Weekly Insights 28 Jan 2021

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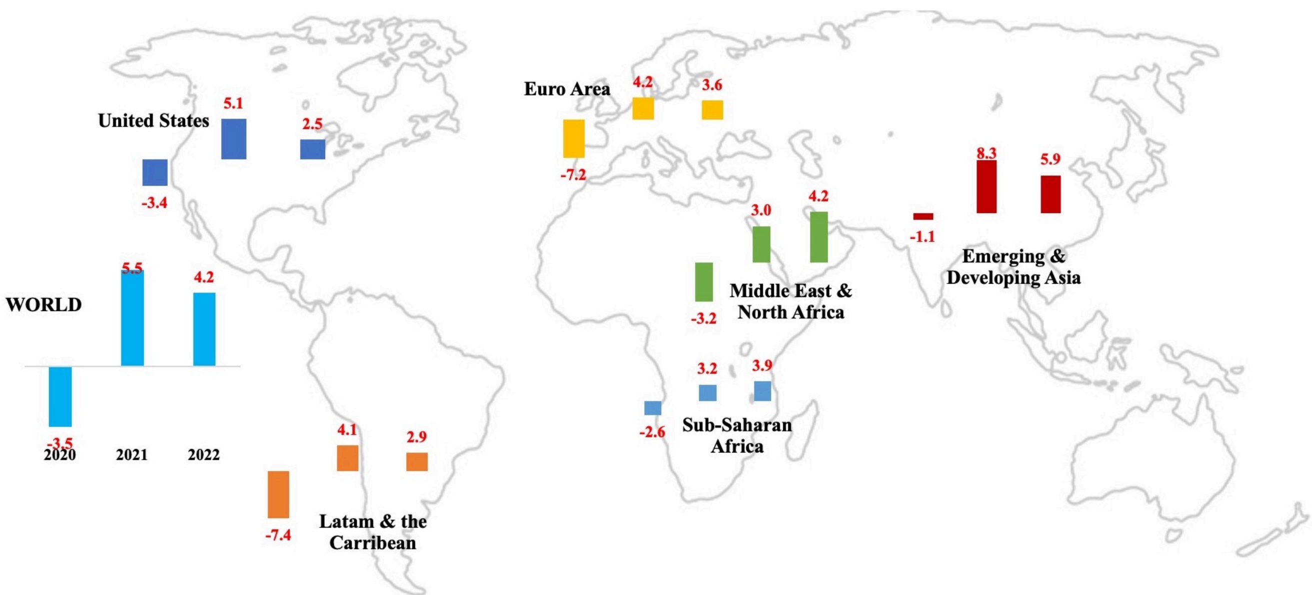
1. Global Recovery in 2021, albeit divergent & uncertain

The IMF, in its latest World Economic Outlook update, forecasts global recovery at 5.5% this year and 4.2% in 2022, from a contraction of 3.5% in 2020. There is a divergence in recovery: advanced nations, where growth plunged by 4.9% last year, will recover at a slower 4.3% while emerging markets recover at a faster 6.3% in 2021 (2020: -2.4%). Much of the emerging market recovery is thanks to the effective containment of Covid19 in China and many of the South-east Asian nations. The growth estimates are based on continuing policy support (and its effectiveness) and roll-out of vaccines (though its pace and logistics issues are identified as a concern) and "supportive financial conditions" (thanks to major central banks' maintaining current policy rates through to 2022).

While over 150 economies are expected to have their per capita incomes below the 2019 levels in 2021, the projected cumulative output loss over 2020–2025 is forecast to be USD 22trn (relative to the pre-pandemic projections).

Fig 1. Global economic growth set to recover by 5.5% this year

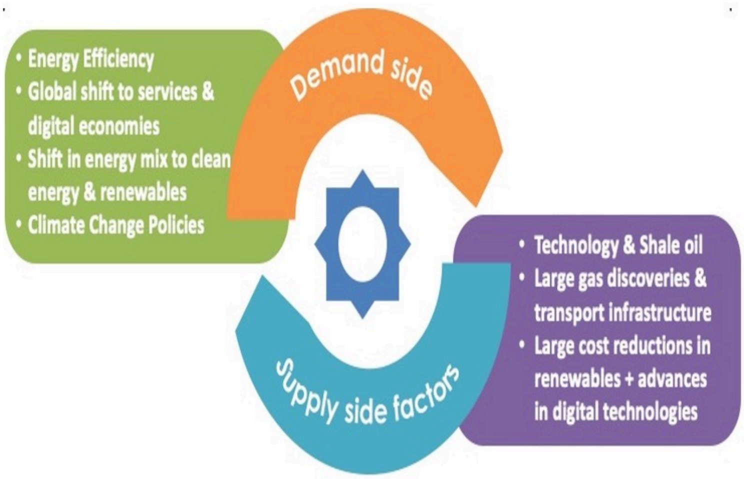


Source: IMF W

orld Economic Outlook, Jan 2021

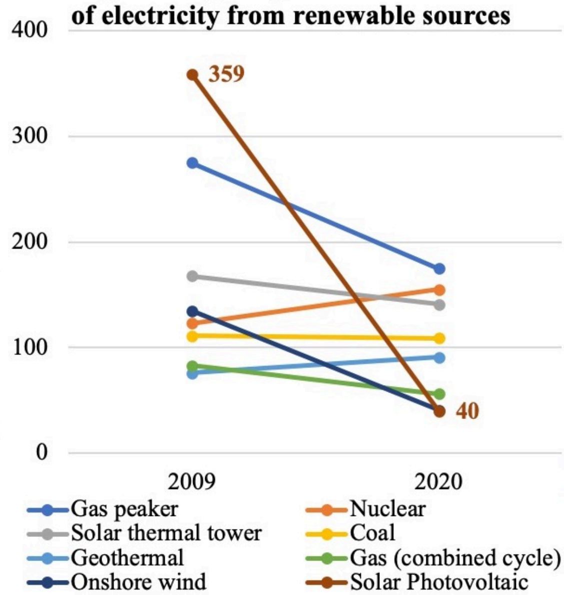
The **slowest pace of recovery among the regions is in the Middle East** (+3% growth this year), a result of the shocks from both Covid19 and lower oil prices. The average price of oil last year was USD 41.29 (simple average of Brent, Dubai Fateh and WTI) and this is estimated to rebound by 21.2% yoy to USD 50.03 this year. As Covid19 cases surge globally, leading to newer restrictions/ lockdowns, the demand for oil is likely to stay subdued: consequently, OPEC+ monthly meetings are unlikely to result in production increases anytime soon. Even if vaccines are distributed quicker-than-expected, resulting in an increase in economic activity earlier than anticipated, there are multiple other factors that are **likely to keep oil prices within the USD 50-55 mark** (Figure 2).

Fig 2. Demand and supply-side factors affecting oil prices



Source: Nasser Saidi & Associates

Fig 3. Plunge in global levelised cost of electricity from renewable sources

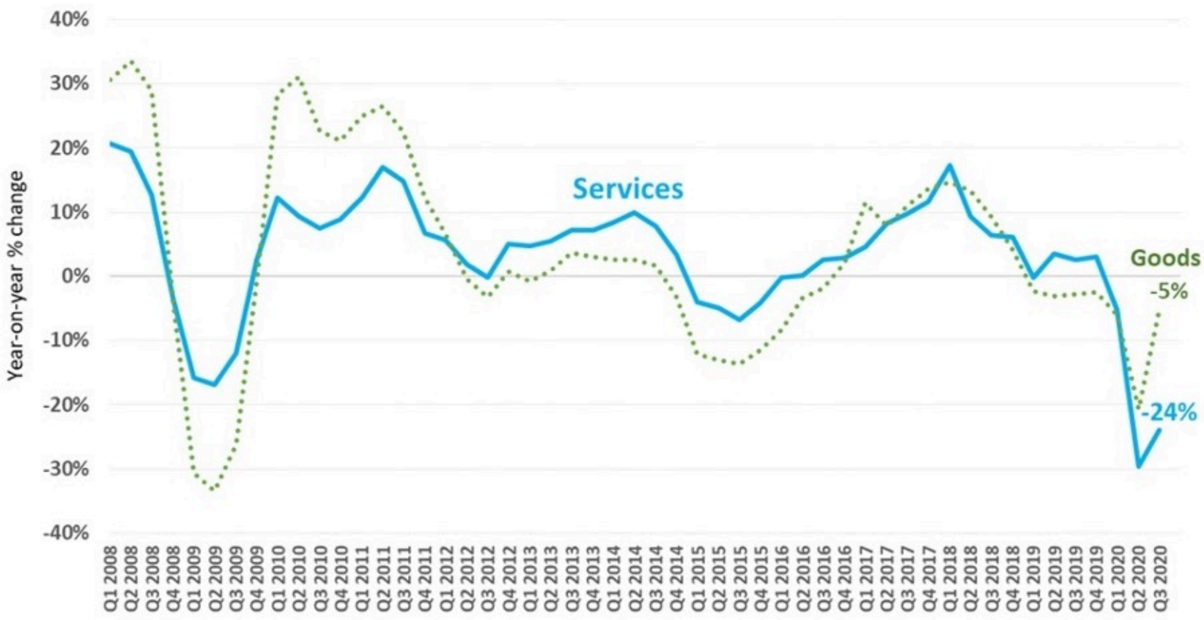


Source: Lazard Levelized Cost of Energy Analysis 2020; Chart created by Nasser Saidi & Associates

In addition to lower demand due to Covid19 restrictions, growing awareness of climate change risks (& related policy changes) and energy efficiency policies will also affect the **demand for oil**. **On the supply side**, technological innovation and rapidly falling costs for solar and wind power has made renewables more competitive. Figure 3 shows the plunge in price of electricity from renewable sources: onshore wind fell by 70% to USD 41 last year from USD 135 in 2009; the dive in solar PV was more eye-popping – it fell by a massive 89% to USD 40 last year from USD 359 in 2009.

2. Services trade continues to drag

Fig 4. Goods trade rebounds at a much faster pace than services trade



Source: WTO, Jan 2021

The WTO, in its latest report on **services trade**, highlights that the **recovery has been slow**: the decline in global services trade eased to a 24% yoy decline in Q3, from the 30% drop posted in Q2. This compares to the goods trade recovery which was down by just 5% yoy in Q3. **Sector-wise, unsurprisingly, travel is the most affected**, down by 68% yoy while among "other services", computer, insurance and financial services increased in Q3 (+9%, 3% and 2% respectively). Global PMI indicators also suggest that economic recovery is driven by manufacturing vis-à-vis services: in Dec, output across manufacturing sector outperformed the services sector for the 6th straight month. Within the services index, respondents expect growth in future activity though optimism levels waned towards the end of last year.

3. Labour market recovery in 2021?

A key sub-indicator within PMI is employment – one of the main components dragging down the headline index. According to the ILO, about **8.8% of global working hours were lost for the**

whole of last year (relative to Q4 2019), roughly equivalent to 255mn full-time jobs. To put this in perspective, this was **four times more than what was lost in the 2009 financial crisis period**. In turn, labour income witnessed a decline of 8.3% – equivalent to USD 3.7trn or 4.4% of GDP!

In the Arab states, total estimated decline in working hours was 9% versus the global loss of 8.8% (Figure 5 below). However, these are ILO's own estimates, as no labour force surveys were available for any country in the region during this time. According to these estimates, Iraq and Saudi Arabia registered losses of 8.3% and 10.8% respectively.

Fig 5. Quarterly & annual estimates of working hour losses, world vs. Arab states

	Percentage of working hours lost (%) vs pre-crisis quarter Q4 2019					**Equivalent number of full-time jobs (48 hrs/ week) lost (mns)**				
	Q1 2020	**Q2 2020**	**Q3 2020**	**Q4 2020**	**2020**	**Q1 2020**	**Q2 2020**	**Q3 2020**	**Q4 2020**	**2020**
World	5.2	18.2	7.2	4.6	8.8	150	525	205	130	255
Arab states	3.3	18.8	9.4	4.7	9.0	2.0	10.0	5.0	2.0	5.0

Source: ILO Monitor: COVID-19 and the world of work, seventh edition, Jan 2021

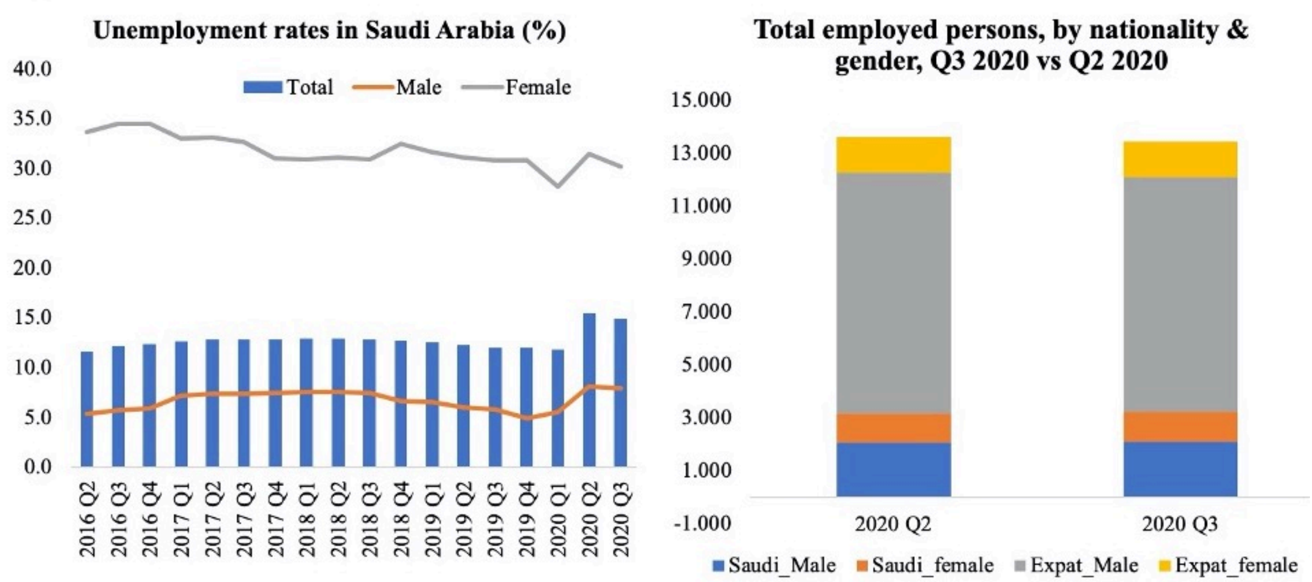
Recovery is expected in 2021 as mobility restrictions are lifted and vaccine roll-out leads to a slow return of business/economic activity. With young persons and women as well as the informal sector and low-skilled workers more affected than the rest during the Covid19 period, it is imperative to target the return of these groups into the labour market. Without this, the outlook will be more inequality and instability (remember that youth unemployment was one of the factors leading up to the Arab Spring 10 years ago) in the most affected nations. As it stands, the IMF estimates that close to 90mn persons are likely to fall below the extreme poverty threshold during 2020–21.

4. Employment in Saudi Arabia

Separate data releases from Saudi Arabia give us an insight into employment trends in the country, which can be explained by a combination of Covid19, travel restrictions and Saudization policies:

- **Unemployment in Saudi Arabia dropped** to 14.9% in Q3 from 15.4% the previous quarter, though higher than Q1's 11.8%. The **gap between male and female unemployment remained significant**, with the former at 7.9% and latter at 30.2%.
- The most recent labour force survey shows that the **number of expats working in the country fell by 257,170 (qoq) to 10.2mn in Q3** while citizens grew by 81.9k to 3.25mn. Expat males account for two-thirds of the workforce versus Saudi males and females at 15.6% and 8.6% respectively in Q3.
- There was a **58% yoy decline in work visas** issued to expats to 611,185 in Jan-Sep 2020.

Fig 6. Labour force indicators in Saudi Arabia



Source: Labour market survey Q3 2020, GaStat. Charts created by Nasser Saidi & Associates

While on the one hand, the country has an aim to support female employment (an objective within the Vision 2030 document is to raise women's participation to 30% by 2030), there seems to be a major disconnect: female employment in the private sector is less than 10% of total, and the additional hurdles – like costs of employing women (separate floors/ work areas from the male counterparts), social customs, technical skills (focus on degrees in education, humanities) – may be putting off prospective employers.

Independently, the **Public Investment Fund (PIF) disclosed that it had generated over 331k jobs in the past 4 years** either directly or indirectly through its investment policies. The PIF's recent commitment to not only invest USD 40bn every year for the next five years but also create close to 1.8mn jobs by end-2025 will support the economy going forward.

According to UNCTAD's latest "Investment trends Monitor", **FDI into Saudi Arabia increased by 4% yoy to an estimated USD 4.7bn last year** – this is in spite of the 42% drop in global FDI flows (with further weakness expected in 2021) and the 24% decline in flows to West Asia. With various ongoing projects related to Vision 2030 and megaprojects in NEOM, as well as the revamp of over 200 FDI regulations, the Kingdom's ability to woo investors is explicable: Egypt, India and the UK were the most active investors in the country. Care must be taken to **attract FDI into more job-creating sectors** than the oil & gas sector (which is more capital intensive). Given the country's commitment to support clean/renewable energy, it is pertinent to **focus on the creation of green jobs, thereby leading to sustainable economic recovery.**

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Weekly Insights 19 Nov 2020: Knowledge-based human capital to drive UAE’s diversification efforts

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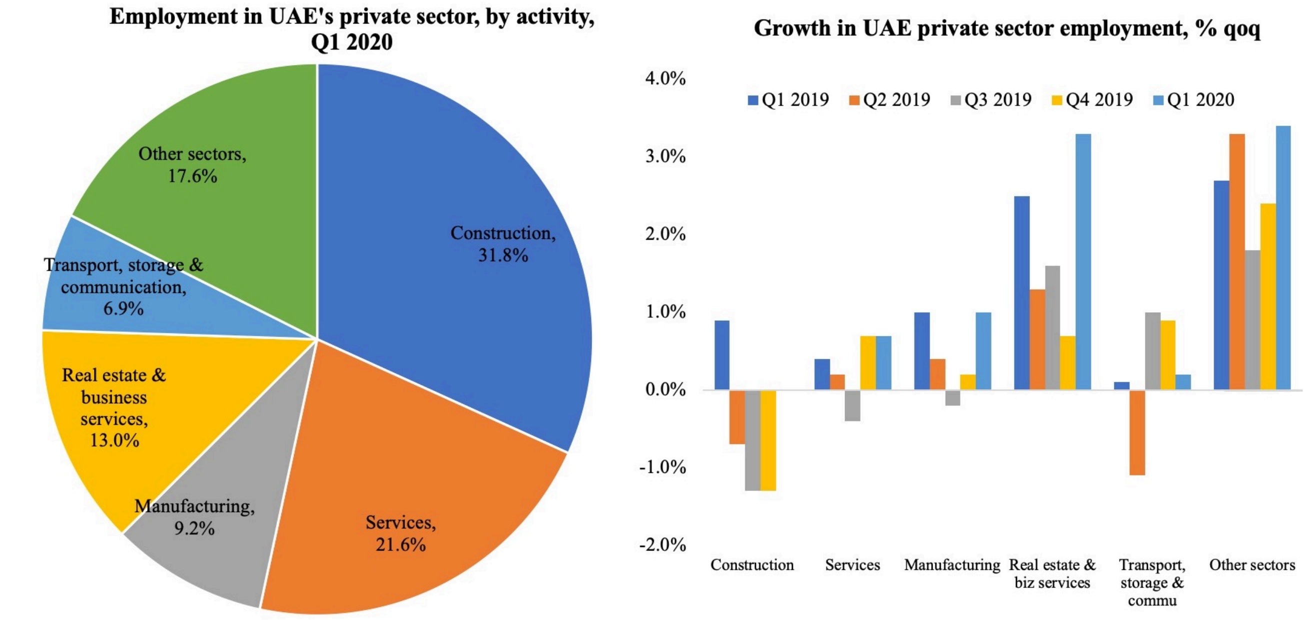
Knowledge-based human capital to drive the next phase of UAE’s diversification efforts

The UAE this week announced an expansion of its current 10-year golden visa to include medical doctors, scientists and data experts as well as PhD holders, in a bid to attract professionals to the UAE. The liberalisation comes on the heels of visas for retirees and options for remote working in Dubai: these provide added incentives for expatriates to remain, invest and contribute further to the country’s development. Currently the UAE residential status for expatriates is linked to an employer, and in the event of job loss, the person has 30 days to either find a new job or secure a new visa. With the backdrop of Covid19 and related job losses – UAE’s PMI Employment sub-index fell to its lowest in over 11 years and the latest November reading falling for the 10th consecutive month – many long-term residents were forced to return to their home countries, taking their savings back with them generating capital outflows from the economy.

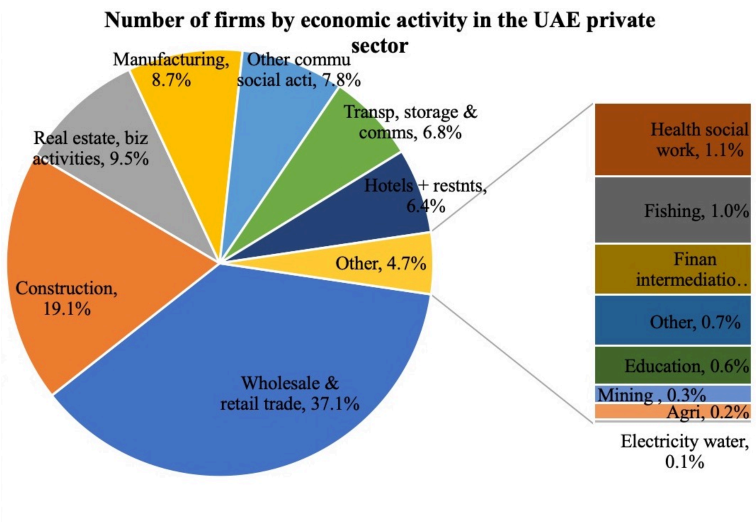
While UAE does not release monthly data on employment, the central bank’s quarterly report offers a glimpse into the recent trend. Construction and services were the largest sectors offering employment within the UAE’s private sector. This is an incomplete picture, as the database on private sector employment excludes the Free Zone activities. For example, the DIFC is home to 2584 firms and over 25k employees while the DMCC last reported 17.5k member companies in the free zone. In terms of pace of growth (in quarter-on-quarter terms), construction has been registering a decline since Q2 last year, though other sectors posted upticks in Q1 (prior to Covid19-related lockdowns). No data is yet available for that period, but Embassy estimates suggest 400k+ (net) and 60k persons having returned to India and Pakistan respectively during the past months.

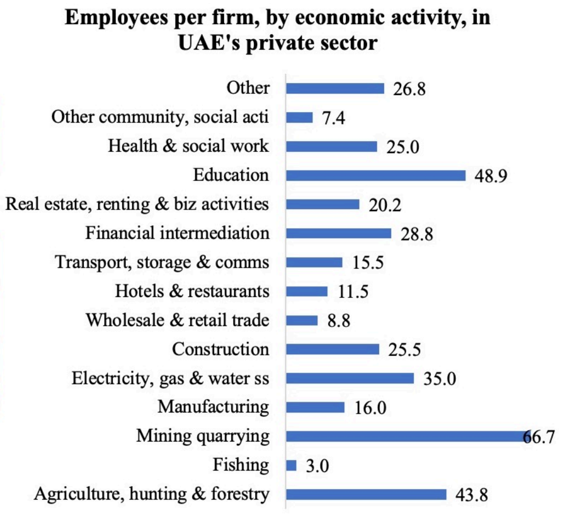


Source: UAE Central Bank Quarterly Report Q1 2020, Nasser Saidi & Associates

Structural change signals the UAE's greater economic diversification

The UAE Ministry of Human Resources and Emiratisation also offers additional details of number of establishments in the country (unfortunately, also excluding free zones). Close to 50% of the firms (as of Jan 2020) were operating in the sectors most affected by Covid19: an update of this data is likely to show a significant difference in the composition. Interestingly, if we consider the number of employees per firm, mining & quarrying (the oil sector) tops the list – in contrast to the capital-intensive nature of the sector.



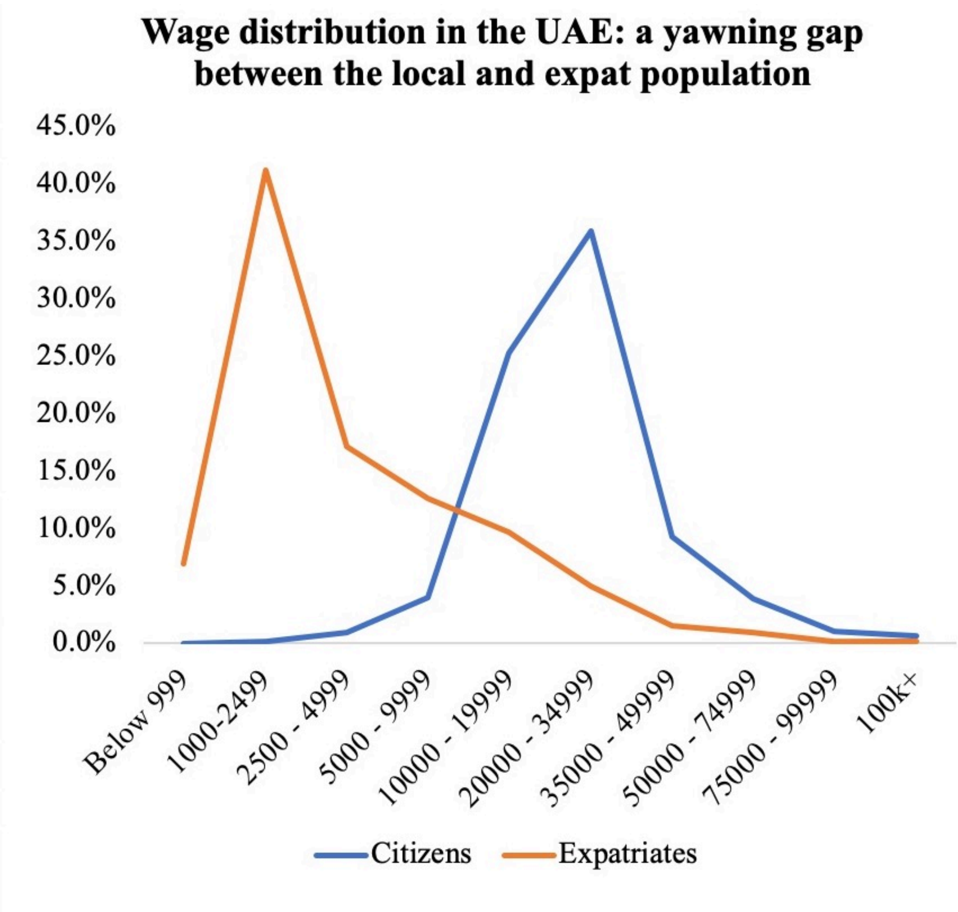


Source: UAE Ministry of Human Resources & Emiratisation, Nasser Saidi & Associates

As is oft-cited, there is a preference to work in the public sector: 78.2% of UAE citizens surveyed in the Labour Force Survey 2019[1] declared as working with either the federal or local government (versus just 12% in the private sector). However, comparing this data with the 2009 survey, the share of the private sector has increased from 58% to 70%- a positive move, and underscoring the UAE's diversification efforts. By economic activity, a few sectors have seen an increase in their share: manufacturing (9.2% in 2019 vs 7.7% in 2009), construction (17.5% vs 12.3%), hotels and restaurants (5.4% vs 4%). Real estate sector has seen a significant drop during the decade, not unsurprising given the boom prior to 2010; but a slight dip in financial and insurance activities is surprising (2.5% in 2019 vs 3.2% in 2009).

Women are transforming the labour force: more educated but facing a glass ceiling

Another interesting insight from the Labour Force Survey offers a morale booster for women – women are relatively are more educated than their male counterparts (about 50% of employed local women have a bachelor's degree, and about 60% have a bachelor's and above; the comparable numbers for expat women are at 33% and 42.8% respectively); a high proportion of women work as professionals and managers (28.5% among female expats, 45% of female citizens). It is time that this translates into having more women on boards and at top management levels in the private sector[2].



Source: Labour Force Survey 2019, FCSA, Nasser Saidi & Associates

The Survey also confirms the disparity in wages between local and expat population: more than one-third of Emirati respondents disclosed receiving monthly wages between AED 20-35k (versus just 5% of expats in the same income bracket). This brings to the forefront two issues:

(a) Private-public sector wage gap that deters citizens from joining the private sector. Though wages by sector breakdown is not available (publicly), it is safe to assume relatively higher salaries in the government sector where close to three-fourths of citizens work. Public sector remains oversaturated, and with higher wages and relatively better benefits, highly educated young people prefer to remain unemployed till they get a public sector job – doing little to help the private sector.

(b) The need to attract high-skilled professionals to support private sector activity. This needs to be carefully addressed: while attracting foreign talent to take up such jobs in the near- to medium-term is necessary, it is critical to reform the education sector and invest in building a knowledge economy. There is a persistent skill mismatch and low educational quality in the country 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 2018 scores, for example, reveal that UAE students are placed 50th in math, 49th in science, and 46th in reading. Radical modernisation of education curricula is essential for creating a 21st century able workforce. It is also time to invest in curricula that support job-readiness, 'Digital Education-for-Digital Employment', early exposure to the workplace (e.g. summer internships and labour policies that facilitate such changes), vocational and on-the-job training. Increasingly the focus should be to invest in and 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.

What next? The recent structural reform moves (related to labour) will help remove distortions in the labour market, attract high-skilled professionals and help UAE to diversify into higher value-added and more complex economic activities, while also supporting domestic investment (including in the real estate sector). This will happen alongside a reduction in outflow of remittances, which in turn will boost the balance of payments: last year, UAE expatriates sent $44.9bn in outward remittances in 2019, comparable to the value of oil exports at $49.64bn[3]. It is important in this regard to accelerate capital market development: long-term residents will be keen to invest in medium- and long-term financial instruments, participate in a mortgage market and given an opportunity, also invest in startups and growth companies.

[1] *This is published by the UAE's Federal Competitiveness and Statistics Authority.*

[2] *A KPMG report on Female Leaders Outlook identified that*

94% of CEOs that participated from the UAE were male. The 2019 UAE report includes input from 50 UAE-based women leaders, up from 29 in 2018.
[3] *Data from OPEC's Annual Statistics Bulletin.*

"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.