# "Home is where the heart is for GCC wealth funds", Op-ed in Arabian Gulf Business Insight (AGBI), 5 Sep 2024

The below opinion piece titled "<u>Home is where the heart is for GCC wealth funds</u>" was published in the Arabian Gulf Business Insight (AGBI) on 5th September 2024.

An <u>extended version</u> of the published article is posted below.

## Home is where the heart is for GCC wealth funds

The Gulf's SWFs are stepping up domestic investment

Globally, state-owned investors (SWFs, public pension funds and central banks) are a massive player in financial markets, managing USD 49.7trn in 2023, with SWFs posting a record high USD 11.2trn. GCC SWFs assets touched a peak of USD 4.1trn in 2023. Five GCC SWFs are among the top 10 most active dealmakers globally (Saudi PIF, Abu Dhabi's ADIA, Mubadala and ADQ, and Qatar's QIA), supported by the recovery of markets and higher oil prices post-Covid. They were active as well, representing 40% of all investments deployed by sovereign investors last year. But the asset allocation of portfolios is shifting. While GCC SWFs invested in overseas markets (e.g.

PIF and ADQ preferred investments in emerging markets; ADIA had three-quarters of its investment value in North America and Europe), they are increasingly shifting to support domestic economic diversification, becoming more active in local and regional opportunities.

#### Why are GCC SWF strategies changing?

They are three major drivers.

Firstly, Cold War II is unfolding with growing economic, trade and investment fragmentation and dislocation, threatening deglobalisation and the tectonic shift in global economic geography towards Emerging Asia over the past two decades. Global geo-economic-political risks are growing historically high debt levels of USD 313trn in 2023, regional wars (Europe, Near East) along with volatile interest rates. Sovereigns also face the risk of the growing weaponisation of the US dollar along with potential sanctions, a freezing and confiscation of assets, (witness Russia) that undermine the rule of law, the operation and architecture of global financial markets. The GCC have to derisk Western financial markets and assets to protect their wealth. Given SWIFT payment system risks, expect the BRICS+ and GCC to develop an alternative multilateral payment system, use national currencies for bilateral payments and the PetroYuan for energy. The era of free flowing GCC petrodollars is ending.

Secondly, national security considerations increasingly dominate economic policy making globally and regionally. It is imperative for the GCC to shift focus to domestic economic objectives and address domestic and regional opportunities and challenges (economic diversification, food security, AI and related tech, clean energy transition, climate risk mitigation and adaptation). Witness PIF's investments in Saudi airlines and giga projects, ADQ's investing \$35 bn in Egypt's Ras El-Hekma this year.

PIF's Annual Report 2023 highlights the realities of the changing investment objectives. While AUMs have grown massively (from SAR 563bn in 2015 to SAR 2.9trn in 2023,), the share of international investments share is down (from 29% in 2021 to 20% in 2023), a smaller share of a growing pie. The PIF's domestic economic objectives are increasingly aligned with Saudi Arabia's Vision 2030 and the broad goal of economic diversification, transformation and modernisation, necessitating an inward-focused agenda. Accordingly, the PIF aims to increase AUM to approximately SAR 4trn by 2025, raising the non-oil GDP and job creation contribution of PIF & subsidiaries to a cumulative SAR 1.2trn and to SAR 7.5trn by 2030.

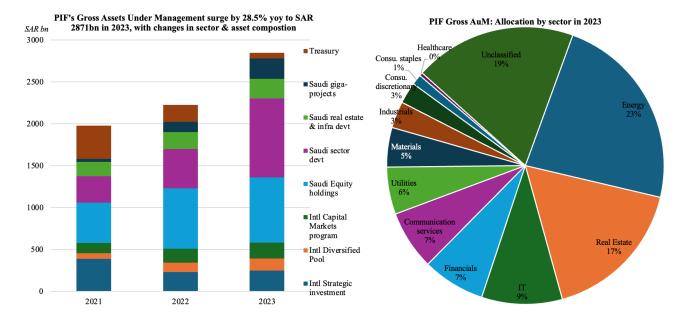
To support Saudi's maturing economy, PIF has launched 95 companies since 2017, spanning 13 strategic sectors ranging from EVs to sports and tourism, injecting about SAR 150bn into the local economy annually. Complementing Saudi Arabia's proprivate sector policies, the PIF has been supporting SMEs and innovative, growth companies in new and emerging sectors. PIF has also been instrumental in attracting firms in innovative sectors to locate in the Kingdom — for example Lucid's advanced manufacturing plant in Saudi to produce EVs, a SAR 1bn tech fund to attract chip-design companies and Alat's deals in semiconductors & next generation infrastructure among other.

Thirdly, Saudi remains a developing economy and a vast country with massive investment opportunities for foreign investment and technologies. PIF's engagement in supporting capital market development (e.g. listing of Saudi ETFs in Shanghai and Shenzhen, launch of a Riyadh-based multi-asset investment management platform with BlackRock), developing Saudi's vast unexplored and unexploited mineral wealth (through PIF-backed Manara Minerals), supporting Saudi Industrial Policy (e.g. localising renewable energy components in collaboration with Envision Energy, support from Alat to manufacture robotic

systems & heavy machinery) aim to attract FDI and PPP. The PIF is also supporting Saudi's regional economic expansion and integration strategy, including involvement in developing the Red Sea Council and Western Saudi areas as a stepping stone into the African Continental Free Trade Area, along with the establishment of five companies for investment in Bahrain, Iraq, Jordan, Oman and Sudan.

Ahead of 2030 and as it builds capacity, reallocates its assets and investments, the PIF will increasingly become like Temasek, Singapore's Public Wealth Fund, taking responsibility to improve the management, performance and productivity of Saudi's vast public assets (e.g. public infrastructure and commercial assets). Saudi adoption and implementation of a robust Public Investment Management frameworks and moves towards a centralised model of the ownership and governance of public commercial assets held by various ministries/agencieswould not only increase financial returns and maximise the value of the public assets, but it would also increase productivity growth and support fiscal sustainability. Accountability is the other building bloc. PIF has taken a lead in promoting transparency: it is currently placed joint second globally and first in the Middle East for Governance, Sustainability & Transparency in a ranking of the top 100 SWFs by Global SWF.

The bottom line is that GCC SWFs (along with the BRICS+) are gradually redrawing the global financial architecture and landscape and supportive payment system, to becoming more regional and serving domestic economic objectives. This has also supported the creation and growth of an asset management industry in the financial centres of the region (working for the region) versus the prior experience of recycling petrodollars through global financial centres abroad.



Source: PIF Annual report 2023. Charts by Nasser Saidi & Associates
Note: Unclassified represents multisector funds/mandates, and cash & money markets.

### "Trump redux could bring in the law of unintended consequences", Op-ed in Arabian Gulf Business Insight (AGBI), 5 Aug 2024

The below opinion piece titled "Trump redux could bring in the law of unintended consequences" was published in the Arabian Gulf Business Insight (AGBI) on 5th August 2024.

An Arabic version of this article was published by the Middle East Council: <a href="click to access the article">click to access the article</a>.

## Trump redux could bring in the law of unintended consequences

### Gulf states need to expect the unexpected as an 'America First' agenda could fragment global trade

One hundred days ahead of elections in November, former US president Donald Trump is polling strongly despite the emergence of Kamala Harris as the Democrat candidate. What would the implications be for us in the Gulf and around the world of a Trump presidency redux?

From public statements and his record in the previous 2017 to 2021 term, we can identify the basic tenets of such a presidency as nationalism, isolationism, protectionism, populism, and a clampdown on migration. In other words: "Maganomics" (after Trump's slogan, Make America Great Again).

Whether fully or partially adopted, Project 2025, a 900-page blueprint for office by a conservative think tank, offers further clues on the direction of a radical new Trump government.

The policies of such an administration would have an impact around the world, with direct and spillover effects on the Middle East.

In the first place, the trade, fiscal, energy and deregulation policies advocated by Trump, along with a crackdown on immigration, are inflationary in nature.

These could increase US nominal GDP but imply even higher US budget deficits — currently running at 6.7 percent of GDP — and Federal debt, which already exceeds 100 percent of GDP.

A resurgence of inflation would force the US Federal Reserve

to keep interest rates higher for longer, delaying any monetary easing. This would boost the dollar at a time when other G7 central banks, including the ECB and the Bank of England, are easing rates.

Higher, longer lasting interest rates and a strong US dollar would affect emerging markets negatively via higher inflation and bigger budget and trade deficits.

Mena countries such as Egypt and Tunisia with high external debt to GDP could be particularly impacted. Higher US interest rates would exacerbate the growing crisis in which global public debt already exceeds \$100 trillion, and implies higher servicing burdens.

Macroeconomic risks — sovereign defaults, market failure, unexpected shocks — would grow.

Secondly, Maganomics focuses on protectionism. An "America First" agenda means higher US tariffs. Trump has spoken of imposing higher import tariffs of 10 percent across the board and 60 percent on China, leading to greater fragmentation in global trade and investment.

Anti-dumping measures could affect GCC industrial exports to the US, including steel, aluminium and petrochemicals.

Conflict with China over trade and tech and de-coupling measures — to say nothing of Taiwan — could slow growth in the former and lower oil and gas imports in the world's second largest economy.

All these have negative implications for GCC exports and growth. This could be mitigated by China's growing non-oil linkages with the GCC, which span clean energy, financial integration, tourism and tech.

A ramping up of US-China economic warfare could turn out to be a net positive for the GCC. In an illustration of the "law of

unintended consequences", <u>China could divert trade and</u> investment to the GCC and the Middle East.

Thirdly, energy is a major plank of Maganomics. Short of repealing the Inflation Reduction Act or the Infrastructure Investment and Jobs Act, a Trump administration would pursue aggressive federal deregulation. Its policies would ramp up investment in energy infrastructure and resources. It would also likely remove drilling restrictions in Alaska and the Gulf of Mexico and cut clean energy subsidies.

The objective would be to galvanise the US as a major oil and gas exporter, while Russia is sanctioned and displaced from EU markets. US crude oil exports reached a record in 2023, averaging 4.1 million barrels per day. The US was also the top exporter of LNG globally in 2023, averaging 11.9 billion cubic feet per day.

Deregulation of the oil and gas industry could boost US exports and lower oil prices, providing competition for Opec+ and the GCC.

Fourthly, a new Trump administration might reverse climate commitments — the US is the world's second-top emitter of greenhouse gases — and reduce spending on climate risk mitigation and adaptation, and climate tech. This implies that temperatures would increase globally beyond 1.5C.

This year saw cities scorched by some of the hottest summers on record. The coming decade is likely to be even hotter. This could however offer an <u>opportunity for GCC to increase its renewable</u>, clean energy and climate tech exports.

The bottom line is that Maganomics means headwinds for the GCC. Regional geopolitical risks would grow, coupled with uncertainty on likely impacts.

To counter, the GCC states individually and collectively should maintain their strategic course. They should increase

openness through trade and investment agreements, focus on greater economic diversification and regional integration, pursue green industrial policies and invest in renewable energies and climate tech.

# "GCC can emerge as 'Middle Powers' in second Cold War", Op-ed in Arabian Gulf Business Insight (AGBI), 9 Jan 2024

The opinion piece titled "GCC can emerge as 'Middle Powers' in second Cold War" appeared in the Arabian Gulf Business Insight (AGBI) on 9th January 2024.

The article is published below.

## GCC can emerge as 'Middle Powers' in second Cold War

Three factors will enable the GCC to benefit from the fragmentation

We are living in a second Cold War. A multipolar world is

evolving as governments adopt policies that are leading to increased economic and financial fragmentation.

Trade, foreign direct investment and financial flows are increasingly encumbered by regulatory and legal restrictions.

The number of global trade restrictions introduced each year has nearly tripled since the pre-pandemic period, reaching almost 3,000 last year, according to the International Monetary Fund.

The result is a restructuring of global supply chain networks. Political decisions dubbed "friend-shoring", "near-shoring" or "on-shoring" imply increased geo-political fragmentation and de-globalisation.

While the speed of globalisation slowed after the 2008 financial crisis, a major trigger of de-globalisation was the Trump administration's policy of "China decoupling".

This was subsequently relabelled "China de-risking" and described in Washington as a policy that aimed to prevent Beijing from emerging as a global tech power.

This tech war, which started with restrictions on access to high-performance chips, has expanded. Now barriers have been imposed on trade, foreign direct investment and financial flows.

The Russia-Ukraine war, the conflict in Gaza and the spillover effects have widened the geo-economic-political fragmentation, resulting in the second Cold War.

#### Two blocs, but allies don't always agree

Two major blocs are emerging: the US and its allies, and China-Russia and their allies. Other countries fall into a multi-faceted, multi-interest grouping.

Even within the blocs, there is increased political

fragmentation and divergence of interests — notably between the US and the European Union. The upshot of geo-strategic confrontation is a ratcheting up of military spending, at the cost of addressing economic development and investment.

Strategic mistakes, miscalculation and events may lead to the Cold War becoming hot.

National security narratives are increasingly dominating economic policy decisions. Trade is weaponised, while investment (inward and outward), finance and payment systems are affected. National security interests imply a reengineering and redesigning of food, energy and tech supply chains towards greater self-reliance.

National security logic has also led to the weaponisation of the US dollar, imposing restrictions on its use in international payments and the freezing of "unfriendly" or "enemy" foreign assets.

This threatens dollar-based international payments and the financial architecture built over the past decades of global financial liberalisation.

The same logic is leading to the weaponisation of access to and diffusion of modern tech and AI, widening the global tech divide and reducing productivity and general growth.

The new Cold War could result in a massive 7 percent loss of global GDP according to the IMF, as a result of global supply chains becoming less efficient, inward-looking self-sufficiency policies being disguised as re-shoring, and restrictions on access to tech and critical resources such as rare earths.

#### The GCC as emerging 'Middle Powers'

For the GCC countries, this ominous scenario has a silver lining. It offers a geo-strategic opportunity, allowing them

to emerge as Middle Powers between the two global blocs.

The GCC has built its soft power through successfully hosting international events and diplomatic mediation. Next up is the building of economic and financial power.

Three strategic factors represent the building blocks that will enable the Gulf states to benefit from the fragmentation.

First is the GCC's geography between Africa and Asia and the nations' promising demographics.

Second, the member states are unique in being old and new energy powerhouses.

Third, the economic diversification of the GCC — combined with investments in trade facilitating logistics, transport, and infrastructure — means the six countries are integrated in global supply chains.

The GCC nations need to enhance and develop economic and financial tools to enable them to become effective Middle Powers. A priority is to accelerate their economic and financial integration, starting with core infrastructure to achieve economies of scale and greater efficiency.

GCC economic and financial integration is a building block for overhauling and implementing the GCC common market, allowing the Gulf countries to negotiate as an empowered economic bloc.

Already, GCC members are participating in international blocs — Brics+ and the India-Middle East-Europe Economic Corridor — along with trade deals that include a likely GCC-China agreement in 2024 and various comprehensive economic partnership agreements.

Cop28 has highlighted that climate change will pose geostrategic challenges in the coming decades. The GCC states possess the technologies and financial resources to make regional and global investments in climate adaptation, and building and retrofitting infrastructure to make it climate resilient.

These tools underpin the evolving "regional globalisation" policies of the GCC, which will lead to the growing economic integration of the Mena region and African countries. This regional globalisation will reduce the risks of the new Cold War.

# "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 the Arabian 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 intraregional 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

# "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 the Arabian 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

"Navigating the Energy Crisis: A Middle East Viewpoint", Presentation at the Global Investment Management Summit, 28 Mar 2023

Dr. Nasser Saidi was invited to join as a guest speaker at the Global Investment Management Summit held in London on 28th March 2023.

Dr. Saidi's presentation, titled "Navigating the Energy Crisis: A Middle East Viewpoint", covered among other points the sources and consequences of the ongoing global energy crisis in the backdrop of weaning away from fossil fuels and investing in Renewable Energy. The geopolitics and emergence of a new global energy map formed another key point in the discussion which advocated for GCC to become the centre of a transformed, new, global energy map.

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

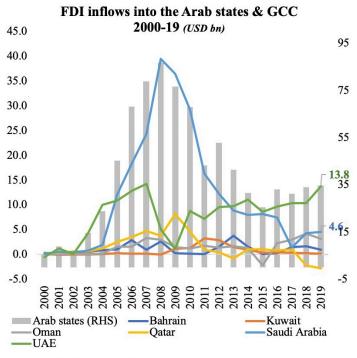
Download a PDF copy of this week's insight piece here.

### 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.

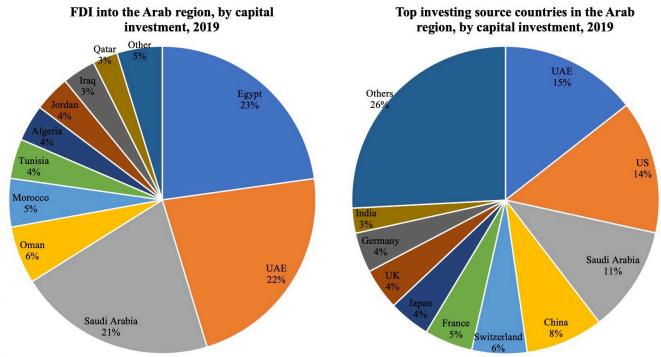
We focus on FDI in this Weekly Insight piece. FDI inflows are essential to the UAE's diversification efforts, as it would not only create jobs, raise productivity and growth, but could also lead to transfer of technology/ technical know-how and promote competition in the market. According tο the closing 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.

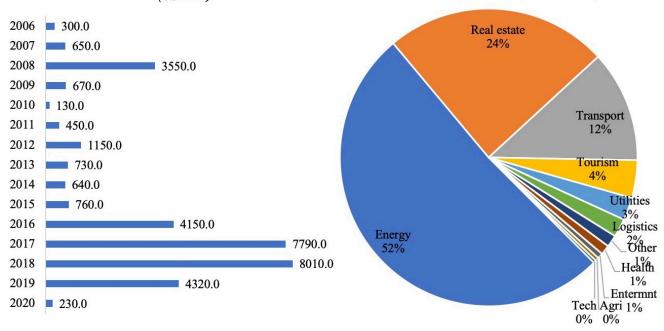


Source: fDI Markets, Arab Investment & Export Credit Guarantee Corporation, Nasser Saidi & Associates.

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].

#### Chinese investments in the UAE (USD mn)

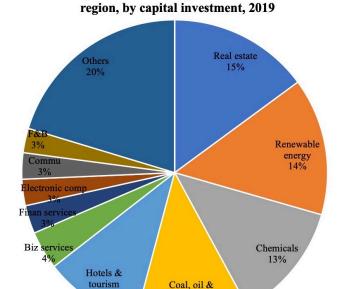
#### Total Chinese investments in the UAE, by sector (2006-2020)



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 AEI's China Global t o 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 well a n d qas a s



Top sectors attracting FDI in the Arab

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

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-

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 (0&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

# Panel discussion "Managing energy transition in the Middle East" at World Energy Week Live, 7 Oct 2020

The collapse in oil demand and prices due to Covid-19 has had a devastating impact on the resource-dominant countries of the Middle East. Will this delay economic reforms and a transition to lower carbon economies, or can this pose an opportunity for the region to accelerate energy transition and economic diversification?

This panel session, broadcast on 7th Oct 2020, was part of the Middle East and Gulf States session at World Energy Week LIVE on the theme "Managing Energy Transition in the Middle East"

Dr. Nasser Saidi joined an esteemed panel comprising of Adam Sieminski, President, KAPSARC, Adnan Shihab-Eldin, Director General, Kuwait Foundation for the Advancement of Sciences and Robin Mills, CEO, Qamar Energy in a session moderated by Eithne Treanor, Executive Chair, WE Talks, World Energy Council.

The session can be accessed below: