These gains from trade, investment and technology transfer would generate higher incomes and growth rates for the GCC and, through spillover effects, raise growth rates in the wider Mena region.

Energy is essential

What are the main building blocks of an FTA? Energy will remain at the centre of a China-GCC FTA. However, the energy sector itself is transforming, driven by the global energy transition, with decarbonisation policies and net-zero targets leading to an acceleration of renewable energy investments, including by the GCC.

The Russia-Ukraine war created an energy crisis and put security at the forefront of energy policies. This, along with sanctions on Russian oil and gas, has increased dependence on Middle East resources.

China, as a world leader in renewable energy tech, will become the strategic partner for the GCC as it diversifies its energy mix through investment in renewables and climate tech.

A China-GCC FTA would also be a major building block for the economic diversification 2.0 strategies of the GCC and expansion of the non-oil sector.

Given the size and diversification of China’s economy, an FTA would lead to a rapid expansion of trade and investment in digital trade and financial services, hi-tech, renewable energies and climate tech, AI, automation and robotics.

Tourism growth

Tourism would boom as Chinese outbound travelling recovers post-Covid, as other GCC countries join the UAE on China's "approved list".

The FTA would strengthen linkages and integration in infrastructure, transport, logistics and even space travel.

What's more, the GCC, as major capital exporters, would benefit from linking financial markets to Shanghai and Hong Kong, greatly facilitating financial flows, thereby multiplying and diversifying investment opportunities.

These could include expansion of China's Belt & Road construction projects in the GCC, participation in the financing of GCC privatisations, mega-projects, public-private partnerships, and the transfer of technology.

GCC investors would have privileged access to Chinese opportunities, free of exchange and capital controls. A natural outcome of the FTA and financial market linkages would be the linking of payment systems, including the development and use of the Petro-Yuan to finance China-GCC trade and eventually for financial transactions and investments.

A China-GCC FTA would also deepen the symbiotic relationship between Chinese and GCC sovereign wealth funds, the largest in the world, controlling assets worth more than $6 trillion, enhancing their global financial market power.

And finally, the China-GCC FTA would result in positive spillover effects through increased trade and investment for the Mena trade partners of the GCC, with trade creation effects outweighing any potential diversion.

The GCC would negotiate as a bloc and start exercising its considerable economic power in signing other FTAs, potentially with Asean, the EU and the United States-Mexico-Canada Agreement.

The China-GCC FTA deal is expected to potentially lead to a more than doubling of non-oil trade in three to five years from implementation, with greater global and regional integration of the GCC and the Mena region.

Dr Nasser Saidi is the president of Nasser Saidi and Associates. He was formerly chief economist and head of external relations at the DIFC Authority, Lebanon's economy minister and a vice governor of the Central Bank of Lebanon. This article was co-authored by Aathira Prasad, director of macroeconomics at Nasser Saidi and Associates

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"Why nations must diversify their economies to avoid stagnation", Op-ed in The National, 22 Feb 2023

The article titled "[Why nations must diversify their economies to avoid stagnation]" appeared in the print edition of The National on 22nd February 2023 and is posted below.

Why nations must diversify their

economies to avoid stagnation

Nasser Saidi & Aathira Prasad

The Global Economic Diversification Index tracks, measures and compares progress in diversification based on 25 indicators

Economic growth in nations with an abundance of natural resources tends to be lower and more volatile.

Diversifying activity from an over-dependence on natural resources – such as oil, minerals or commodities – allows countries to harness resource rents as an engine of growth, rather than a barrier to economic development, avoiding the "resource curse".

For fossil fuel-dependent countries, ambitious global decarbonisation commitments (UN Cop climate summits, net zero emissions) and energy transition plans to address climate change have added to the urgency of economic diversification, given that oil and gas accounted for 31.89 per cent and 21.34 per cent of global greenhouse gas emissions in 2021.

With economic diversification a policy imperative in the Middle East, nations can turn to the Global Economic Diversification Index (EDI) to track their performance over time, undertake peer comparisons and measure the gap with higher-ranked nations.

The EDI identifies and examines 25 economic indicators, analysing and combining three main dimensions of diversification – output, trade and government revenue – across 105 nations for the period 2000-2021.

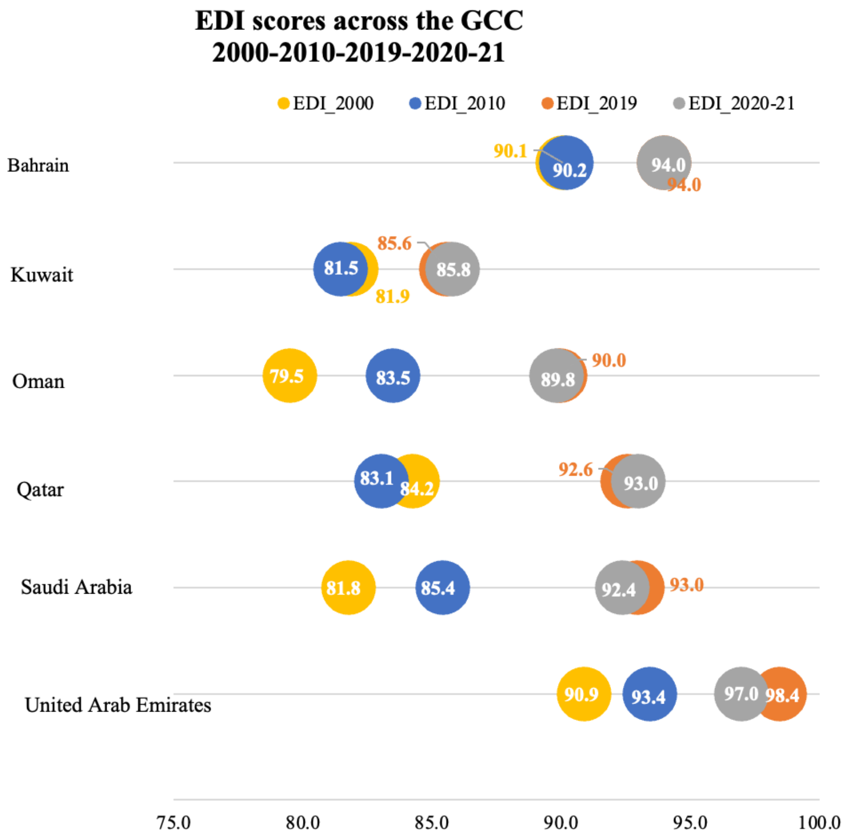
The top-ranked nations have maintained their standing over time, with the US, China and Germany ranking highest in 2021.

What are the major lessons and outcomes? First, there is a positive correlation between EDI and gross domestic product per capita (but being a high-income country does not imply a high economic diversification score) and, secondly, the higher the share of resource rents in GDP, the lower the EDI score.

Third, countries do not need to take a traditional industrialisation route: services and financial services led Singapore and Switzerland to rank highly alongside industrialised nations such as Germany and the UK.

Fourth, innovation and adoption of new technology is an essential ingredient for greater diversification, with many top performers also in World Intellectual Property Organisation's [WIPO's] Global Innovation Index, and, finally, size need not be an impediment to economic diversification ("small" Ireland, the Netherlands and Singapore rank high).

GCC economic diversification



Source: Global Economic Diversification Index 2023

While the non-oil sector has grown in the GCC, the oil sector continues to dominate, accounting for more than 40 per cent of

GDP in most countries.

In the past decade, there has been a concerted effort to diversify revenue and support fiscal sustainability, with the introduction of VAT and excises taxes (with the UAE introducing corporate tax this year and Oman studying a proposal for income tax).

However, consumption taxes remain a small share of total revenue in comparison to oil and gas in the nations that have introduced VAT, while Qatar and Kuwait have yet to introduce consumption tax.

At present, trade is also heavily reliant on exports of oil and gas and their derivatives such as petrochemicals.

The coronavirus was a game-changer. To shift from over-dependence on commodities, the GCC (and others) have diversified into services-based sectors such as tourism, trade, logistics and transport. But these were affected in the initial Covid-19 year, leading to a reassessment of diversification strategies.

The pandemic has galvanised policymakers into action to support FDI flows, labour mobility liberalisation, privatisation and structural reforms.

Economic diversification 2.0

On the output side, there is greater opportunity in moving towards knowledge-based and innovation-led activities, creating space for private sector activity (especially in the tradables sector), and developing industrial policies and clusters, with local procurement strategies fostering job-creation at small and medium enterprises.

Incentivising policies supporting the diffusion of new technology (such as electric transport systems or robotics), alongside a push for investment into new sectors, including digital economy, clean energy and climate technology, and increasingly general purpose tech such as artificial intelligence, will also support diversification.

The continuing privatisation of state-owned assets and enterprises allows for the opportunity to “de-risk” fossil fuel assets, with the added advantage of raising revenue, developing and diversifying financial markets, and attracting both domestic and foreign investment and technology.

The pandemic underscored the need for trade diversification – both in terms of products and trade partners – and of supply chains.

The GCC will also benefit from the enactment of new “deep trade agreements”, including the broad category of services, such as digital services (e-services, e-commerce and digital finance), beyond the limited scope of trade in goods.

With the shift in global economic geography towards Asia, a China-GCC free-trade agreement (under negotiation since 2004) is a strategic priority, given that China is the main trade and economic partner of the region and would integrate the GCC into Asian supply chains.

Trade reforms, when complemented by structural reform, including in the labour market, will lead to greater skill diversity in the workforce, enabling mobility and lower transition costs, job creation and raising productivity growth.

The pandemic has galvanised policymakers into action to support FDI flows, labour mobility liberalisation, privatisation and structural reforms

Additionally, policy reforms will encourage private sector activity by lowering the costs of conducting business, thereby encouraging private and foreign investment, and promoting competitiveness and capital market development (including the development of a yield curve, a domestic corporate bond market), with a focus on climate finance and funding the green economy as part of energy transition policies.

Economic diversification leads to more balanced and stable economies, and is key to inclusive economic development and sustainable job creation.

The EDI is a tool that enables evidence-based policymaking and informs the design of strategy and policy measures, allows for the evaluation of policies' impact and effectiveness, and enables monitoring of policy outcomes, as well as helps to identify problem areas. It enables policy research aimed at identifying strategies and policies that foster and those that hinder diversification.

Resting on current diversification achievements is insufficient. Commodity dependent nations need to sustain economic/structural reforms and innovate to catch-up faster with the frontrunners.

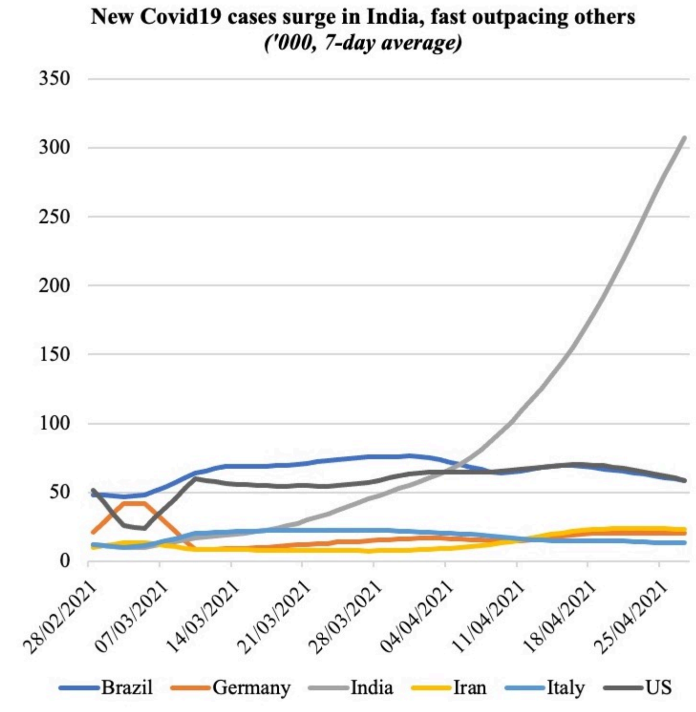
The Global Economic Diversification Index 2023 was released last week by the Mohammed Bin Rashid School of Government (MBRSG) at the World Government Summit. The report was developed in cooperation with Salma Refass and Fadi Salem (MBRSG) and Ben Shepherd (Developing Trade Consultants).

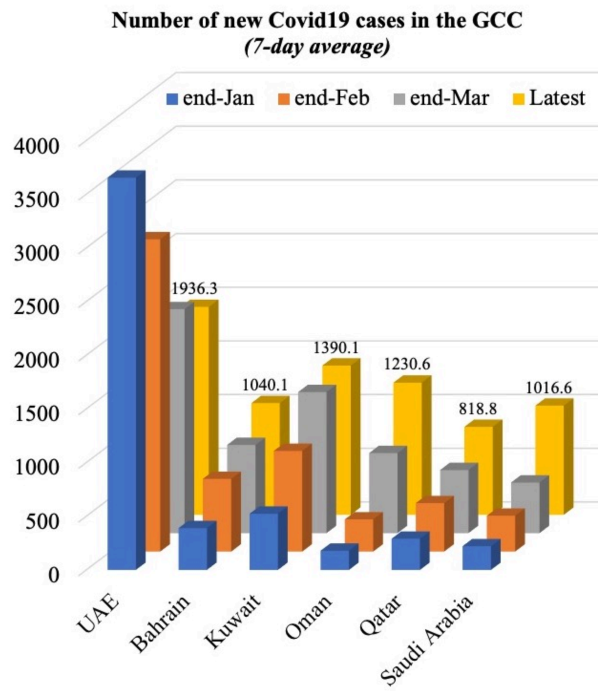
Weekly Insights 29 Apr 2021: India's exponential rise in

Covid19 cases – spillovers into the UAE?

Download a PDF copy of this week's insight piece [here](#).

1. As cases continue to surge in India, pace of global recovery comes into question





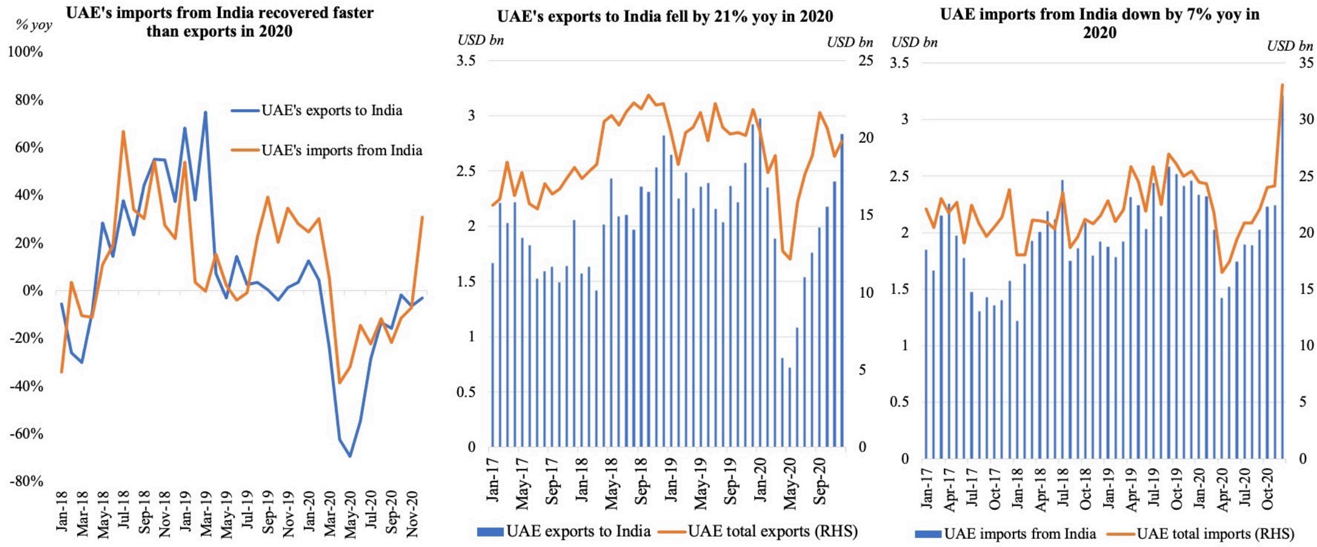
Source: Our World in Data. Chart created by Nasser Saidi & Associates

- **India reported the highest-ever single day cases on Wednesday, at 379,257 & continues to account for almost half the rise in global Covid19 cases.** Concerns about the accuracy of these statistics notwithstanding, it is worrisome that more than 20% of tests are coming positive and that the crumbling healthcare infrastructure (in many states) is leading to around 3k deaths per day!
- **Given India's linkages with the global economy** (trade, labour & investment flows), **it is not surprising that emergency supplies are coming in from across the globe to contain the spread**; US relaxed its previous ban on exports of raw materials for vaccines.
- Meanwhile, **GCC nations (except the UAE) have seen a**

steady uptick in cases from the beginning of this year; UAE's numbers though are still the highest among the lot. In terms of **new cases per million, Bahrain stands the highest (611) and Saudi Arabia the least (29)**, with Kuwait (326), Qatar (284), Oman (241) and the UAE (196) in between.

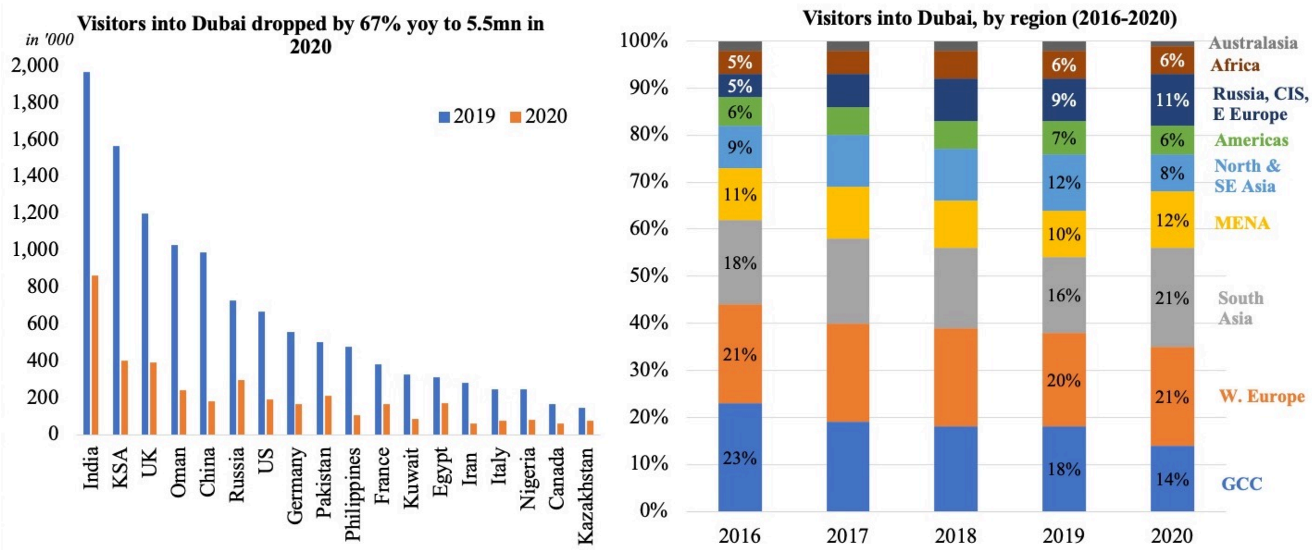
2. India-UAE links: Trade & Investment

- **UAE has developed strong links with Asia, and especially India**, over time. A prolonged slowdown in the Indian economy is likely to spillover into UAE's growth.
- First off, trade links: **bilateral trade was around USD 60bn in 2019**, though the Covid19 pandemic saw a decline in trade to USD 41.9bn (-30% yoy). Imports from India recovered much faster than exports into the country after the slump during lockdowns last year. India was the UAE's second-largest trading partner (after China) during pre-Covid times.
- While **oil is a key traded commodity** – about 8% of India's oil imports are from the UAE – exports of precious metals, stones and jewelry remain significant. Indian food imports also have a significant part to play in UAE's food consumption.
- **A slowdown in India would hence affect trade significantly**: **oil demand** will decline with lower mobility; **higher cases would lead to lower economic activity** – i.e. negative impact on industrial production lowers exports of textiles, machinery products, lower levels of agricultural production implies less food imports from the country.
- Official figures for **Indian investment in UAE** are not available: the Indian Embassy estimates it at around USD 85bn.



Source: IMF Direction of Trade Statistics. Charts created by Nasser Saidi & Associates

3. India-UAE links: Tourism

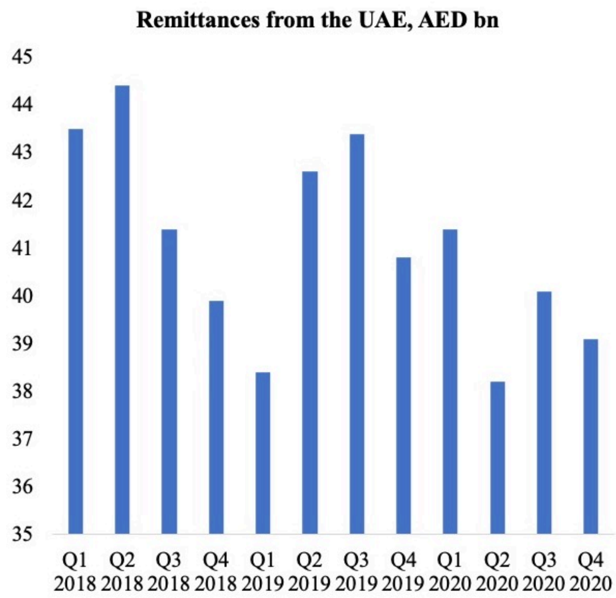


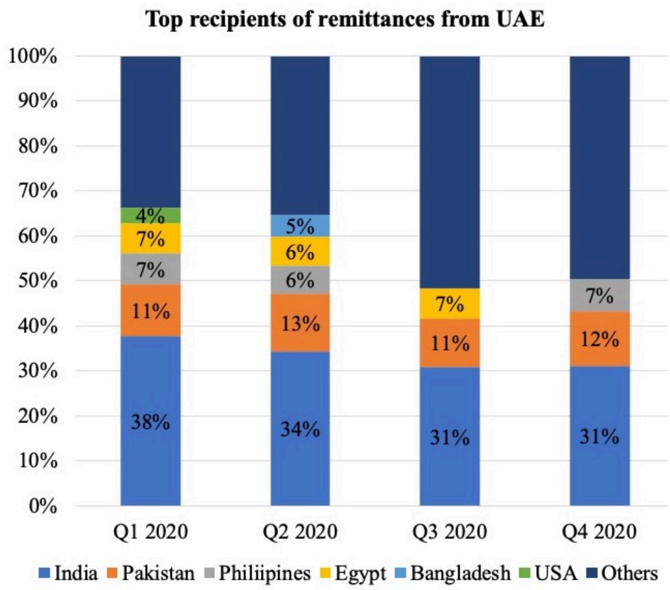
Source: Department of Tourism & Commerce Marketing. Charts by Nasser Saidi & Associates

- Prior to the Covid19 epidemic, **India was the largest source market for visitors into Dubai, attracting 1.97mn visitors out of a total 16.73mn.**
- Covid19 cut short most tourist travel for a significantly large part of the year, resulting in a 67% decline in tourists into Dubai. **India was still the largest source market for Dubai in 2020** – attracting 865k persons (-56% yoy) and South Asia retained its top spot as the largest source of visitors (21% of total).
- **Flights to the Indian sub-continent have been suspended since Apr 25 for 10 days**, and given the exponential rise in cases in India, an extension seems likely – about **300**

commercial flights operated weekly in what is one of the busiest international travel corridors. Newspaper reports suggest an uptick in enquiries for private jets to ferry stranded residents (similar to the lockdowns last year). Cargo operations are carrying on uninterrupted.

4. India-UAE links: Remittances

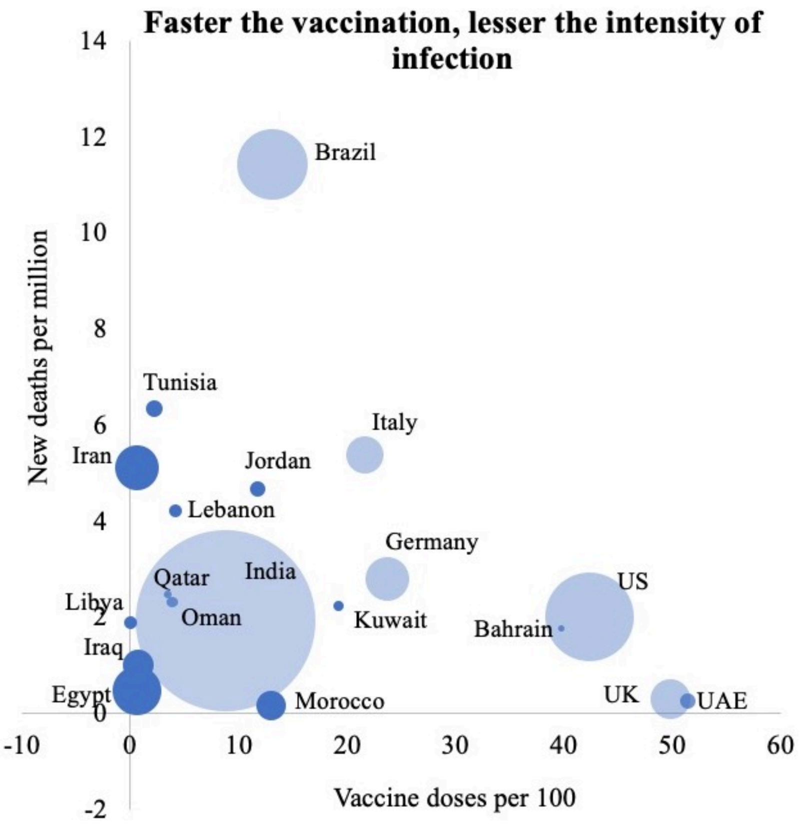




Source: UAE Central Bank. Charts by Nasser Saidi & Associates

- The **UAE-India migration corridor is one of the largest in Asia**: it stood at close to 3.5mn migrants in 2019. (Source: UN World Migration Report 2020). Indians account for around one-third of UAE's total population.
- **In 2020, total remittances from the UAE touched a total of USD 43.2bn** (-4% yoy). While Q1 saw a 7.8% uptick in remittances, Q2 saw the sharpest drop of 10.3%.
- **Remittances to India accounted for 33.5% of its total remittances last year** – maintaining its spot as the largest recipient of remittances from the UAE.
- As India goes into lockdown, it is possible that **UAE will see an increase in remittances to the country** as financial support for families in need. **A weaker Indian rupee would further suport this pattern.**

5. The economic case for vaccination



Source: Our World in Data. Chart created by Nasser Saidi & Associates
Bubble size denotes size of the population

- The discovery of vaccines for Covid19 had brought a sense of consumer and business optimism. However, **with vaccine distributions underway, its pace is less than heartening in many nations.**
- **Israel and UAE have topped the lists in terms of vaccination rates.** There is confirming evidence from Israel of reduced transmissions as a result of the inoculations.
- As the chart on the right (focusing on MENA nations) shows, there is a **negative correlation between vaccination and infection rates.** Anecdotal evidence also suggests that an infection after the first dose of vaccine is much less likely to require hospitalization.
- **Unfortunately for India, the pace of vaccination has been very slow.** Less than 10% of the nation’s residents received the vaccine, in spite of it being home to the world’s largest vaccine manufacturer (the Serum Institute).

- **The rapid pace of India's infections also calls into question its vaccine production and distribution channels**: the Serum Institute has not fulfilled its commitment to supply the AstraZeneca vaccine globally (to UK, EU and Covax), but is also planning to sell the vaccine to state governments and private hospitals in the country (at higher rates).
- In the MENA region, new deaths per million are low in the UAE (the leader in vaccine doses per 100 persons) while Iran has a long way to go. If Israel's results are to be emulated, **a coordinated effort should be underway to accelerate the pace of vaccination, resulting in faster return to higher economic activity**.

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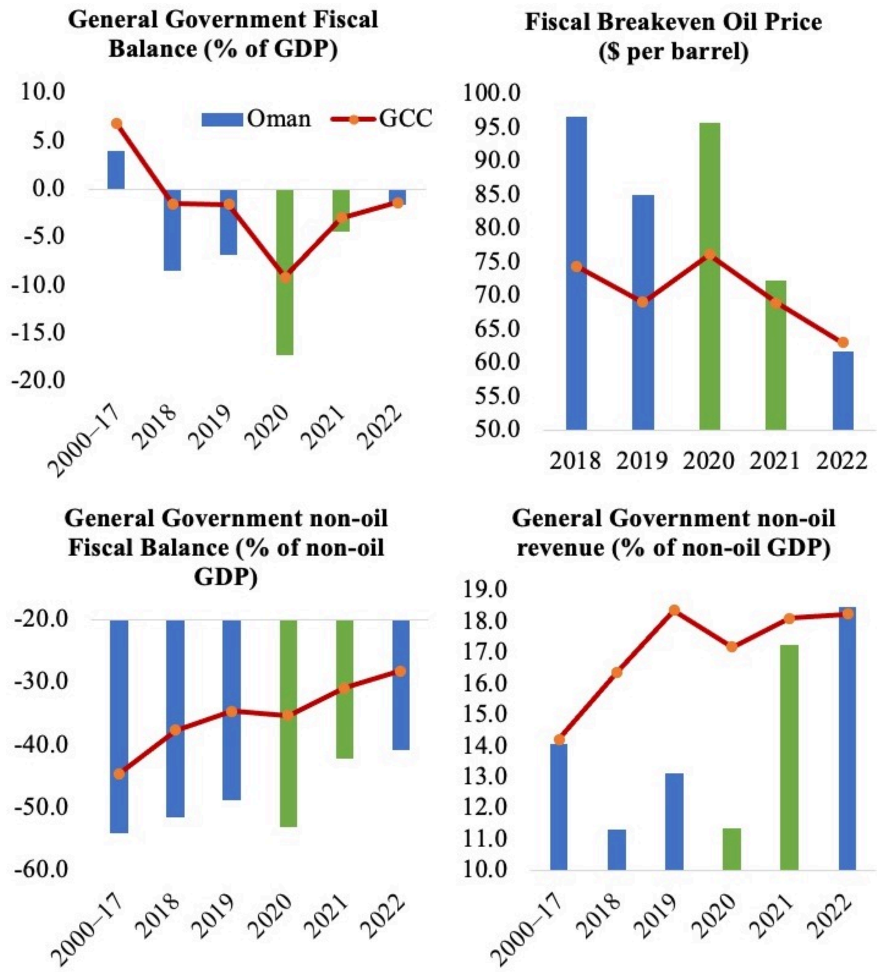
Weekly Insights 22 Apr 2021: GCC: Oil-dependence & Path to Climate Resilience

Download a PDF copy of this week's insight piece here.

1. Oman: 4th GCC nation to implement VAT



Source: IMF Regional Economic Outlook, Apr 2021

- **Oman introduced 5% VAT** on most goods and services, **starting Apr 16**
- UAE and Saudi Arabia rolled out 5% VAT in 2018 & Bahrain in 2019
- According to Ministry of Finance estimates, **Saudi increased non-oil tax revenues to 32% in 2018** (vs just 10% in 2010), 36% in 2019 and estimated to rise to 46% in 2020 (given tripling of VAT)
- **UAE** collected AED 27bn in VAT in 2018 (1st year) & AED 11.6bn in Jan-Aug 2020 (pandemic year); **VAT revenues in Bahrain** touched BHD 260mn in 2019 and BHD 220mn in 2020.
- Oman's VAT is estimated to **generate** ~OMR 400mn (**USD 1bn**) **in revenue** annually, roughly ~1.5% of GDP (if effectively and efficiently implemented)
- As a result, the IMF projects **fiscal deficit to decline** to 4.5% of GDP in 2021 (2020: 17.5%) & **non-oil revenue to rise** to 17.2% of non-oil GDP in 2021 (2020: 11.4%)

- **This move will lead to** an improvement of Oman's sovereign credit rating + lower the cost of credit + attract more FDI & portfolio investment as a result of the ensuing reduction in macroeconomic risks

2. GCC's Diversification Efforts & Renewable Energy policies => Transition to a lower-oil dependent region

- **Unsustainable path of dependence on oil**: current oil demand vs supply, pressure on oil prices + current fiscal & social spending policies => fiscal unsustainability: GCC's aggregate net financial wealth (est. at $2trn) could be depleted by 2034 (IMF)
- **Oil market structure & dynamics are changing**, given global energy transitions: pre-Covid19, shale & renewables were already displacing conventional oil
- Major **challenges** for the oil market *(non-exhaustive list)*:

–**Demand-side factors:**

  - Gov't plans for sustainable recovery, ambitious **goals for net-zero emissions**
  - **Covid19-led collapse in demand**: potential WFH policies & mobility, question marks over recovery of business/ leisure air travel
  - Energy efficiency improvements, EV penetration

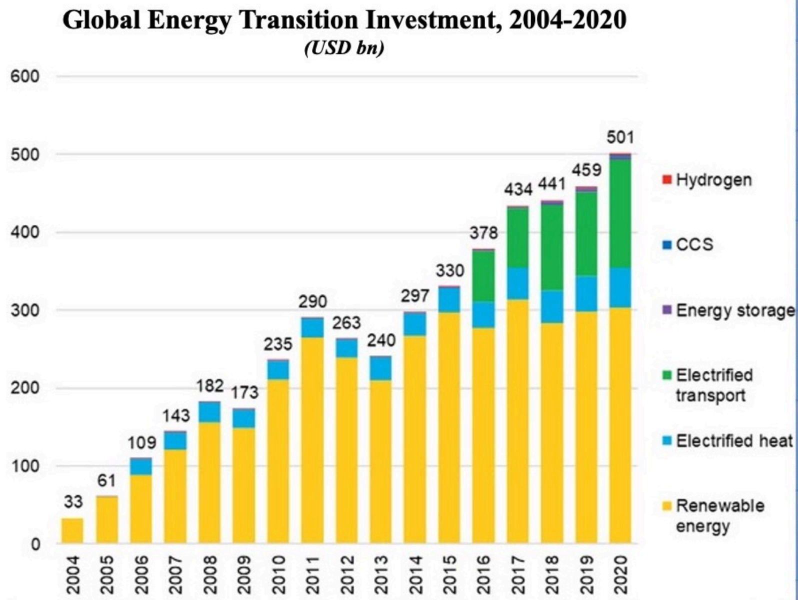
–**Supply-side factors**:

  - Spending cuts and project delays could slow oil supply growth
  - Large cost reductions in renewables + advances in digital technologies

- **Climate Change & Decarbonisation Risks are growing –** could lead to sharp fall in fossil fuel asset prices => stranded assets risk

3. Energy Transitions & GCC’s ambitious targets

- The two-day virtual Leaders Summit on Climate (from today), hosted by the US President, brings the US back into play with respect to global action against climate change
- Latest news that banks & financial institutions with USD 70trn+ assets pledged to cut their greenhouse gas emissions & ensure their investment portfolios align with the science on the climate adds to the commitment



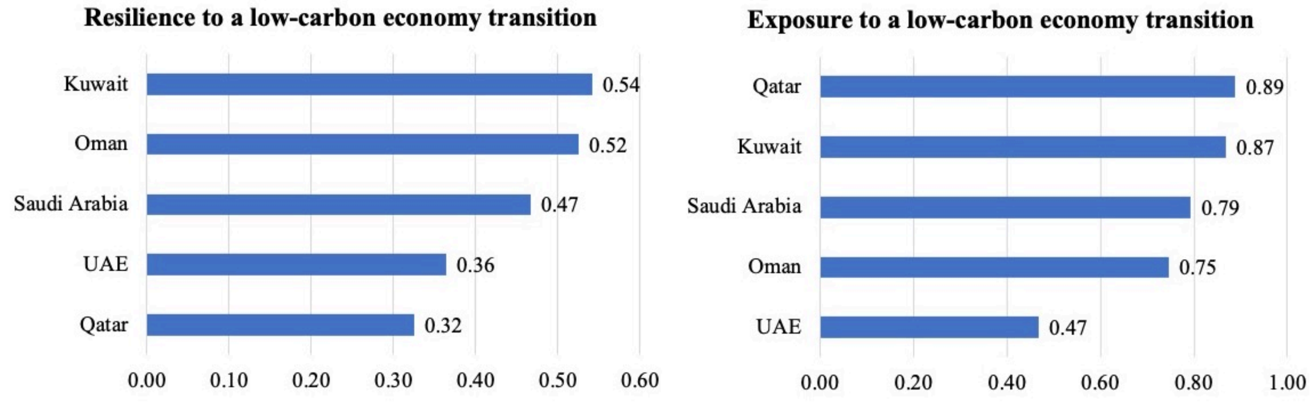
Source: Energy Transition Investment Trends, BNEF, Jan 2021
https://about.bnef.com/energy-transition-investment/

	Renewable energy targets
Bahrain	National renewable energy target of 5% by 2025 & 10% by 2035
Kuwait	Increase the share of renewable generation to 10% by 2030
Oman	Derive at least 30% of electricity from renewables by 2030
Qatar	Attain 20% of its energy from solar power by 2030
Saudi Arabia	Generate 50% of its energy from renewables by 2030
UAE	Reduce GHG emissions to 23.5% vs business-as-usual emissions for 2030
	Increase the share of clean power to 50% of the total energy mix by 2050

4. Are the GCC nations prepared for a low-carbon economy transition?

- The preparedness of countries for a low-carbon transition (LCT) is measured by **exposure and resilience indexes:** highlights turning the risks of an LCT into opportunities for robust growth.
- **GCC nations are signifcantly exposed,** especially given dependence on oil (resource rents, carbon intensity, GHG emissions): Qatar scores highest exposure & UAE the least
- **However, the GCC are relatively well prepared for an LCT** thanks to its resilience, particularly its relatively good macro stability and supportive business environment

alongside high quality of infrastructure, human capital and institutions

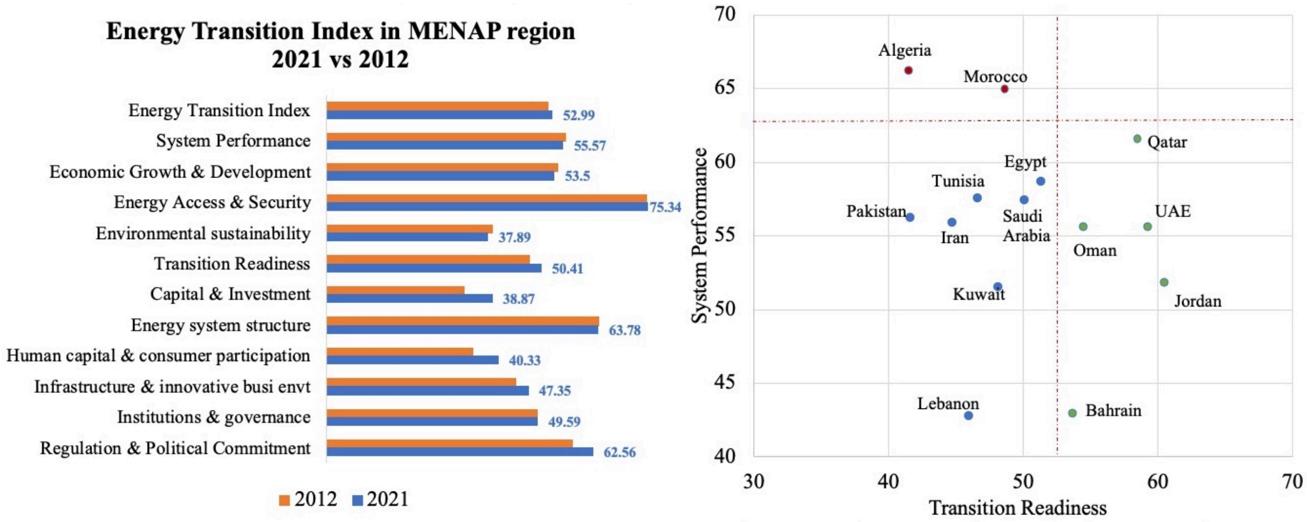


Source: Peszko, G. et. Al (2020) Chapter 5 in "Diversification & Cooperation in a Decarbonizing World", World Bank.

5. WEF's

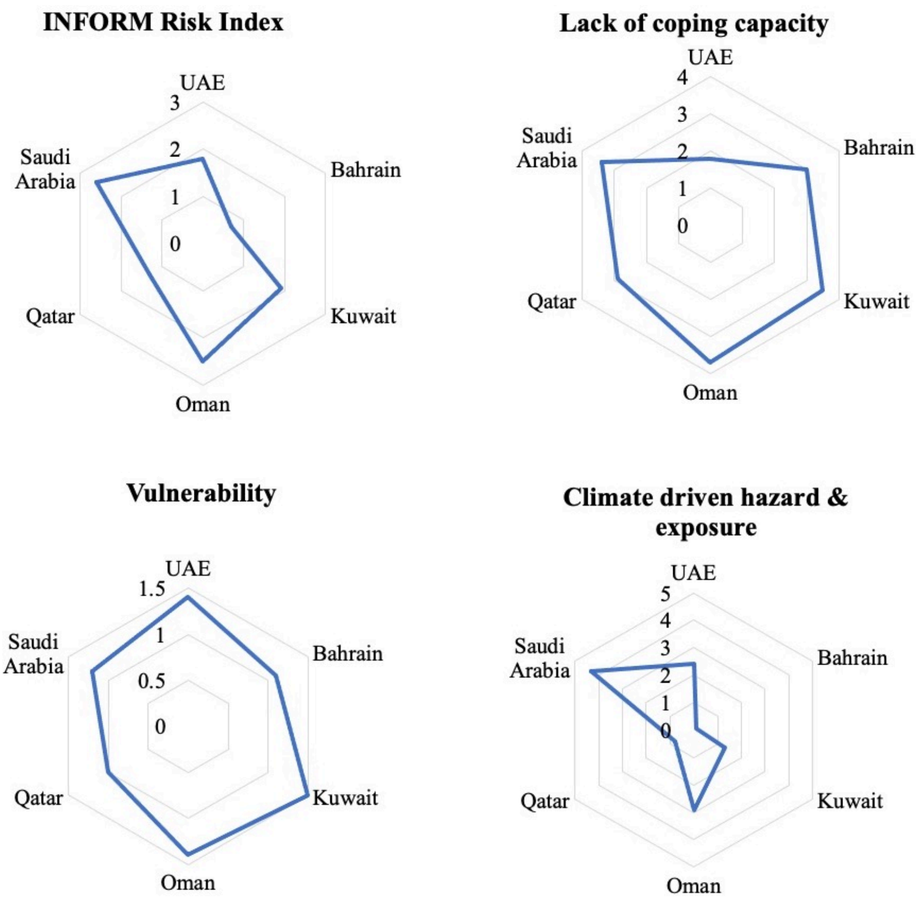
Energy Transition Index ranks UAE just behind Qatar wrt energy systems & pathways to clean energy

- **UAE ranked 64th globally on WEF's latest Energy Transition Index** (2021) out of a total 115 nations, just **behind Qatar at 53rd position**. Lebanon ranked lowest in the Middle East region at 112th.
- Among the various components of the Index, **MENAP's average falls farthest from the world average in two**: environmental sustainability (37.89 in MENAP vs 61.32 globally) and capital & investment (38.87 vs 55.17). Of the 11 categories, **region is worse-off compared to 2012 (initial year of results) in 4**: system performance, environmental sustainability, energy system structure and economic growth & development
- The **chart on the right** shows no MENAP countries in the top-right quadrant (high transition readiness & well-performing energy systems). **4 of 6 GCC nations are in the "leapfrog" quadrant** (**green dots**, high readiness but system performance below the mean); two countries Algeria and Morocco fall among those with potential challenges (**red dots**, above-average system performance but readiness below the mean).



Source: Energy Transition Index 2021, World Economic Forum. https://www.weforum.org/reports/fostering-effective-energy-transition-2021#report-nav

6. GCC risk for climate-driven hazards is much lower than regional counterparts



- The climate-driven **INFORM Risk 2021 Index** is derived from 3 dimensions: climate-driven hazard & exposure, vulnerability and lack of coping capacity.

- **GCC nations fare relatively better, scoring between 1.3 to 2.6 out of a total 10 (riskiest).** But, two scores are comparatively higher: Saudi Arabia's hazard & exposure score (largely due to conflict risk) and Oman's lack of coping capacity (institutional & governance indicators related to increasing the resilience of the society need improvement).

CountryName	HA	VU	CC	INFORM
Bahrain	0.6	1.1	3	1.3
Kuwait	1.2	1.4	3.6	1.8
Oman	2.9	1.4	3.7	2.5
Qatar	0.8	1	2.9	1.3
Saudi Arabia	4.3	1.2	3.4	2.6
United Arab Emirates	2.4	1.4	1.8	1.8

Source: INFORM Global Risk Index 2021. https://drmkc.jrc.ec.europa.eu/inform-index/INFORM-Risk

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Comments on GCC's citizenship reforms in Arab News, Feb 24

2021

Dr. Nasser Saidi's comments appeared in an Arab News article titled "Could citizenship for talented foreigners and investors be the GCC's game changer?" on 24th Feb 2021.
The comments are posted below.
"The UAE is very much en route to becoming a multi-ethnic, multi-religious, multicultural country and it is certainly taking all the steps to make that happen," Nasser Saidi, a Lebanese politician and economist who previously served as minister of economy and industry, told Arab News.
"The new citizenship law goes very much in this same direction. Previously, you were just a visitor here in one form or another. You were employed, you invested, but you didn't have a long-term stake in the country. UAE citizenship for foreigners means you now have a long-term stake in the country."
One particularly enticing aspect of the policy is that it allows new UAE passport applicants to also keep their existing citizenship.
"You can retain your own home country citizenship, which is very important for many people," said Saidi. "There's a big advantage from that point of view. Importantly, what this is really saying in terms of the economic aspect is that it allows you to be a leader in the country. It will attract and maintain human capital."
….
"The first advantage is that you are creating a much more diverse multi-skilled labor force by reaching new people from other nationalities," said Saidi, referring to the liberalized UAE residency rules.
"The second, the idea is to move away from the past economic model of the UAE, which is a 'build it and they will come' type of model to one based more on knowledge and tech-oriented development of industries. Fourth, you retain talent, and fifth, you increase foreign direct investment into the

country.”

Experts see many of the changes in the UAE’s visa policies as a response to sluggish economic growth, low oil prices and financial blows delivered by the COVID-19 pandemic.

“Since 2015, you have had ups and downs in oil prices which has meant that continuing with the model where you are non-diversified becomes an increasingly risky proposition, particularly at a time of climate change when countries across the world are moving to reduce their carbon footprint,” said Saidi.

“The market for oil over time has become smaller as countries shift towards greater energy efficiency and greater renewable energy. When you think of de-risking your fossil fuel assets, you do what Saudi Arabia did with Aramco. Everyone wants to de-risk now, which means greater diversification and moving away from high energy-intense activities. And this has been taking place over the last three to four years.”

Comments on Saudi Arabia PIF’s strategy in Arab News, Jan 27 2021

Dr. Nasser Saidi’s comments appeared in an Arab News article titled “Saudi Arabia puts foot on the gas with accelerated strategy for sovereign wealth fund PIF” on 27th Jan 2021.

The comments are posted below.

Regional economics expert Nasser Saidi says the announcement was a quantum leap in the Kingdom’s plans. “Saudi Arabia has put its foot on the gas of the Vision 2030 strategy with the announcement of the economic plan for the next five years, under the auspices of the PIF,” he told Arab News.

"There can now be no doubting the seriousness of its intentions to push through the plan to deeply transform and diversify the economy, and society, of the Kingdom, in super-fast time."

Comments on Saudi Arabia's Aramco in Arab News, Dec 16 2020

Dr. Nasser Saidi's comments appeared in an Arab News article titled "How Saudi Aramco IPO proved a game changer in a tumultuous year for oil" on 16th Dec 2020.
The comments are posted below.
"The first year was tumultuous for Aramco and oil producers," economics expert Nasser Saidi told Arab News.
"Aramco has opened the path for the privatization of GCC national oil companies and of the energy infrastructure across the region," Saidi said.
"The IPO was a game changer, part of a long-term strategy of reducing dependence on oil and gas wealth and using the proceeds to diversify the Saudi economy. Aramco is a global player, is resilient, with a clear strategy of diversifying its activities and sources of revenue, and with improved corporate governance as a result of its public listing."

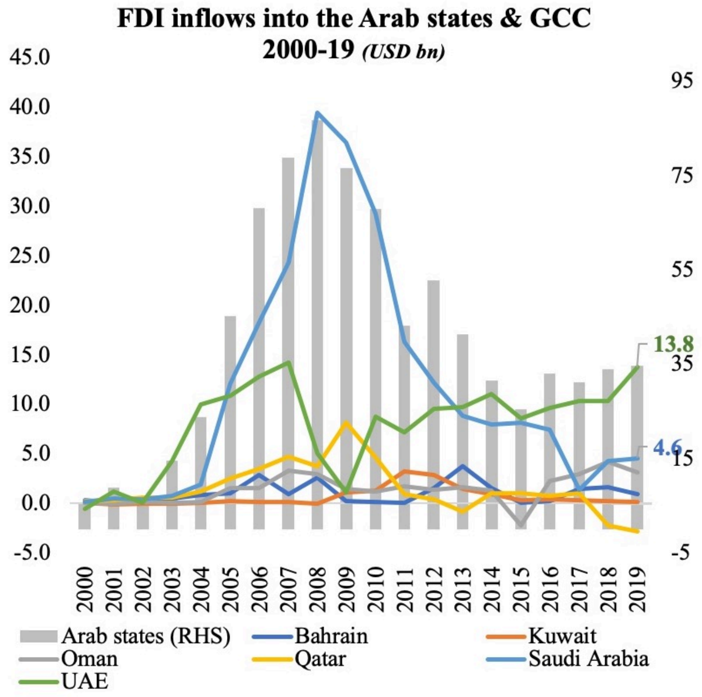
Weekly Insights 26 Nov 2020: UAE needs to attract FDI into viable, sustainable economic diversification sectors & projects

Download a PDF copy of this week's insight piece [here](#).

UAE needs to attract FDI into viable, sustainable economic diversification sectors & projects

The liberalization of foreign ownership laws in the UAE (announced this week) breaks down major barriers to the rights of establishment and will be a game-changer for the country. This reform will help to reduce costs of doing business, lead to a recapitalization of existing jointly owned companies and encourage entrepreneurs to invest in new businesses and new ventures, supporting innovation and the introduction of new technologies while also promoting inflows of foreign direct investment. Foreign companies within UAE's free zones would also be allowed to link up with the domestic economy, supporting local businesses and thereby boosting overall growth. The barriers between free zones and the domestic economy would become blurred, if not absent leading to greater competition and improved competitiveness.

The latest announcement follows a spate of reforms undertaken this year – including labour (long-term residency via a 10-year visa, Dubai's virtual/remote working visa and retirement visa, Abu Dhabi's freelancer permit/ license) and social (removing laws which criminalized alcohol consumption, cohabitation) – aimed to revive the economy attempts from the negative impact of low oil prices, Covid19 and the Global Lockdown. Importantly, these reforms will encourage the retention of savings in the UAE, reduce remittances and capital outflows, thereby structurally improving the balance of payments. Overall, the result will be an improvement in the Doing Business ranking of the UAE.

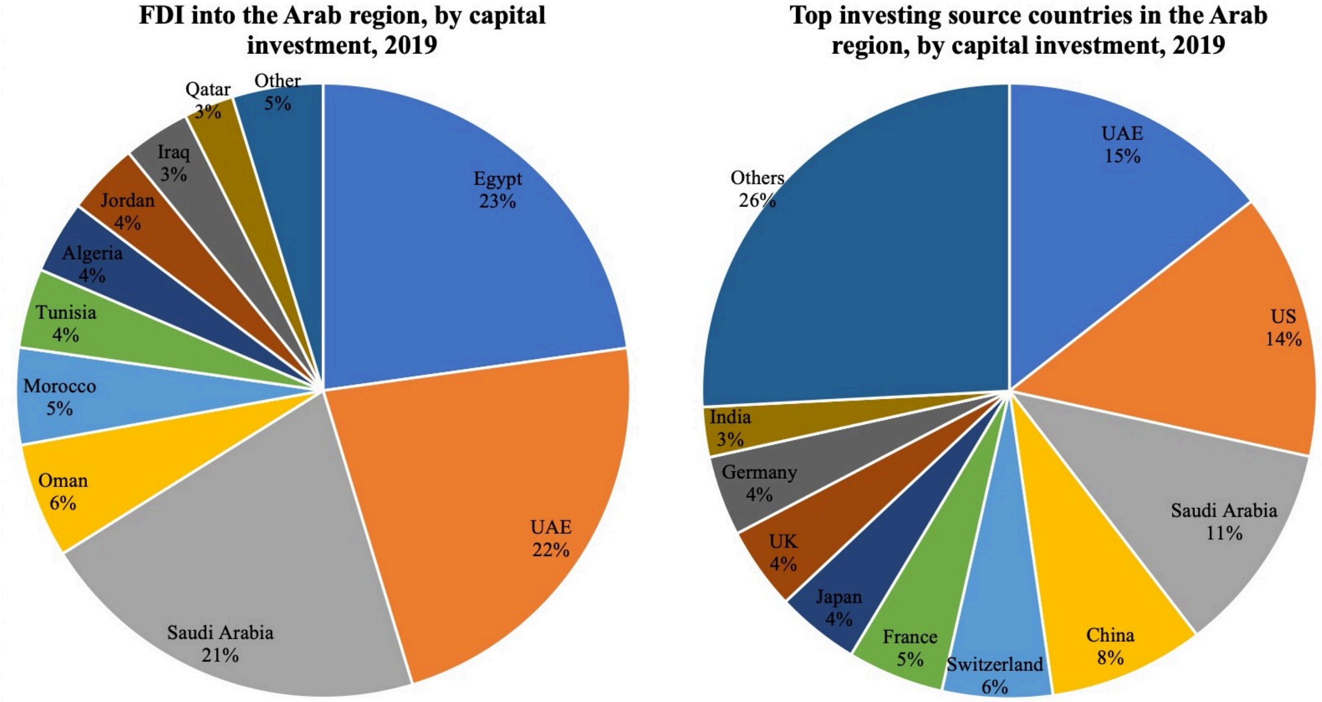


Source: UNCTAD, Nasser Saidi & Associates.

We focus on FDI in this Weekly Insight piece. FDI inflows are essential to the UAE's diversification efforts, as it would not only create jobs, raise productivity and growth, but could also lead to transfer of technology/ technical know-how and promote competition in the market. According to the IMF, closing FDI gaps in the GCC could raise real non-oil GDP per capita growth by as much as 1 percentage point.

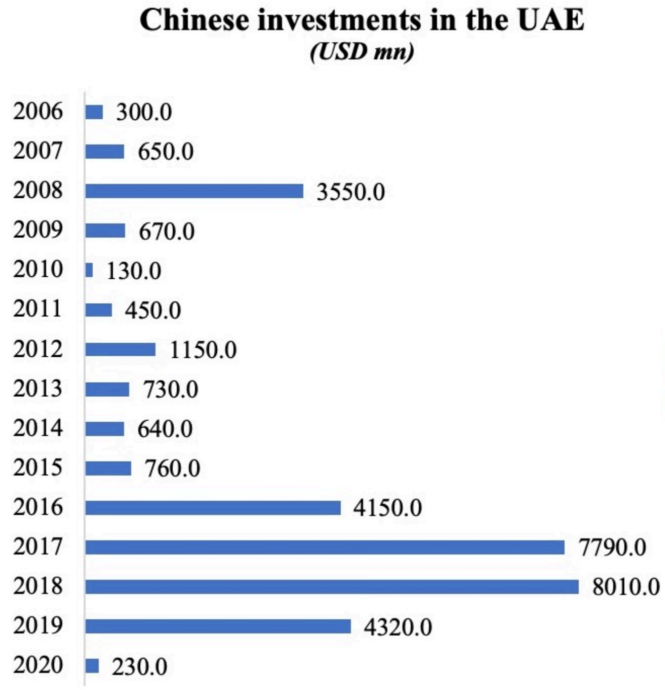
While FDI inflows into the Arab region have been slowing in the past decade, the UAE still remains one of the top FDI destinations in the region. Inflows dipped during the time of the financial crisis (to USD 1.1bn un 2009 from an all-time peak of USD 14.2bn in 2007), but rebounded to USD 13.8bn last year, before the Covid crisis. Reforms to improve the investment climate (including allowing 100% ownership at free zones and protecting minority investors), its ease in doing business, good infrastructure as well as macroeconomic and political stability are factors that have aided the increase in FDI.

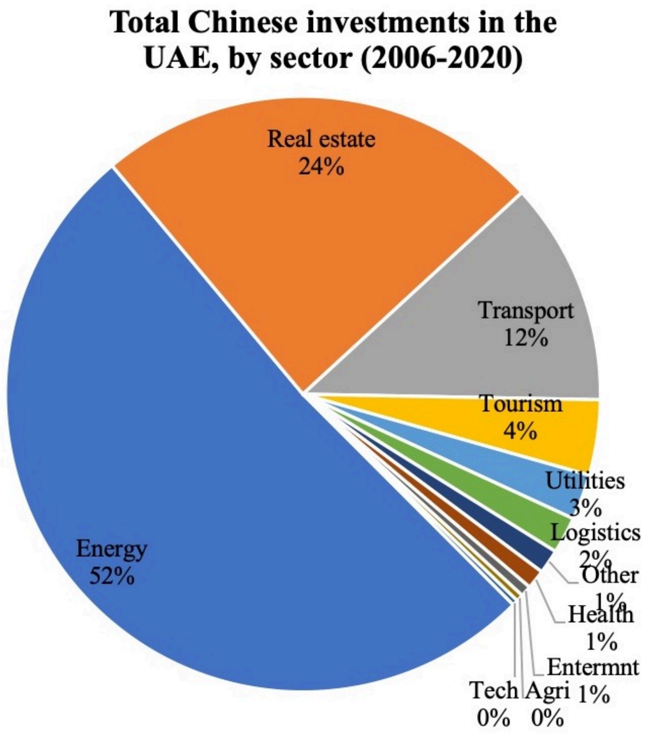
In 2019, UAE was the second largest destination for FDI inflow into the Arab region (USD 13.6bn or 3.4% of GDP, accounting for 21% of total), behind Egypt (USD 13.7bn or 2.8% of GDP, 23% of total) while it dominated FDI by number of projects (445). Interestingly, UAE is also a major capital exporter, having invested a total USD 8.7bn into the Arab nations last year (topping the list and accounting for 14.4% of total FDI inflows into the region). In part, this reflects the UAE’s hosting of multi-national enterprises investing across the region.



Source: fDI Markets, Arab Investment & Export Credit Guarantee Corporation, Nasser Saidi & Associates.

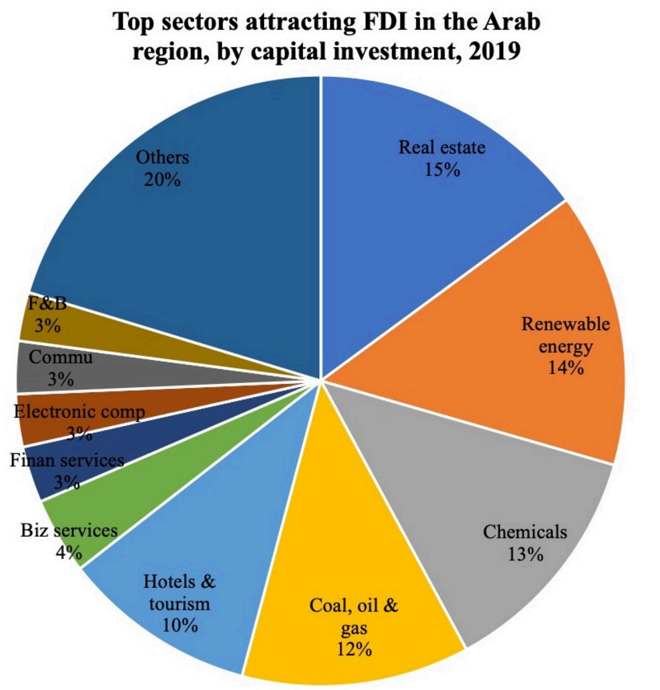
In spite of the Covid19 outbreak negatively affecting FDI inflows[1], Saudi Arabia defied the trend by posting a 12% yoy increase in inflows to USD 2.6bn in H1 2020[2] – in part linked to its mega-projects related to achieving Vision 2030. In Q1 this year, the UAE, along with Saudi Arabia and Egypt accounted for a share of 65.4% of total investment cost of projects in the region, valued at USD 11.2bn. Outflows from the UAE still accounted for 38.2% of GCC’s share of foreign investments in Q1 this year[3].





Source: China Global Investment Tracker, AEI, Nasser Saidi & Associates

China's investments in the UAE have been rising, with UAE the top destination country (among Arab nations) accounting for more than one-third of Chinese projects tracked during Jan 2003-Mar 2020 (with the number of projects in double-digits in 2018 and 2019). According to AEI's China Global Investment Tracker, the value of Chinese investments touched a high of USD 8bn in 2018, thanks to a handful of large projects (including with ACWA Power and Abu Dhabi Oil). Sector-wise, investments were concentrated in energy (both oil and gas as well as renewables), real estate and transport – together accounting for 87.8% of total investments during 2016-2020. This is largely in line with FDI inflows into the Arab region as well, with the top 5 sectors (real estate, renewables, chemicals, oil & gas and travel & tourism) accounting for close to two-



Source: fDI Markets, Arab Investment & Export Credit Guarantee Corporation, Nasser Saidi & Associates.

thirds of total inflows in 2019.
For the oil producing & exporting countries of the GCC and the wider MENA, the broader trade and investment landscape was further disrupted (in addition to Covid19) as a result of the profound changes in the structure and dynamics of the energy sector and market. The deep recession and Covid19 lockdown and induced collapse in transport and travel led to a sharp fall in the demand for oil and cratering of oil prices. Fossil fuel prices are unlikely to recover even in the medium term due to the increasing competitiveness of renewable energy (solar, wind and geothermal), persisting competition from shale oil & gas and new fossil fuel discoveries, while climate change mitigation policies and greater energy efficiency are leading to a downward shift in the demand curve for fossil fuels.
Accordingly, returns on investment in oil and gas (O&G) will decline. The implication is that FDI into the traditional O&G in the UAE and the GCC will be on a downward trend. The challenge will be to attract FDI into viable, sustainable economic diversification sectors and projects.
The new post-Covid19 FDI landscape for the UAE will likely be boosted if the recently announced deep structural reforms are executed well, alongside a review of existing economic strategies. The next obvious step is greater regional integration – a GCC common market (to start with), allowing for free movement of both labour and capital – as well as formalizing trade and investment treaties with major partners including China.

[1] *UNCTAD expects global FDI flows are expected to contract between 30 to 40% during 2020-21.*
[2] *Source: UNCTAD*
[3] *Source: Arab Investment & Export Credit Guarantee Corporation*

"The Middle East after the Pandemic: Surviving the economic shockwave": Panel session, FT Global Boardroom, 12 Nov 2020

Dr. Nasser Saidi joined the FT Global Boardroom event on 12th Nov 2020, in the panel session titled "The Middle East after the Pandemic: Surviving the economic shockwave" to discuss a few questions:

How deep and long will the recession be in the Middle East? How has the pandemic affected the region's diversification away from oil? What support is there for businesses in the consumer-facing sectors, and how can they plan for recovery? What will the US elections mean for regional geopolitics, and how will that impact on investment? What is the role of the region's sovereign wealth funds in buying distressed European assets?

A summary of the session is available here: http://brochure.live.ft.com/the-global-boardroom-report/day-two-summary/#d2-9

Excerpts from the session/ Dr. Saidi's comments are highlighted below:

The coronavirus pandemic has damaged the economy of the Middle East and it will take time to recover.

NS: If you look at the size of the impact of the great lockdown, you are talking about a 6.7 per cent GDP decline for the GCC. This is unprecedented. We haven't had a recession of this scale in the region since the second world war.

The hydro-carbon producing countries of the Middle East have been diversifying away from oil and gas into other industries and this is accelerating.
NS: Diversification creates employment opportunities. Sixty per cent of our population is under 30 years of age, so we need to invest in activities that create jobs for them. Where will the new jobs be created? Previously we created them in government in most countries of the region. That is not where we will create them in the future. They have to be in the private sector.
The election of Joe Biden as the new US president will have a positive impact on the region
NS: Biden is very much a multilateralist, as opposed to the unilateralism that Trump advanced. The Biden approach to the region will be to discuss policy with the region. It will not be Twitter-based.

How carbon taxes can boost state coffers and clean the environment, Article in The National, 7 Oct 2019

The article titled "How carbon taxes can boost state coffers and clean the environment" appeared in The National's print edition on 7th October, 2019 and is posted below. Click [here]() to access the original article.

How carbon taxes can boost state coffers and clean the environment

Given the GCC’s high carbon footprint, the introduction of a tax would generate substantial revenues for the governments

Greta Thunberg’s impassioned speech dominated the recent UN climate summit. “Change is coming, whether you like it or not,” she said. We must act on Greta’s hectoring. She represents a generation whose voice is not being heeded by a generation of policymakers placing a high discount rate on an increasingly existential threat to our planet. They will be long gone, but their legacy will be planetary ecocide.

Last year, global energy-related carbon dioxide emissions rose by 1.7 per cent to the highest level since 2013, according to the International Energy Administration, with this year estimated to be steeper. While the sharp decline in cost of renewables (90 per cent for solar) has led to the rapid growth of its dissemination, it has not been enough to offset the increased use of fossil fuels. The growing existential threat of climate change necessitates quicker and sustained policy action.

The Middle East is particularly vulnerable. The region’s share of global emissions reached a record 6.3 per cent in 2018, nearly double its 3.3 per cent share of world GDP. Some Arab countries fall among the top nations when it comes to emissions per capita.

Reducing greenhouse gas emissions requires deploying low-carbon energy in addition to improving the efficiency of energy consumption (see my previous column). The announced renewable energy policies of GCC nations are a step in the right direction. They aim to shift preferences, consumer and producer choices towards renewables and away from fossil fuel activities and production. But there is room for more to be done.

Government policies can be augmented by a determined carbon pricing that increases the relative cost of fossil fuel generated energy compared to that produced by renewables. Carbon pricing is the most effective and cost-efficient means to reduce emissions. It forces producers and users of carbon fuels to internalise external costs of their emissions and ties them to sources through a price on carbon (the polluter pays principle).

There are two efficient options: emissions trading systems, or cap-and-trade as implemented in the EU and carbon taxes. Carbon taxes are more comprehensive since they apply to all CO_2 emissions from the combustion or consumption of fuels (coal, oil, gas) to limit emissions. The tax is applied at the point of production, including a border adjustment on imports of energy-intensive products to shield domestic manufacturers from international competitors that do not face a similar tax. A carbon tax sends a clear price signal to polluters to discontinue their polluting activity, or bear the cost for emissions. The carbon price also encourages clean technology and market innovation, fuelling new, low-carbon drivers of economic growth and decarbonisation.

Introducing a tax in the GCC would result in structural change for local economies. The challenge for policymakers is that the high energy-intensive sectors such as petrochemicals, aluminium, aviationand shipping have been the basis of economic diversification strategies. They would be the most directly impacted by carbon taxes. Fossil fuel assets can be sold (as in the Saudi Aramco planned IPO), while capital stock would need to be written down, phased out or destroyed to be replaced by “green assets & capital”. The policy choice is between starting on the energy transition path now, or later facing the dismal alternative of massive adjustment and stranded assets.

Iata has adopted the Carbon Offsetting and Reduction Scheme for International Aviation and the International Maritime Organisation is considering measures to decarbonise maritime transport by 2035. Similarly, a record 515 institutional investors managing $35 trillion (Dh128tn) in assets (nearly half the world’s invested capital) last week urged governments worldwide to step up action to tackle climate change and achieve the Paris Agreement’s goals. Central bankers are also going green: extreme-climate scenarios will be introduced into financial stress tests, given the sector’s exposure to climate-related risks and the writedown in the value of fossil fuel assets.

Given the GCC’s high carbon footprint, the introduction of a carbon tax would generate substantial revenues for the governments. Revenues could range between $5.5bn to $19.4bn for a carbon tax ranging from $20 to $70 per tonne of CO_2 in the UAE to $11.4bn to $40bn in Saudi Arabia.

It’s worth noting that a carbon tax is cheaper to collect and brings substantially more revenue than the amounts being raised by the VAT (in 2018, UAE and Saudi Arabia collected $7.35bn and $12.5bn, respectively).

More in state revenues mean it can be used to finance decarbonisation and make the energy transition smooth: by investing in climate-resilient infrastructure; retrofitting buildings and structures; subsidising renewable investments by the private sector and in vulnerable industries such as transport. Part of the revenue can be apportioned to national funds backing research and development and develop the domestic clean technology and renewables sectors, including desalination.

Carbon tax revenues would finance clean economic diversification and investment-led green economy growth for the GCC. It is a win-win.

How Can the UAE Minimize Vulnerability to the Next Crisis, Article in the Dubai Policy Review, Jan 2019

The article, "Breaking the Cycle: How the Great Financial Crisis Can Prepare Us for the Next One", written by Dr. Nasser Saidi for the inaugural issue of the Dubai Policy Review (published in Jan 2019) can be downloaded in both English and Arabic.

Breaking the Cycle: How the Great Financial Crisis Can Prepare Us for the Next One

"It takes all the running you can do to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that"

– the Red Queen in Through the Looking Glass by Lewis Carroll

What can policymakers learn from the painful times of the Great Financial Crisis (GFC) that hit the region hard a decade ago?

This article examines the economic landscape in the UAE prior to the Great Financial Crisis (GFC), the factors leading up to the crises, and the ongoing economic & financial policies that must be addressed to minimize economic downturn in the future. It extracts lessons and recommends responses to remedy identified policy gaps and fortify economic development while striding towards the future. Economic diversification, digitalisation, strengthening monetary and fiscal policy toolboxes, improving STEM education and looking East in foreign trade and investment strategies, are a few critical responses identified. These policy responses provide valuable lessons for policymakers across the region, while preparing for uncertain economic times in a region going through socio-economic and geopolitical turbulence.

A Decade Ago..

.. the Great Recession and the Great Financial Crisis (GFC) reverberated globally, with its destructive waves enveloping both advanced and emerging economies. Ten years later, the global economy is yet to fully recover, with the financial sector facing a debt bubble generated by ultra-loose monetary policy, historically low interest rates and quantitative easing (QE). The aftermath has seen sovereign states, corporations, and households build up debt in excess of $250 trillion worldwide. The Gulf Cooperation Council (GCC) countries were not immune to the Great Recession and the GFC, left vulnerable and exposed through their large foreign direct and financial investments, and the oil market. Despite being the most diversified economy among its GCC counterparts, the United Arab Emirates still experienced a major hit from the sudden downturn. Ten years on, it remains oil-dependent and vulnerable to financial and oil market shocks. Oil exports and revenues in 2017 accounted for an estimated 34 percent of total exports (excluding re-exports) and 43 percent of government revenues, while the sovereign wealth funds (ADIA, DIC, Mubadala and others) are directly exposed to international financial market risks. Given the size of the oil sector and the dependence of government funding and spending on oil revenues, the economy of the UAE, is sensitive to commodity price shocks: boom-bust cycles driven by oil price volatility, as evidenced by the high correlation between oil prices and real economic activity.

In addition, the Dubai development model, which is partly dependant on a “build-it-and-they-will-come” attitude to economic development, is subject to real estate and housing induced business cycles. Evidence of this can be found in the aftermath of the GFC and in the current downturn since 2016. Given the UAE’s exposure to international as well as region-specific and domestic shocks, are there lessons that can be learned from past crises? What policy adjustments are required to mitigate the risks of another crisis?

Exuberance, the 2008-2010 crisis and aftermath

Prior to the Great Recession and the GFC crisis, the Dubai/UAE economic development model was based on supportive demographics driven by a liberal policy of international labour mobility and high domestic population growth. The UAE economy also depended on investment in infrastructure – such as ports, airports and logistics – that facilitated international economic integration and development of the services sector (retail, trade and tourism). Business friendly policies, as well as an industrial policy based on economic clustering embodied in a multitude of Free Zones allowing 100 percent foreign ownership, with low or no taxation, resulted in large foreign direct investment flows, competition and economies of scale and economies of scope (generating a wider variety of goods and services). High population growth fuelled the construction industry, the real estate, housing and retail sectors as well as health and education to serve a young, fast-growing consumer base. Dubai’s economic growth, with its low direct dependence on oil (about 1% of GDP), was supported by a high contribution from its services sector – trade, retail, hospitality, tourism and transportation. Liberal domestic economic policies, along with political and macroeconomic stability, benefited from a supportive global environment of the “Great Moderation”, of decreased macroeconomic volatility and reduced volatility of business cycles. Altogether, this resulted in a dynamic business environment and high growth rates. Investors, businesses and consumers were exuberant – but vulnerabilities were building. Buoyant economic activity, supported by the oil price boom of 2003-08, rising consumer and investor confidence, and abundant liquidity led to credit growth, inflation, and asset price inflation, including real estate. But, investor exuberance and 'animal spirits' faced legacy institutional and policy vulnerabilities: an absence of a fiscal and monetary framework and policies geared at economic stabilization; an absence of coordination and lack of guiding strategy on foreign investment by State Owned Enterprises (SOEs) and Government Related Enterprises (GREs); a real estate market bubble financed by foreign borrowing (in US dollars); and absence of centralized oversight and control over foreign borrowing by SOEs & GREs and the absence of a public debt policy and management. The stage was set for a domestic economic and financial crisis. At the onset of the GFC in 2008, banks in the Middle East, and more so in the GCC, were not highly leveraged and did not have any direct linkage or exposures to the US sub-prime crisis which triggered the GFC. Financial instruments like mortgage-backed securities (MBS), collateralized debt obligations (CDOs), collateralized loan obligations (CLOs) and other instruments that became toxic assets, were absent from the local markets. Though the UAE banks were adequately capitalized and profitable, the fast pace of growth of personal, consumer and real estate loans, along with the uncertain outlook for asset prices in the UAE were worrisome signs alongside growing concerns about counterparty risk. Real, inflation adjusted, average credit growth was a blistering 26 percent a year during 2003–08 fuelling growth and the accompanying real estate bubble. Credit to the private sector rose by 51 percent year-on-year by Sep 2008, up from 40 percent in December 2007, driven by the economic boom and highly negative real interest rates – with credit, financed by strong deposit growth and large foreign borrowing in 2007. On the corporate sector side, the boom was associated with a sharp rise in leverage, including inter-company and supplier debt, increasing the sector's vulnerability to funding availability, rollover risk and cost. Eventually, the bubble burst. Project cancelations, postponements and amendments amplified in the fourth quarter of 2008 and first quarter of 2009. About $39 billion of GCC debt (half from the UAE) was maturing, to be repaid or refinanced in 2009, at a time when liquidity had evaporated from the international and regional markets.

Twin Oil and Financial Shocks

The collapse of oil prices accompanying the GFC and the Great Recession was a twin shock, both economic and financial. The oil price shock directly impacted government and export revenues and the current account, with a spill over and an direct impact on financial market, banking and corporate liquidity. Funding costs jumped as speculative capital inflows reversed and investor confidence collapsed. Asset prices plunged, and when the Nakheel/Dubai World issues surfaced in Q4 2008, Dubai's CDS rates (credit default swaps) skyrocketed, trading at nearly 2000, while Saudi Arabia's rates were at 125. Pressures on bank funding and liquidity led to tight credit conditions. Dubai was engulfed in the GFC tsunami. What followed, with a lag, was the rollout of short-term policy measures including deposit guarantees, monetary easing and injection of liquidity which helped stabilize interest rates and liquidity conditions, alongside medium-term measures like real estate regulations geared to countering leverage and speculation. Ultimately, the crisis highlighted vulnerabilities related to the unsupervised leverage and foreign borrowing of SOEs and GREs, classical asset-liability mismatching, banks' exposure to asset markets and their growing dependence on foreign correspondent bank financing, and a general weakness in their liquidity and risk management frameworks. It also exposed instances of weak regulatory and supervisory frameworks and enforcement at both banks and non-bank financial institutions. The crisis also brought to the forefront the need for greater government revenue diversification, given the macroeconomic and systemic risks of high dependence on volatile oil revenues. Last, but not least, the crisis uncovered the near absence of sound corporate governance practices and transparency, especially in the case of SOEs and GREs.

The ‘New Oil Normal’ Crisis

Oil prices have dipped from the three-digit heights of 2014 to as low as $30-40 per barrel in the past few years before a partial recovery in 2018. This “New Oil Normal” reflects new realities: technology and high oil prices have driven improving growing global energy efficiency (energy/GDP ratios are falling), COP 21 policy commitments are changing the energy mix away from fossil fuels, while disruptive technological innovations are making shale oil and gas, along with renewable energy sources like solar and wind, directly competitive with fossil fuels. In short, both demand side and supply side factors imply downside risks for oil prices, despite short-term supply disruptions due to geopolitical developments or attempts by OPEC to limit production, including through unsustainable non-OPEC alliances. Over the medium and long-term, the UAE and other oil exporters run the risk of owning stranded fossil fuel assets, which are not economical to exploit. Developing and investing into higher value-added uses of oil & gas, downstream activities, and privatization through the public listing of energy assets should be part of a national fossil fuel de-risking strategy.

Pro-cyclical fiscal policy exacerbates oil price boom-bust cycles

Oil boom-bust crises, including those in the UAE, were exacerbated by the pro-cyclical fiscal policies followed by oil exporters: driven by a balanced budget policy stance, governments tend to increase spending when oil prices are high and scale back spending when prices dip. This has direct and spill over effects on the non-oil sector (in particular infrastructure, construction, real estate) which experiences a slowdown in economic activity. The current mix of monetary tightening due to the ‘normalization’ of US monetary policy and the onset of Quantitative Tightening (QT) and fiscal austerity directly conflicts with the need to conduct a counter-cyclical stabilization policy. In order to adjust to the New Oil Normal, the policy mix should be changed to one that is monetary easing with lower interest rates along with fiscal stimulus, combined with structural reforms. However, monetary policy is constrained by the tight peg to the US dollar and the classical policy trilemma: you cannot simultaneously have monetary policy independence, fixed exchange rates and freedom of capital flows. The downside risk for oil prices weighs on the growth prospects for oil exporters, making greater economic diversification a policy imperative and requiring structural policy reforms and enabling and supportive fiscal policy.

Economic Diversification is a Policy Imperative

Economic diversification leads to more balanced economies and is crucial for more sustainable economic growth and development. For the UAE (and other fossil fuel exporters), diversification is critical to reducing exposure to the volatility and uncertainty of the global oil market and related boom-bust cycles. Greater diversification is needed across three dimensions: structure of production (supporting the non-oil private sector), trade (developing non-oil exports) and at the fiscal level (diversifying sources of revenue). A successful diversification strategy would: re-orient the economy towards more knowledge based and innovation-led activities (including higher value-added in the energy sector), raising productivity growth and creating new jobs; directly support greater private sector activity, including in the tradable sector; provide more sustainable public finances that are less dependent on revenues from natural resources; generate greater macroeconomic stability and gradually de-risk fossil fuel assets through gradual privatization and divestment in the financial markets.

Economic policy and Reform: Minimizing Vulnerability to Next Crisis

Build local currency financial markets and develop a counter-cyclical fiscal policy toolbox for economic stabilization to allow for deficit financing, along with the institution of fiscal rules for long-term fiscal sustainability. A major lesson from the GFC and from the Asian crisis, is the danger of over reliance on foreign currency bank financing for cyclical sectors like housing, real estate and long gestation infrastructure investment. The UAE needs to focus on developing local currency financial markets starting with a government debt market to finance budget deficits, infrastructure and development projects, along with a housing finance/mortgage market. Market financing for infrastructure and development projects is more appropriate for longer-dated investments than bank financing.

Unification of local financial markets. There are three operational financial markets in the UAE – the Abu Dhabi Securities Exchange, the Dubai Financial Market, and Nasdaq Dubai in the DIFC. These fragmented markets should be consolidated to create a deeper, broader, and more liquid and active market, regulated and supervised by an Emirates Capital Markets Authority.

Establish a modern and credible legal and regulatory financial infrastructure. Enhance debt enforcement regimes by decriminalizing bounced cheques and building the capacity of the courts; develop insolvency frameworks to support out-of-court settlement, corporate restructuring and adequately protect creditors' rights. Introduce laws to facilitate mergers and acquisitions, as well as securitization to support the development of asset backed and mortgage backed securities and other structured debt instruments.

Develop a counter-cyclical fiscal policy toolbox for economic stabilization. This requires reforming the budget law framework, inherited from colonial days, to allow for deficit financing, along with the institution of fiscal rules for long-term fiscal sustainability. Given the recent passage of the UAE Federal Debt Law, the government should accelerate the set-up of the public debt management office.

Favour greater exchange-rate flexibility and monetary independence. The peg to the US dollar has exacerbated the negative impact of pro-cyclical fiscal policy. While the policy peg gives the UAE dirham policy credibility, it has prevented real exchange rate depreciation and fails to reflect the deep structural changes in the UAE's economic and financial links over the past three decades – particularly the shift away from the United States and Europe and toward China and Asia. The timing is opportune to move to a peg to a currency basket including the euro, Yen and Chinese Yuan, along with the US dollar.

Trade policy reform to adapt to the new global economic geography. Given the global shift in trade and investment patterns towards emerging markets and Asia, the UAE (with or without the GCC) should aim to negotiate trade and investment agreements with Asian countries (China, India, ASEAN-Plus-Six) as well as the COMESA countries. India is the UAE's largest trading partner, while China is the strategic economic partner going forward (notably in light of the recently announced $10 billion UAE-China investment fund and the win-win potential from participating in China's Belt & Road initiative).

Labour market reforms. The UAE has taken the first steps towards creating a more efficient labour market with the establishment of visas for part-time work/internship/apprenticeship and long-term residence rights (for selected professionals). The next steps would be permitting greater labour mobility, as well as flexible hours and the ability to work from home facilitated by modern technology. Abolishing the Kafala system may not be realized anytime soon, but is a necessary and important structural reform to retain expatriate human capital. The other major reform is continuing to break down the barriers to the economic participation and empowerment of women.

Education market reforms and building knowledge human capital. The educational system continues to focus on preparing students for public sector jobs, with a persistent skill mismatch and low educational quality compared to market requirements. Though spending per capita is high and student-teacher ratios are comparable to OECD levels, the outcomes are not strong. The PISA scores, for example, reveal that UAE students are placed 47th in math, 46th in science, and 48th in reading. Radical modernisation of education curricula is essential for creating a 21st century able workforce. It is time to invest in 'Digital Education-for-Digital Employment', vocational, and on-the-job training. Increasingly the focus should be to promote STEM (Science, Technology, Engineering and Mathematics) – especially given the official policy focus on innovation and a shift to the digital e-economy and -services in the UAE and the region.

Competition and liberalisation of rights of establishment: Effective implementation of the new Investment Law (2018) to remove barriers to FDI by allowing 100 percent foreign ownership and the protection of property rights would galvanise the benefits of competition. It would encourage expatriates to invest locally, reducing the outflow of capital and remittances. Dubai's free-trade zones are a testament to the success that comes with liberalization and the removal of barriers to foreign ownership and management. Permitting companies in the free zones to also operate in the "domestic economy" would stimulate investment and create jobs. Some companies have completed this transition, given recent regulatory changes in the DIFC, DED, and more recently in Abu Dhabi. Phasing out of the commercial agency system needs to be the obvious next step.

Digital transformation: The UAE has been the first mover in the region in embracing new digital technologies, including Blockchain/DLT (Distributed Ledger Technologies) and Artificial Intelligence. However, the Blockchain/AI movement needs regulatory support with the passage of enabling laws to facilitate AI, Blockchain, Big Data, and related technologies. Integrate and link public and private sector e-services databases through Blockchain (similar to Estonia's X-Road). Leap ahead by teaching coding in kindergarten, to securing digital identities for every citizen and resident, allowing an "e-citizen" programme, an "onshore" Fintech regulatory sandbox, and eventually a UAE Digital Currency to facilitate digital transacting. Supporting and financing start-ups with incubators and accelerators and co-investing with the private sector (seed, VC, Angel and PE investors) would help drive the UAE's digital transformation. Digitalisation also requires broad, deep, unencumbered and cheap access to digital highways: the telecoms sector should be open to competition both in the backbone and in services. China provides a good example of what can be achieved.

New energy & industrial policy: the UAE should rapidly diversify its energy mix by ramping up investment in clean energy (wind and solar) and technology (including desalination) which can become the basis of a new export industry. This frees up oil for export and contributes to decarbonisation and reducing pollution levels. Diversification should be private sector based to create new jobs. This requires liberalisation and competition for SOEs and GREs and establishing the legal and regulatory framework needed for privatization and public-private partnerships (PPPs). Privatization and PPPs in infrastructure, new and old energy, health, education, transport, telecoms and logistics would could attract massive domestic and foreign investment. Similarly, SWF investment strategy should shift to further support economic diversification policies and co-invest with domestic and foreign investors in new technologies and innovative sectors including clean energy, robotics, AI, Blockchain/DLT, Machine Learning, Fintech, and related tech.

Principles of Stabilization in Turbulent Times

Arab countries and oil and natural resource based economies face multiple economic, geostrategic, and climate change challenges as they seek to adapt and integrate into a rapidly changing global economic landscape and geography. The high level of dependence of both oil exporters and oil importers on oil revenues and oil assets poses an existential risk. The “New Oil Normal” and global move to decarbonisation imply permanently lower real oil prices and the risk that oil assets become stranded assets, with marginal economic value, in the absence of new innovations and new, clean, uses for fossil fuels. The UAE’s experience and economic diversification achievements provide a broad policy framework for Gulf oil producers. However, there is no ‘one-size-fits-all’. Moving forward, five principles should guide strategists and policy makers: (i) Economic diversification is a strategic imperative encompassing production, trade and government revenue diversification; (ii) Facilitate and enable the rapid digitalisation of the economy and society by, among other, removing barriers in the telecoms sector; (iii) Pivot policy towards emerging economies, towards India, China, ASEAN and the COMESA countries through innovative trade and investment agreements. The UAE and the region needs to participate in the new global value chains emerging from the Belt & Road and its ramifications. (iv) Education curricula require radical reform towards STEM and enabling ‘Digital Education for Digital Employment’. (v) Develop a modern economic – monetary and fiscal – policy toolbox allowing policy makers to undertake economic stabilization and counter-cyclical measures.