

# **“Tariffs, Taco and Cepas: diverging trade paths in a fragmenting world”, Op-ed in Arabian Gulf Business Insight (AGBI), 17 July 2025**

The opinion piece titled [“Tariffs, Taco and Cepas: diverging trade paths in a fragmenting world”](#) was published in Arabian Gulf Business Insight (AGBI) on 17th July 2025.

## **“Tariffs, Taco and Cepas: diverging trade paths in a fragmenting world”**

On July 9 the 90-day tariff pause imposed by the Trump administration came to an end, reigniting global trade tensions.

Several countries now face a fresh wave of levies scheduled to take effect on August 1.

These include a 25 percent tariff on nations such as Japan and South Korea, both currently in trade negotiations with the US; 30 percent on the European Union, Mexico and South Africa; 35 percent on Canada; 40 percent on Laos and Myanmar and a steep 50 percent rate on Brazil.

In a broader escalation, the administration also threatened an additional 10 percent tariff on Brics nations should they pursue what it describes as an “anti-American” policy stance.

For many small, developing, export-orientated countries, the loss of access to US markets represents a major economic

shock.

Adding to the pressure, a 50 percent tariff was announced on copper – a critical material used in everything from wiring and plumbing to clean energy and AI infrastructure.

Other sectors under consideration for new imposts include pharmaceuticals, semiconductors and lumber, potentially broadening the impact across global supply chains.

Unlike the April announcement, which triggered a stock market sell-off, last week's developments barely ruffled investor sentiment.

Wall Street remains at record highs, and Nvidia reached a \$4 trillion market cap milestone – suggesting markets view the threats as negotiating theatrics, summed up by the acronym Taco: Trump Always Chickens Out.

But this calm may prove premature. Markets could be underestimating the risk that rhetoric hardens into policy.

US protectionism, aimed at shielding domestic industries under the guise of national security, has proven disruptive. It has fractured supply chains, distorted trade and investment flows and injected global economic uncertainty, affecting far more than direct trade partners.

Policy volatility has surged to levels not seen since the pandemic, heightening uncertainty over monetary policy, debt and interest rates, given tariffs' impact on inflation and growth. Tariffs act as a tax on imports, raising prices for both intermediate goods and consumer products.

The Fed is left with a dilemma: keep policy tight to fight inflation and risk stifling weak growth, or accommodate price shocks and face Trump's attacks on the Fed chair for not cutting rates.

GCC nations were initially hit with a blanket 10 percent US

tariff, with sectors like aluminium and steel facing duties of up to 25 percent. The latest list now imposes a 30 percent rate on Algeria, Iraq and Libya, and 25 percent on Tunisia.

A major focus is the transshipment of goods from China, an issue raised in the US-Vietnam trade agreement, which introduces a 20 percent general tariff and a 40 percent rate on transshipped goods. Yet the definition of "transshipment" remains vague: does it mean rerouting and repackaging, or include Chinese inputs?

For Gulf countries like the UAE, Saudi Arabia and Qatar, global logistics and re-export hubs, with deep trade ties to China and extensive special economic zones, the implications are serious. These states could face further tariff pressure unless they increase local value addition to ensure goods meet domestic origin criteria.

The UAE's agreements with China to develop EV and solar glass manufacturing facilities mark strategically important steps toward localisation. This shift is increasingly essential, particularly as rules of origin pose major hurdles in trade talks, as seen in the ongoing US-India negotiations.

In contrast to US protectionism, the UAE has pursued a radically different path. By negotiating around 27 comprehensive economic partnership agreements (Cepas), it has positioned itself as a global model of trade and investment liberalisation.

These Cepas go well beyond traditional free trade deals, covering goods, services, digital trade and investment. They also address non-tariff barriers and standards, creating a seamless framework for global commerce.

Such deep trade agreements also drive investment and innovation. The UAE is a case in point: its non-oil foreign trade surged 19 percent year-on-year in Q1 to AED835 billion, far outpacing the global average of just 2-3 percent.

At this pace, the UAE is set to reach its AED4 trillion trade goal within two years – ahead of its 2031 target.

It has also emerged as a major FDI destination. Inbound investment rose 49 percent to \$46 billion in 2024, ranking second globally for greenfield projects, behind only the US.

Beyond trade and investment, the UAE is attracting entrepreneurs, skilled professionals, including tech talent, and high-net-worth individuals, a testament to a stable, business-friendly ecosystem.

Trade remains a critical engine of economic growth. Cepas support not just liberalisation, but also economic diversification and modern industrial strategy.

For the GCC, these deals are forging resilient new corridors linking the Gulf with fast-growing Asian markets and the demographic powerhouse of Africa.

Combined with the region's rapid tech adoption, from AI to green data centres and clean energy exports, Cepas can place the GCC on a more sustainable growth path.

In a world where political and economic fragmentation threatens prosperity, the UAE offers a compelling countermodel: strategic openness remains the most viable path to a resilient, high-growth economy.

*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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# Radio interview with Dubai Eye's Business Breakfast on UAE's Ministry of Foreign Trade & Economic Outlook, 23 Jun 2025

Dr. Nasser Saidi spoke with Dubai Eye's Business Breakfast team on 23rd June 2025 about the UAE adding a Ministry of Foreign Trade, if there would be any competition with Saudi Arabia for tourism & also the outlook for economic growth in the UAE.

Listen to the full radio interview at the link below (from 5:48 to 12:26):

## *Transcript below:*

*Dr. Saidi, good morning.*

*Good morning to you.*

*Dr. Saidi, a quick word first of all on the evolving situation in the region. I don't want to get drawn on political or security speculation, but a quick word on the economics, if you will.*

*You mentioned the energy sector, and oil prices have risen a little bit. What's surprising actually is that they haven't risen any more. So the anticipation and expectation in the markets is that most of it is already done and we can*

*continue.*

*So probably the impact will be less tourism for a few weeks, but it will come back to normal. That's what the markets seem to be saying.*

*Dr. Saidi, thank you very much indeed for that. Now, the reason we've asked you to come on was to talk about some significant changes here in the UAE announced over the past 72 hours or so. We have a new ministry here in the UAE, a Ministry of Trade for the first time.*

*"Not a new minister though, Dr. Thani El-Zayoudi has been heading up trade for the UAE for some time now. First of all, your reaction to the new Ministry of Trade.*

*I think the important thing is that it's a strategic signalling and positioning. At a time where the rest of the world is talking about greater protectionism, tariffs, tromponomics and the rest, the UAE is saying, I'm creating this trade ministry, foreign trade ministry, and I want to open up to the rest of the world. So the strategic positioning is extremely important from that point of view.*

*The other thing that's important is that we need to remember that trade policy is a major tool of economic diversification.*

*In terms of the work that Dr. Al-Zayidi has done already with the SEPA trade deals, now we get quite excited about them in the Business Breakfast Studio and we see the impact that things like the SEPA deal with India, for example, have had over the past three years. But what's your objective assessment as an economist?*

*"The first point to note is that the UAE is now the most diversified economy in the GCC. Seventy-five percent of output is now non-trade. And if you look at India in particular, this was one of our biggest trade partners apart from China.*

*And opening up, and what Dr. Zayidi has done, is that you're opening up not only to your existing trade partners, but you're lowering barriers across the board. So amazing achievements over a short space of time. 24 SIPAs, you're going to reach easily 1.1 trillion dollars worth of trade way before 2031.*

*So I think very much to the credit of the Minister.*

*The other change that we've had, not quite as significant, is the Ministry of Economy. Now that's an existing ministry. It is now the Ministry of Economy and also Tourism.*

*Why the need to do that, do you think?*

*Well, because tourism, because first, services have become much more important for the UAE. Tourism, trade, commerce, all the rest, wholesale and retail trade are a major fraction of the economy. So focusing on tourism is also saying, I'm going to become a global hub for tourism.*

*"And UAE is well on its way. And importantly, I think transport and logistics, your airports, ports and facilities really make it much easier. It's one of the easiest places to get into.*

*We do have, of course, emerging competition here in the UAE as a tourism hub for the Gulf region and that is in Saudi Arabia. Embryonic stages yet, but their ambitions are significant. How seriously should the UAE take Saudi Arabia as a tourism competitor?*

*I think they're largely complimentary. UAE is way ahead in terms of being integrated into global tourism. Saudi has obvious strengths in terms of religious tourism, environmental tourism, et cetera.*

*But I think they will complement each other. What Saudi and the UAE have done over the past few years is grow their soft*

power. Look at their hosting of international events, World Cups, et cetera, exhibitions and all the rest.”

“And what you have is greater integration of transport services, air, road and rail. That will mean that you’ll open up the whole market of the GCC. So I’m very positive in terms of the complementarity of the two.

And why not? If there is competition, so be it. It will mean lower prices and more attractive to tourists from across the world.

We just had a message in. Someone’s correcting me, Dr. Saeedi. Aruba has written in saying, it’s not the first time there’s been a Ministry of Foreign Trade in the UAE.

Aruba’s memory is strong. Back in 2010, she said, Her Excellency Lubna Al Qasimi was Minister of Foreign Trade.

Yes, that’s true. That’s true.

Thank you, Aruba, for pointing that one out. That is a good memory. Finally, Dr. Saeedi, it’s almost time for the half-time report for the UAE economy in 2025, June the 23rd, almost at the end of the first half.

Most of the reports we’re reading, World Bank, IMF, points to 4 or 5% growth for the UAE economy this year. What’s your reading?

“I think the readings will be correct. We’ll have a slowdown probably in the second quarter. It’ll pick up rapidly in the third and fourth quarter.

I’m pointing to the fact that digital economy is rapidly growing, clean energy, clean technology are rapidly growing. So all the tech sectors are really going to be a major factor of growth. Take fintech, for example.

We’ve become a global hub of fintech. So all of that, and I

*really want to focus on the tech sector because I think it's really going to be an engine of growth and job creation, but more important, attracting foreign direct investment and people to come and live here. Look at the influx of people coming in for the golden visas, professional visas and all the rest.*

*So forget the traditional sectors, focus on the tech sectors because I think that's where we're going, e-commerce, digital trade and the like.*

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## **Comments on the UAE-EU CEPA negotiations in The National, 11 Apr 2025**

Dr. Nasser Saidi's comments on the UAE starting negotiations for a CEPA with the EU appeared in an article in The National titled "[UAE-EU trade deal to boost FDI to Emirates amid rising global uncertainties, economists say](#)" published on 11th April 2025.

The comments are posted below.

*The announcement of EU-UAE trade talks is "timely", as there is greater global fragmentation and decoupling with China, in general, said Nasser Saidi, a former economy minister in Lebanon and vice governor of its central bank.*

*"It is in the economic and financial interest of the UAE and the GCC to expand and deepen relations with the EU, given the latter's growing trade and investment confrontation with the*

US," he said. "As the US imposes tariffs on the EU, the bloc has to diversify and divert to other markets.

"For the UAE, this provides a perfect opportunity to further open up and strengthen its trade and investment linkages with the EU."

The bottom line is that a policy of continued openness and liberalisation by the UAE will be beneficial at a time when other countries are moving towards more trade barriers and increased protectionism, Mr Saidi added.

Top exports from the UAE to the EU include fuels and precious metals, as well as aluminium and plastics – providing inputs for Europe's industry and manufacturing, Mr Saidi said.

The top imports from the EU to the UAE are machinery, mechanical appliances and electrical equipment, "both essential to facilitate the UAE's ambition to emerge as a leading manufacturing and industrial hub", he said.

Beyond the remit of trade in goods, the CEPA with the UAE will allow EU countries to increase trade in services, including tourism, with collaboration in key areas such as artificial intelligence, renewable energy, climate technology and climate finance, as well as financial services and capital markets, he added.

"Existing EU-Middle East air travel routes could be strengthened further with a fully deregulated open skies policy in a bid to increase both passenger and cargo movements," he estimated.

At a time of rising economic uncertainty relating to trade, Mr Saidi suggested the UAE and EU could also explore options to sign swap agreements between the European Central Bank and the UAE Central Bank, strengthen payment networks and complete trade transactions in euros and/or using digital currency.

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# Interview with Al Arabiya (Arabic) on GCC's potential to become "Middle Powers", 9 Jun 2024

In this interview with Al Arabiya aired on 9th June 2024, Dr. Nasser Saidi discusses his view that at a time of global fragmentation, decoupling from China and a New Cold War, the GCC countries can emerge as Middle Powers.

Watch the TV interview via this [link](#).

## السعيدي للعربية: دولة الخليج لديها فرصة كبيرة لتكون "قوة وسطى"

### قال إن إدارة ترامب بدأت حربا تجارية باردة في 2017

قال رئيس شركة ناصر السعيدي وشركاه، الدكتور ناصر السعيدي، إن دولة الخليج لديها فرصة لتظهر كقوة وسطى بين أميركا وحلفائها من جهة والصين من جهة أخرى.

وتشهد التجارة العالمية حربا مستعرة بين كلا الجانبين. وزادت الإجراءات الحمائية عالميا بأكثر من 3 أضعاف منذ عام 2019 حتى

2023، مما أدى إلى انخفاض نمو التجارة العالمية

وقد أثرت الحمائية والسياسات الاقتصادية سلباً أيضاً على تدفقات رأس المال والاستثمار الأجنبي المباشر، ولم يعد نموه يتماشى مع النمو في التجارة والنتائج المحلي الإجمالي.

منذ تولي "Business" وأضاف السعيدي في مقابلة مع قناة "العربية" ترامب رئاسة أميركا، بدأت الإدارة الأميركية حرباً تجارية باردة في 2017".

وأكد السعيدي أن الصين أهم مستثمر مباشر في المنطقة

ولفت إلى أن الاستثمارات المباشرة في المنطقة تخطت 250 مليار دولار في 2023.

يذكر أن نمو الاستثمار الأجنبي المباشر عالمياً استقر عند ما يقرب من الصفر منذ عام 2010، مقابل نمو التجارة بنسبة 4.2% والنتائج المحلي الإجمالي سنوياً بمتوسط 3.4%.

أن الاستثمار "FDI intelligence" وتظهر البيانات الصادرة عن الأجنبي المباشر في المشاريع الجديدة، أو ما يعرف بالـ "greenfield" في منطقة الشرق الأوسط وإفريقيا، مقاساً بعدد المشاريع، نما بنسبة 19% على أساس سنوي. بينما انخفض الاستثمار الرأسمالي بنسبة 6% إلى 249.8 مليار دولار أميركي في عام 2023 بسبب الارتفاع الحاد في مشاريع الهيدروجين الأخضر في عام 2022.

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**"The GCC will benefit from a US-China chill", Op-ed in Arabian Gulf Business Insight**

# **(AGBI), 4 Jun 2024**

The opinion piece titled "[The GCC will benefit from a US-China chill](#)" was published in the Arabian Gulf Business Insight (AGBI) on 4th Jun 2024.

A slightly longer version of the article is posted below.

## **The GCC will benefit from a US-China chill**

**The Gulf's expanding strategic links with Asia mean higher growth at home**

The US-China tech and trade war has ramped up with President Biden imposing new tariffs on Chinese goods and quadrupling of tariffs on EVs from 25% to a staggering 100 percent! The economic war will intensify in this US election year. Spillover into Europe and Chinese retaliation mean greater global trade and investment fragmentation and dislocation. Trade restrictions have surged, tripling since 2019 to more than three thousand last year, depressing trade growth. Growing protectionism and economic policies increasingly dominated by national security considerations are also negatively affecting capital flows and FDI. The growth of FDI is no longer aligned with growth in trade and GDP. FDI growth has stagnated to near zero since 2010, versus trade and GDP growing annually by an average 4.2% and 3.4% respectively. [\[1\]](#)

In sharp contrast to the gloomy global landscape, President Sheikh Mohamed Bin Zayed is visiting Korea and China to deepen

economic, tech, trade, and strategic ties. The growing strategic links of the GCC with Asia & China reinforce three external sector growth drivers acting in conjunction with domestic growth drivers: foreign direct investment (FDI), trade policy reforms and liberalisation, and attraction of human capital. These support non-oil diversification and growth including tech, digital economy & innovation, green economy, and services.

Data from fDi Intelligence shows that greenfield FDI in the Middle East & Africa region, measured by number of projects, bucked the global trend, and grew by 19% yoy to 2658 in 2023 (roughly 16% of global FDI projects). While capital investment fell by 6% to USD 249.8bn in 2023 (due to the spike in green hydrogen projects in 2022), the number of projects and investment were up by 46% and 111% respectively compared to pre-pandemic 2019. Two major takeaways from the data are the growing investments into the Middle East & Africa region from China and the increasing focus on investments into clean energy and renewables.

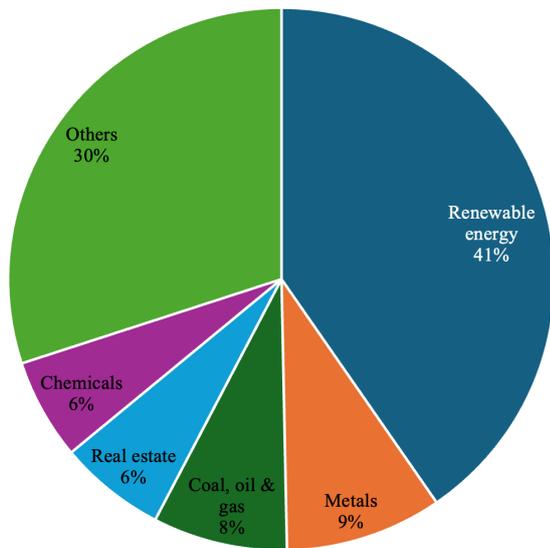
As the US & EU's economic war with China widens, the GCC and its Middle East hinterland is becoming an increasingly strategic partner for China. Not only have state-owned investors in the GCC invested more than USD 2.3 billion into China in 2023 (versus USD 100 million in 2022), but **recent official trips to China by both Saudi Arabia and the UAE herald further deepening existing economic ties.**

**China was the top source of FDI from outside the region:** at USD 42.1 billion, the country's share was around 16% of total inflows. The pattern is also changing: Saudi Arabia was the largest recipient of Chinese FDI in 2023 (USD 16.8 billion), with a 10% share of the country's total outbound capital investment. FDI into Saudi Arabia surged by 111% yoy to USD 28.8 billion; one-fifth going to the EV sector. Such investments not only support asset prices in both regions, but also facilitate adoption of innovative technologies and

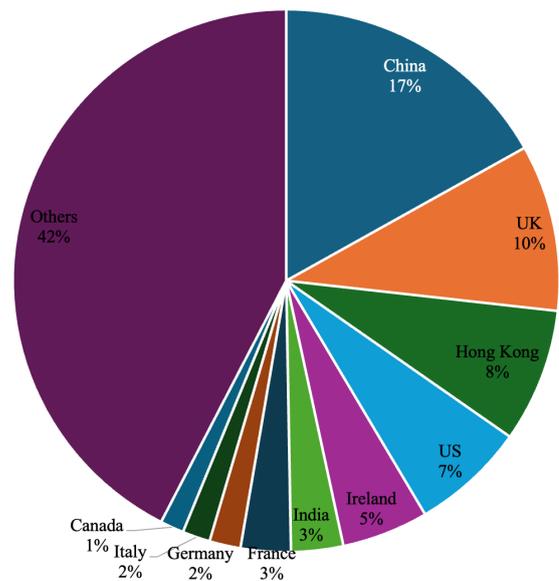
knowledge transfer into the non-oil sectors.

**Investments into renewable energy** accounted for just over 40% of total FDI capital investment in the region. China-based Human Horizons EV research, development, manufacturing, and sales joint venture facility in Saudi Arabia is one of the examples, a USD 5.6 billion deal aimed at boosting EV production in the region.

Renewable energy sector attracted the most FDI in the Middle East & Africa region in 2023; top 5 sectors share stood at 70%



The top 10 sources of FDI from outside the Middle East & Africa region accounted for 57.6% of the inflow in 2023



Source: The fDi Report 2024, fDi Intelligence, May 2024. Charts by Nasser Saidi & Associates.

Not only has the region been attracting investments, but more interestingly, firms from the region are growing their global FDI footprint in line with its “Middle Powers” status. UAE’s Dubai World was among the top ten foreign investors in 2023 by project, while Mubadala Investment Group was the top-ranked foreign investor in 2023 by capex and Saudi Aramco was fourth in this list.

Ranging from investments into infrastructure projects (e.g., BRI projects, Etihad Rail in the UAE) and energy transition (e.g., in UAE’s power plants, EVs factories in Saudi Arabia) to Asian investment and asset managers/ family offices setting up operations in the region’s financial centres, economic and financial ties are deepening and widening. In the near-term,

cooperation could range from industrial policy partnerships (given institutional and governance similarities in the role of SEZs and SOEs) to linking Saudi & UAE financial markets to Shanghai and Hong Kong, facilitating financial flows. The latter can fund the expansion of partnership in BRI projects, energy, clean tech, and climate tech (given China's global dominance in green tech), sustainable funding for long-term projects and PPPs. From a medium to longer-term perspective, linkages could involve the adoption of the yuan for trade (the PetroYuan can be used both for energy and non-oil trade, payments and settlement), in addition the extension of the Cross-Border Interbank Payment System (CIPS, an alternative to SWIFT) and arranging central bank digital currency transfers (facilitating cross-border flows). Considering the ambitions of the GCC and China, the setup of a GCC space port, exploration of space including commercial space travel would be another major potential avenue for cooperation.

**GCC will benefit from global fragmentation and China disconnect and decoupling. GCC's investment deals with China (and more broadly Asia), especially inward FDI, will support a higher growth path in the region (including in the non-oil sector) supported by trade liberalisation.**

[\[1\]](#) UNCTAD research.

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**“Grey list removal is milestone for investor**

# **confidence”, Op-ed in Arabian Gulf Business Insight (AGBI), 1 Mar 2024**

The opinion piece titled “[Grey list removal is milestone for investor confidence](#)” appeared in the Arabian Gulf Business Insight (AGBI) on 1st March 2024.

The article is published below.

## **Grey list removal is milestone for investor confidence**

**Coming off the FATF list is testament to UAE’s willingness to improve overall governance**

A collective sigh of relief could be heard this week over the UAE’s removal from the Financial Action Task Force “grey list”.

Being on a grey list can damage a country’s reputation, and its sovereign credit rating, and adversely affect macroeconomic stability.

The FATF provides a framework of country measures to protect the integrity of global financial systems from illicit cash flows, money laundering and terrorist financing.

The grey list includes countries “that are actively working with the FATF to address strategic deficiencies in their regimes”, whereas the “black list” are high-risk jurisdictions (currently including North Korea, Iran and Myanmar) “that are not actively engaging with FATF to address these deficiencies”.

The International Monetary Fund finds that FATF grey-listing results in a large reduction in reported capital inflows, including foreign direct investment (FDI), portfolio flows, banking, payments and other flows.

Despite being on the list since 2022, the UAE has been resilient, has worked actively with FATF and continued attracting FDI and capital inflows.

The United Nations Conference on Trade and Development reports that the UAE (despite its much smaller economic size) ranked second after the US for greenfield FDI – in which a company creates a subsidiary in a different country from the ground up – in 2023, with project announcements rising by 28 percent.

In 2022, the UAE was ranked first in both the West Asia and Mena regions, receiving 47 percent and 32 percent respectively of total FDI inflows to the regions.

Both Abu Dhabi Exchange and Dubai Financial Market reported higher net foreign inflows in 2022-23, thanks to economic growth, a rising weighting in the MSCI Emerging Markets Index, and more initial public offering listings.

Dewa, Borouge, Salik and Empower are IPOs that gained high levels of foreign participation in 2022. In 2023, the UAE’s eight IPOs raised \$6 billion. On the Abu Dhabi Exchange there was a 35 percent jump last year in the foreign ownership of shares in listed companies.

The UAE’s removal from the grey list is testament to the country’s willingness to improve the overall governance and

transparency of its banking/financial sector and address weaknesses.

The removal also shows the country has increased its ability to deter illicit money flows, undertake financial investigations and extradite financial criminals.

The return to conventional status will confirm and strengthen investors' trust and confidence in the UAE as a trade and financial centre, leading to an increase in capital, FDI, transfer of technology and portfolio flows.

The removal will support the development and expansion of the banking and financial sector (domestically and internationally) and financial markets, as well as the outward facing financial free zones. Another major beneficiary will be the asset and wealth management activities of UAE-based family offices.

The FATF de-listing reinforces the positive news for the UAE from the Organisation for Economic Co-operation and Development's review of preferential tax regimes. This rated the UAE's corporate tax regime for free zones and IFCs as "not harmful".

It is important that the UAE continues on its journey in adopting and implementing international best practice and standards, and strengthens its financial regulatory regimes and systems.

However, an unintended consequence of FATF standards is an increase in compliance costs.

The costs of doing business for banks and financial service providers is often heightened by de-risking. The cost of providing formal financial services to micro- and small businesses, which are a major source of job creation and economic diversification, often rises.

Safeguards against money laundering and terrorist financing need to be designed and implemented to avoid negatively affecting financial inclusion and disincentivising the use of the formal financial system by ordinary individuals, businesses and micro- and small businesses in particular.

Simplified customer due diligence requirements can be introduced for low-risk financial inclusion products; processes for higher risk products can be enhanced using a risk-based approach to address concerns over money laundering and terrorist financing.

Similarly, digital ID systems can be used to support anti-fraud functions and to develop e-solutions that circumvent burdensome paper-based systems.

The UAE's removal from the grey list is an important milestone and signals the growing integrity and maturity of the country's banking and financial sector through the adoption of international standards.

This positive move further cements the UAE's position as an international trading and financial hub.

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## **“A Mercantile Middle East”, article in the IMF's Finance & Development magazine, 1 Sep 2023**

*The GCC must take leadership at a time of global fragmentation and successfully lead the MENA region into becoming an inter-*

*linked trade and investment hub. This, while unfolding the GCC strategy of pursuing globalization as a regional group through new trade and investment agreements, foreign aid, and direct and portfolio investment. We envisage two complementary ways to move forward, away from political differences & correcting failures of past implementation: one, implement the GCC Common Market & two, GCC should develop new deep trade agreements – both much more extensive in scope than just trade & investment.*

*Our article titled “[A Mercantile Middle East](#)” was published in the IMF’s Finance and Development’s Sep 2023 issue.*

# A Mercantile Middle East

*By Nasser Saidi and Aathira Prasad*

The world has witnessed a tectonic shift in global economic geography and trade toward emerging Asia in the past two decades. However, the Middle East and North Africa (MENA) region has remained one of the least dominant, accounting for just 7.4 percent of total trade in 2022. The region’s trade is characterized by a relatively high concentration of exports in a narrow range of products or trading partners, limited economic complexity, and low participation in global value chains.

Even so, commodity-dependent nations in the MENA region have made substantial gains over time, specifically in trade diversification, as shown by the [Global Economic Diversification Index](#), which tracks the extent of economic diversification from multiple dimensions, including economic

activity, international trade, and government revenues.

The MENA region's total trade in goods as a percent of GDP (an indicator of openness) was 65.5 percent in 2021, indicating a relatively open regional economy. Yet, as shown in Chart 1, intraregional trade is low, representing only 17.8 percent of total trade and 18.5 percent of total exports, despite a common language and culture as well as geographic proximity. The six oil-exporting Gulf Cooperation Council (GCC) nations—Saudi Arabia, Bahrain, Oman, Qatar, Kuwait, and the United Arab Emirates—account for the bulk of intraregional trade.



Their dominance of intraregional trade suggests that the Gulf nations could become a catalyst for regional trade integration, helping lower barriers to trade, improving trade infrastructure, and diversifying the region's economies. Greater integration of non-GCC Middle East nations with the GCC will lead to more intraregional trade and greater global integration (via the GCC's existing global linkages and participation in global value chains). With the growing global economic integration of the GCC nations and their concerted effort in supporting the region's other nations (via increased trade and investment deals with Egypt and Iraq, for example), they can be a conduit for greater integration of the rest of the region into world trade.

## **Region's Laggards**

Why have non-GCC countries lagged when it comes to intraregional trade? In part it is a failure of the MENA region's multiple regional trade (and investment) agreements. The share of intragroup exports in the Arab region, excluding the GCC, has remained below 2 percent of their trade flows, partially a reflection of regional fragmentation, violence, and wars since the mid-1990s and following the Arab Spring in

2011. The region comprises a group of nations characterized by significant political differences, and this is reflected in trade patterns as well. For example, the orientation of the Maghreb nations of North Africa has been toward Europe, with the regional Euro-Med program and agreements supporting such linkages.

A contributing factor to the stagnation of intraregional trade is the lack of growth of trade in services. MENA services trade has ranged between 4 and 6 percent of global services trade in the past two decades. This pales in comparison with the Organisation for Economic Co-operation and Development countries, which account for more than two-thirds of global services trade. Within the MENA region, the GCC accounts for the bulk of services trade, with the largest shares in relatively low-value-added sectors like travel (and tourism) and transportation. The services trade is held back by restrictive policies that limit entry in sectors dominated by state-owned enterprises, such as telecommunications, or that impose high fees and license requirements, especially in professional and transportation services.

Such restrictive policies, along with structural deficiencies, encumber MENA nations' trade both within the region and globally.

MENA nations apply more, and more restrictive, nontariff measures than in any other region. These almost doubled between 2000 and 2020. Lack of uniform standards and harmonization, pervasive red tape, and corruption compound the effects of these barriers. Business and investment barriers include cumbersome licensing processes, complex regulations, and opaque bidding and procurement procedures.

MENA as a region underperforms on trade facilitation measures to ease the movement of goods at the border and reduce overall trade costs, though there are wide disparities across the region. The quality of trade- and transportation-related

infrastructure is significantly lower in the non-GCC MENA nations. Furthermore, delays at the port result in excessive “dwell times” (delays of more than 12 days) for imported goods in some MENA countries. Algeria and Tunisia delays average about 20 days versus less than five days in the United Arab Emirates (among the top three globally).

## **Knocking down barriers**

Overcoming these impediments to wider trade for the region requires removing barriers to trade and investment, diversifying the region’s economies, and improving infrastructure.

A new generation of trade agreements, including more knowledge-intensive services, would not only support export diversification policies but would also help bridge gender gaps, improve women’s economic empowerment, and subsequently result in more inclusive economic growth and integration.

The pandemic has underscored the need for trade diversification (both of products and partners) and development of new supply chains. Although the GCC’s oil trade remains dominant, its members have embarked on various policies and structural reforms, such as increasing labor mobility and opening capital markets across borders, to diversify away from overdependence on fossil fuels and associated revenues. This has resulted in diversification of both the output mix (for example, increased focus on manufacturing) and the export product mix (for example, more services exports) alongside an evident shift in trade patterns toward Asia and away from the United States and Europe. More recently, the war in Ukraine further highlighted the plight of food-importing nations in the Middle East in the context of food security. (Ukraine and Russia accounted for a third of global wheat exports; Lebanon and Tunisia were importing close to 50 percent of their wheat from Ukraine.)

The Global Economic Diversification Index trade subindex shows that the commodity-dependent nations with the most improved scores over time have either reduced dependence on fuel exports, reduced export concentration, or witnessed a massive change in the composition of exports. An example of the latter is Saudi Arabia's increased focus on medium- and high-tech exports, which rose as a share of overall manufacturing exports, to almost 60 percent right before COVID from less than 20 percent in 2000. The MENA region as a whole has already made some headway toward diversification, as shown in Chart 2.



The GCC nations have benefited from the recent rise in commodity prices, but the pandemic reinforced strategies, including the development of free zones and special economic zones, to diversify into new sectors. These policies range from attracting investment (including foreign direct investment) to higher-value-added, higher-tech manufacturing; investing in new sectors (renewable energy, fintech, artificial intelligence); and opening markets to new investors and investments (as is evident in the recent spate of initial public offerings in both the oil and non-oil sectors). These reforms help expand markets (within the MENA region and toward Africa, Europe, and South Asia), while up-and-coming sectors like renewable energy and agritech offer sustainable ways of expanding the extensive and intensive margins of trade and generating new job opportunities.

## **Engine for regional integration**

Full achievement of the benefits of regional trade integration requires a reform of trade policies to break down barriers, including restrictive nontariff measures, complex regulation, corruption, and logistical roadblocks.

Integrating the MENA region's trade infrastructure (ports,

airports, logistics) with that of the GCC would lower costs and facilitate intraregional trade, leading to greater regional integration and generating gains from trade for all parties. The GCC can lead the economic integration and transformation of the region via investments in hard infrastructure and trade-related infrastructure and logistics, in addition to developing an integrated GCC power grid. A GCC renewable-energy-powered, integrated electricity grid could extend all the way to Europe, Pakistan, and India.

The GCC nations have an opportunity to benefit from global decoupling and fragmentation with their unfolding strategy of pursuing globalization as a regional group through new trade and investment agreements, foreign aid, and direct and portfolio investment. The ongoing disengagement from long-standing regional conflicts, in Israel, the West Bank and Gaza, Yemen, the Islamic Republic of Iran, Libya, and elsewhere, and the forging of new links (diplomatic opening such as the Abraham Accords) reduce the geopolitical risks of promoting regional trade and investment. The GCC can use this as an opportunity to shape the MENA region into an interlinked trade and investment hub. The GCC's accelerated new free trade negotiations with key partners in the MENA region, including Egypt and Jordan, and in Asia, including China and South Korea, could become the cornerstone of this transformation. The United Arab Emirates have already signed comprehensive economic partnership agreements with India, Indonesia, and Türkiye covering services, investment, and regulatory aspects of trade.

There are two complementary ways to move forward. One is to implement the GCC Common Market, invest in digital trade, lower tariff and nontariff barriers, and reduce restrictions on trade in services, along with reforms to facilitate greater mobility of labor and enhance financial and capital market linkages. Second, the GCC should develop new deep trade agreements with the other MENA countries, going beyond

international trade to encompass agreement on nontariff measures, direct investment, e-commerce and services, labor standards, taxation, competition, intellectual property rights, climate, the environment, and public procurement (including mega projects). The GCC nations, which have historically used foreign aid and humanitarian aid to support MENA nations, should opt for an “aid for trade” policy to support their partners in implementing trade-boosting reforms that lower business and investment barriers, improve logistics infrastructure, and facilitate the movement of goods.

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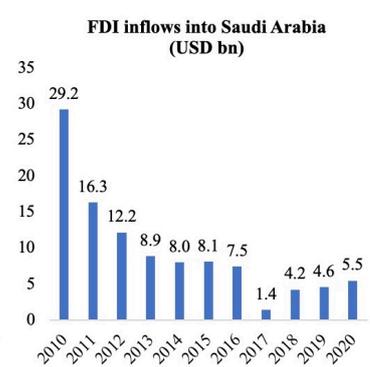
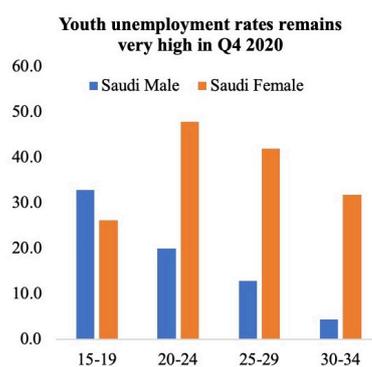
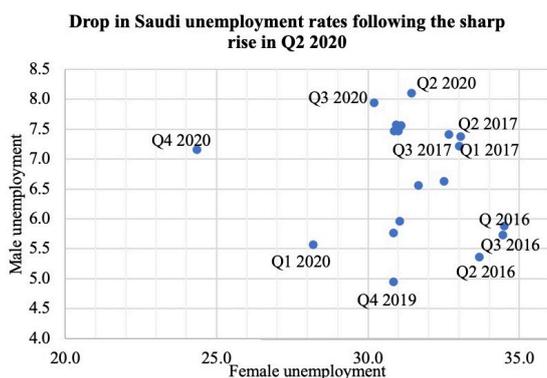
## **Weekly Insights 1 Apr 2021: Reforms ramping up as GCC nations plan recovery in a post-Covid world**

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

### **Chart 1. Saudi Arabia's Shareek investment package to jumpstart the economy**

- **The Shareek strategy (SAR 27trn stimulus over the coming decade) aims to** jumpstart and shift expenditure patterns post-Covid by emphasizing investment vs consumption spending (incl.govt current spending), while implementing diversification. As proposed, the plan should be **strongly supportive of non-oil growth, increase overall productivity growth and lead to job creation.**

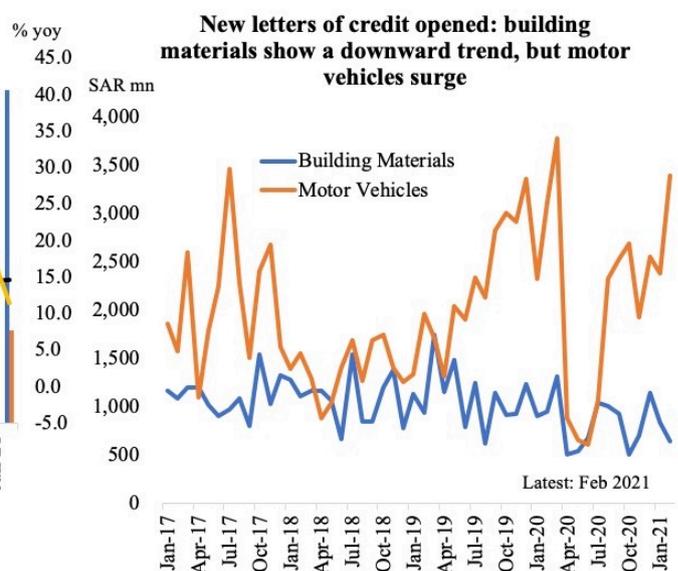
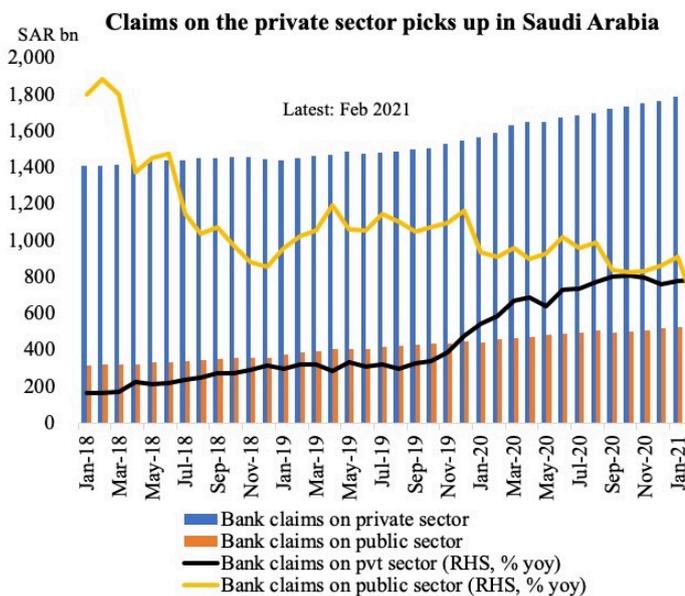
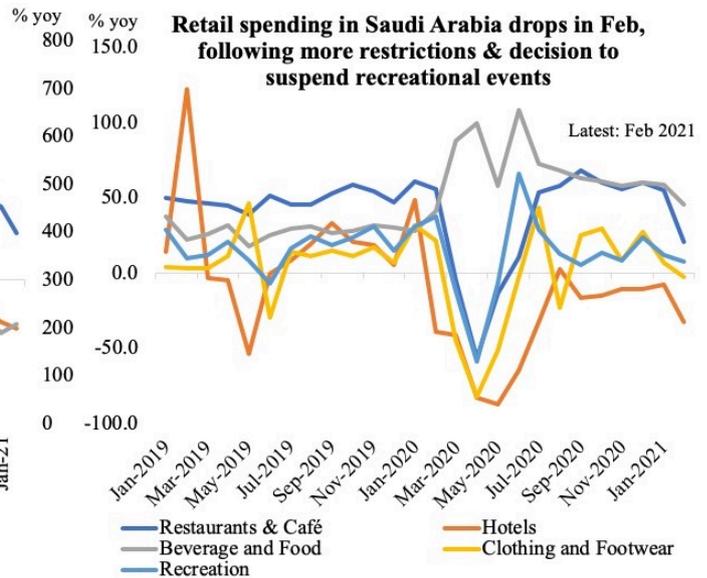
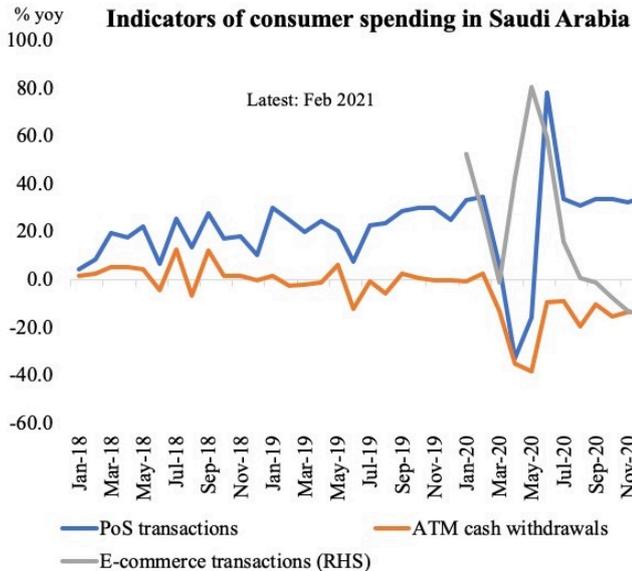
- **Jobs are one of the biggest concerns for the country: female unemployment** was running close to 50% for the 20-24 age group in Q3 & close to 20% for males in the same age group. It has come off highs earlier in 2020, but remains one of the highest in the region
- **FDI** has improved massively from the fall to USD 1.4bn (0.2% of GDP) in 2017; **according to the Saudi Central Bank's estimates, overall FDI reached USD 5.49bn in 2020** (+20% yoy, still below 1% of GDP).
- **Saudi Arabia has been aggressively courting foreign investors:** revamped over half of the 400 FDI regulations, introduced new laws (e.g. bankruptcy, PPP) and recently stated that presence of firms' regional HQs in Saudi would become a necessary condition to bid for government contracts.
- **FDI inflows would be directed away from oil & gas into more job creating & higher value-added sectors** (e.g. renewable energy and clean tech, 'clean' petrochemicals, desert agriculture & AgriTech, digital economy). Potentially, this revival of investment and a successful program **could attract back a fraction of Saudi private wealth held offshore** (estimated at 56% of GDP).



Source: GaStat, UNCTAD, Saudi Central Bank (2020 est for FDI). Charts created by Nasser Saidi & Associates

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**. Monetary indicators in Saudi Arabia: PoS & e-commerce transactions and claims on the private sector rise in Feb**

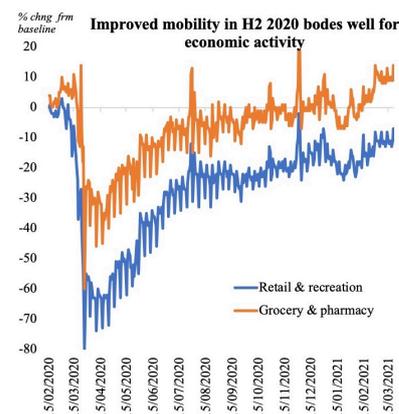
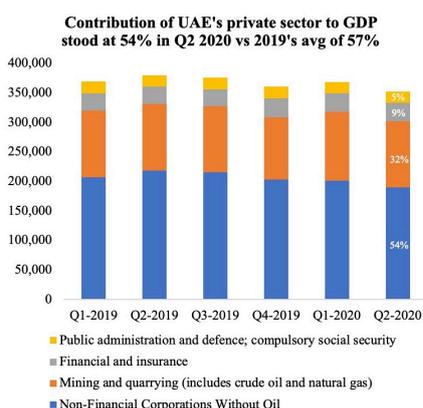
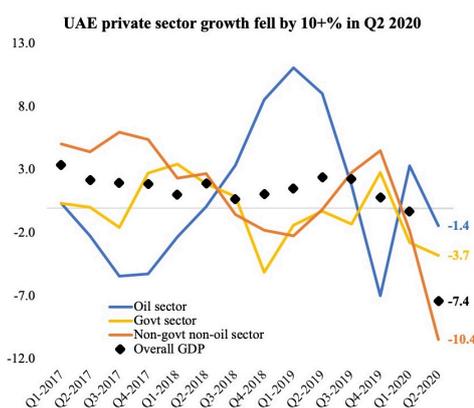


Source: Saudi Central Bank. Charts created by Nasser Saidi & Associates

### Chart 3. Overall GDP in UAE contracted by 7.4% yoy in Q2 2020; recovery expected in H2

- **New data: Non-oil GDP fell by 9.9% in Q2 2020**, following a 1.9% decline in the previous quarter. **Finance and insurance was the lone sub-sector to post growth in Q2.**
- Stringency was the highest and mobility lowest in Q2. **Mobility data** shows improved activity in H2 of 2020, which bodes well for GDP. **UAE's PMI**, which averaged 50.2 in H2 2020 (vs 47.1 in Q2 and 47.5 in H1), also **indicates a faster recovery in H2.** Faster vaccination rollout and the Expo later this year will result in increased consumer and business confidence.

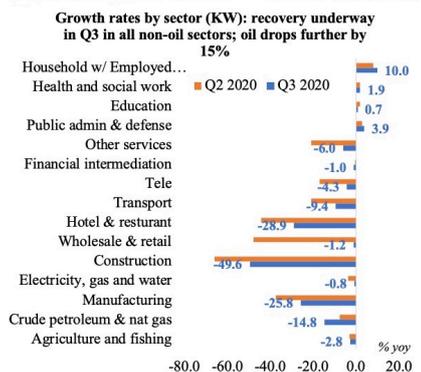
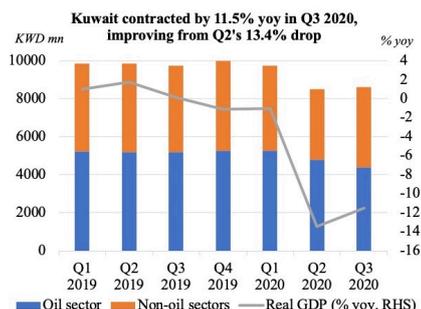
- With an aim to grow faster in the post-Covid world, the UAE has been proactively announcing reforms: with the latest industrial strategy ("Operation 300bn"), Dubai's 5-year plan to increase trade to AED 2trn and its 2040 urban development plan alongside various incentives to attract high-skilled professionals (10-year visas, remote working visas, path to citizenship etc.)



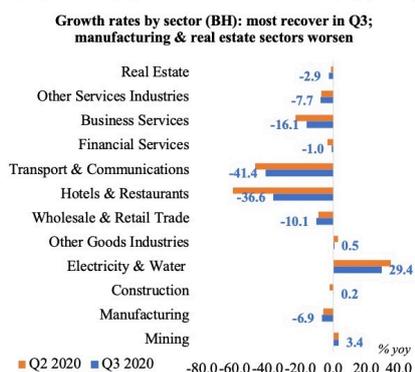
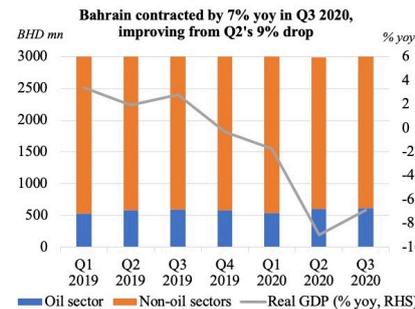
Source: UAE Federal Competitiveness & Statistics Authority, Google Mobility. Charts created by Nasser Saidi & Associates

Q3 GDP data from other GCC nations suggest better quarters ahead for the UAE – the least restrictive of all

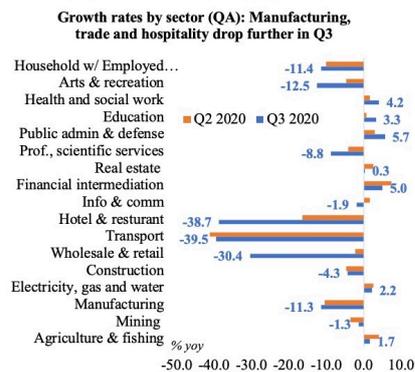
While overall % yoy GDP improved in Q3, some sectors (including oil, given OPEC+ cuts & others like trade, hospitality) contracted even more



Source: Central Statistical Bureau, Kuwait. Charts created by Nasser Saidi & Associates



Source: Information & eGovernment Authority, Bahrain. Charts created by Nasser Saidi & Associates



Source: Planning & Statistics Authority, Qatar. Charts created by Nasser Saidi & Associates

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# Weekly Insights 28 Jan 2021

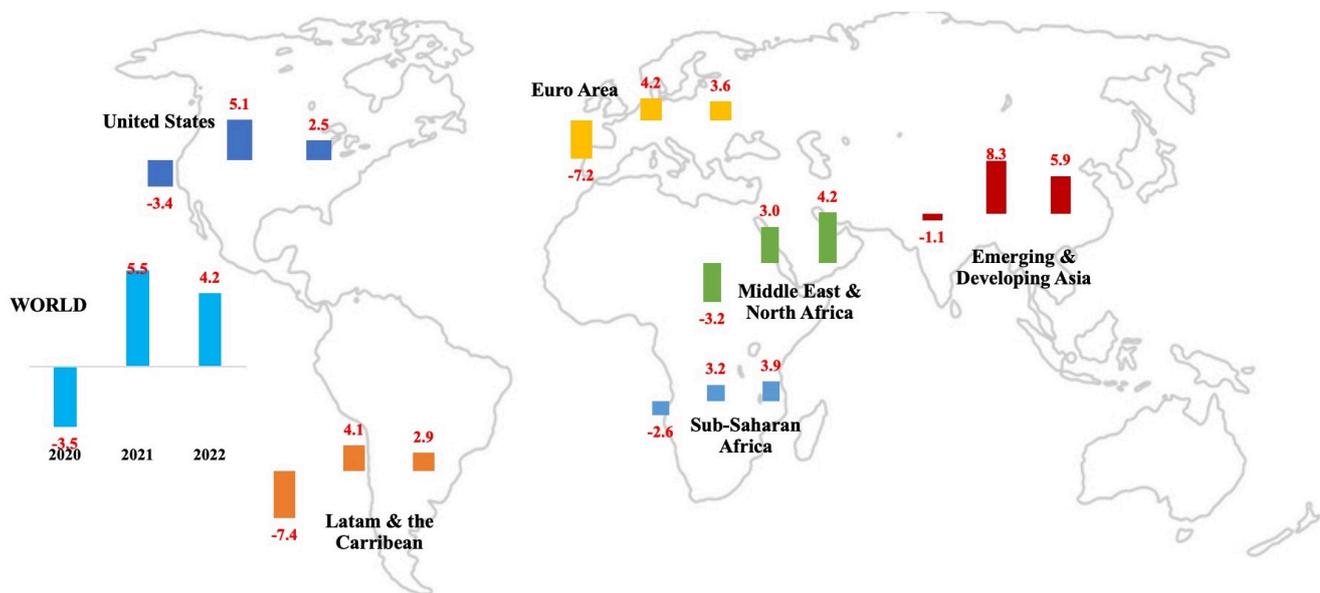
Download a PDF copy of this week's insight piece [here](#).

## **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).

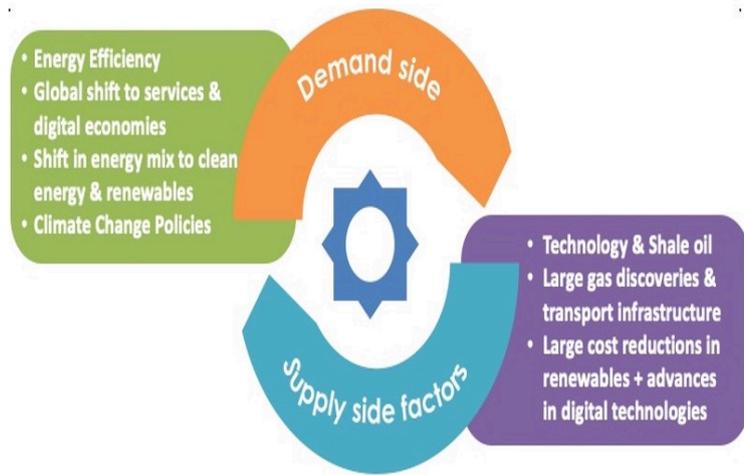
**Fig 1. Global economic growth set to recover by 5.5% this year**



**orld Economic Outlook, Jan 2021**

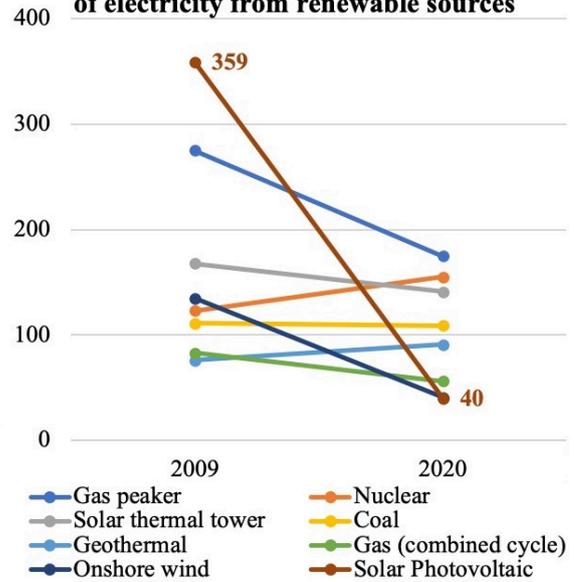
The **slowest pace of recovery among the regions is in the Middle East** (+3% growth this year), a result of the shocks from both Covid19 and lower oil prices. The average price of oil last year was USD 41.29 (simple average of Brent, Dubai Fateh and WTI) and this is estimated to rebound by 21.2% yoy 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**



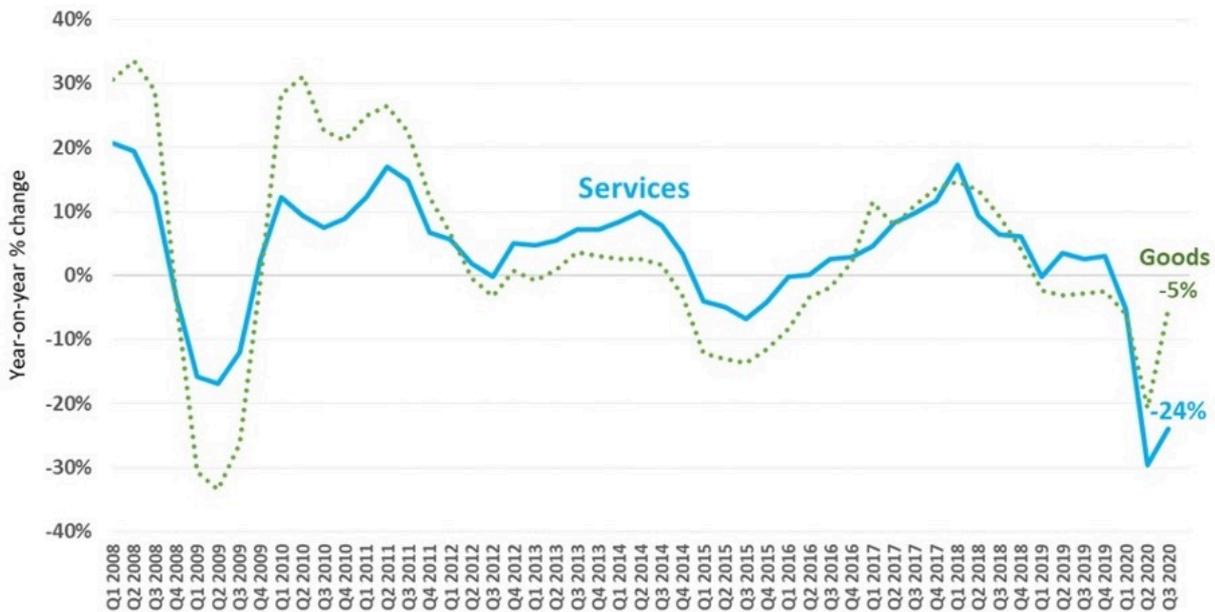
Source: Lazard Levelized Cost of Energy Analysis 2020; Chart created by Nasser Saidi & Associates

ower 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

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**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

de, 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 6<sup>th</sup> 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.

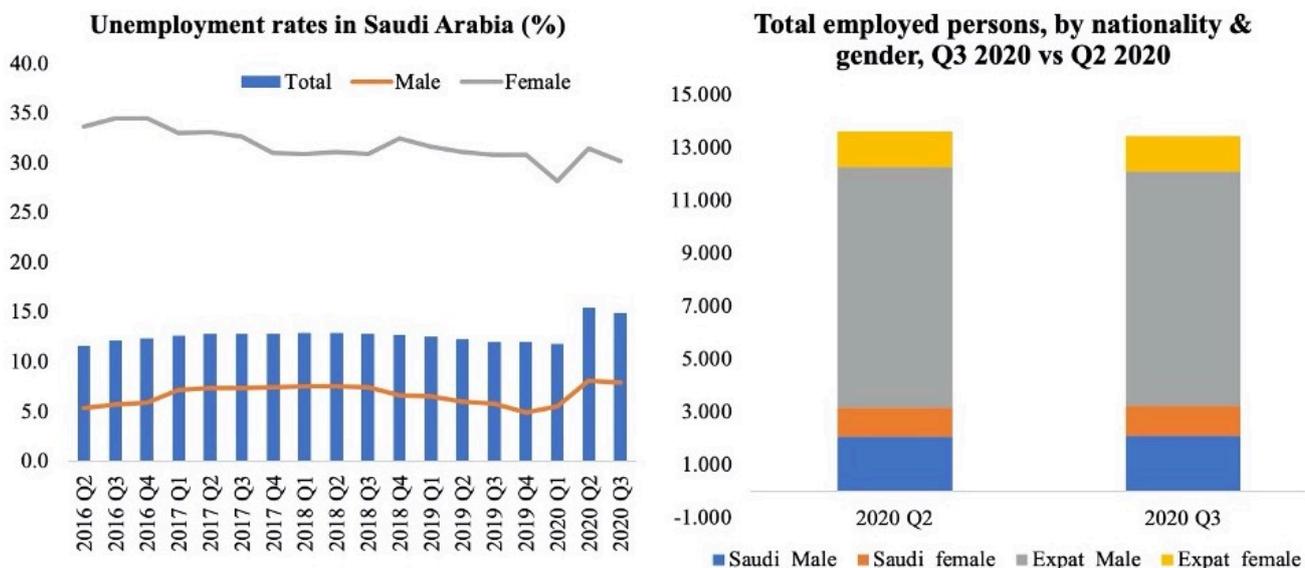
#### **4. Employment in Saudi Arabia**

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**

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

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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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# "Economic boost tipped after

# **UAE company ‘game-changer’", comments in Arab News, 26 Nov 2020**

Dr. Nasser Saidi’s comments appeared in the Arab News article titled “Economic boost tipped after UAE company ‘game-changer’” and can be accessed directly [here](#).

Comments are highlighted below.

*Economics expert Nasser Saidi said: “The liberalization of foreign ownership laws breaks down major barriers to the right of establishment. The reform is a game-changer.”*

*“It will encourage foreign direct investment, but also lead to a recapitalization of jointly owned companies and encourage entrepreneurs to invest in businesses and new ventures. Importantly, it will encourage the retention of savings in the UAE,” Saidi added.*

*“Along with the change in visa regulations, the new reforms will boost the UAE’s growth prospects,” Saidi said.*

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

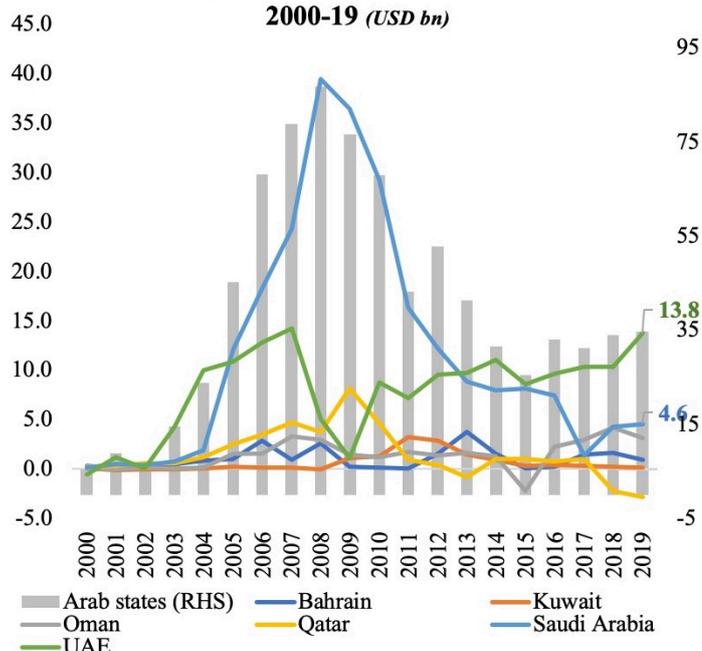
Download a PDF copy of this week’s insight piece [here](#).

## **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.

**FDI inflows into the Arab states & GCC  
2000-19 (USD bn)**



Source: UNCTAD, Nasser Saidi & Associates.

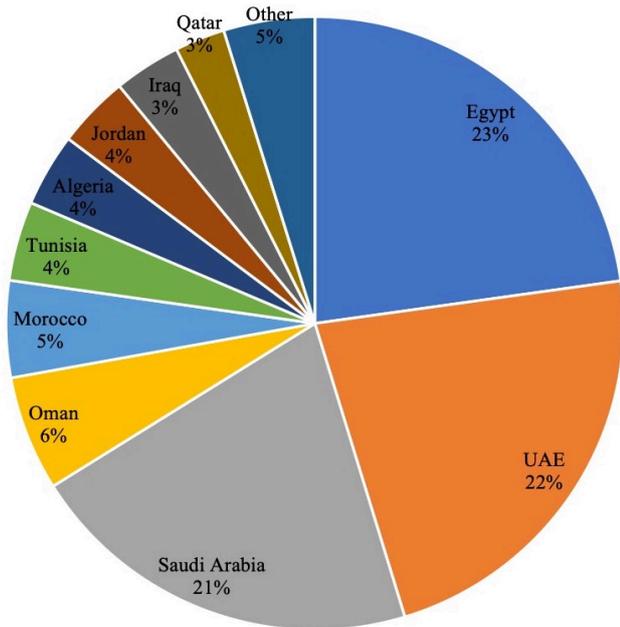
We focus on FDI in this Weekly Insight piece. FDI inflows are essential to the UAE's diversification efforts, as it would not only create jobs, raise productivity and growth, but could also lead to transfer of technology/ technical know-how and promote competition in the market. According to the IMF,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

as 1 percentage point.

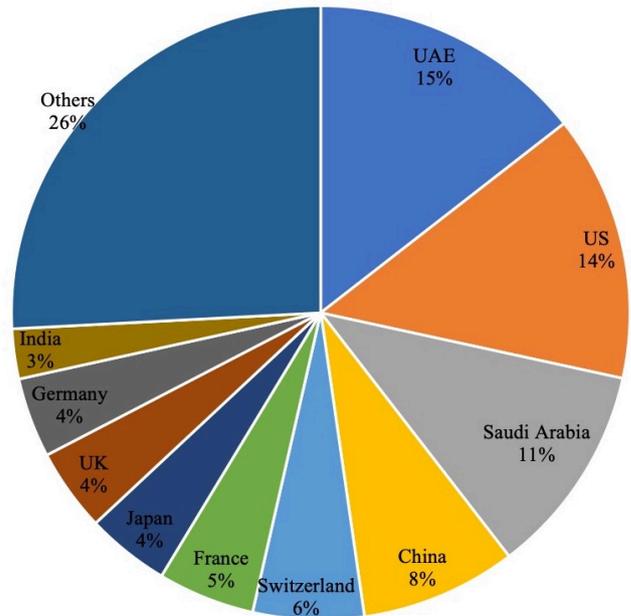
While FDI inflows into the Arab region have been slowing in the past decade, the UAE still remains one of the top FDI destinations in the region. Inflows dipped during the time of the financial crisis (to USD 1.1bn in 2009 from an all-time peak of USD 14.2bn in 2007), but rebounded to USD 13.8bn last 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.

**FDI into the Arab region, by capital investment, 2019**



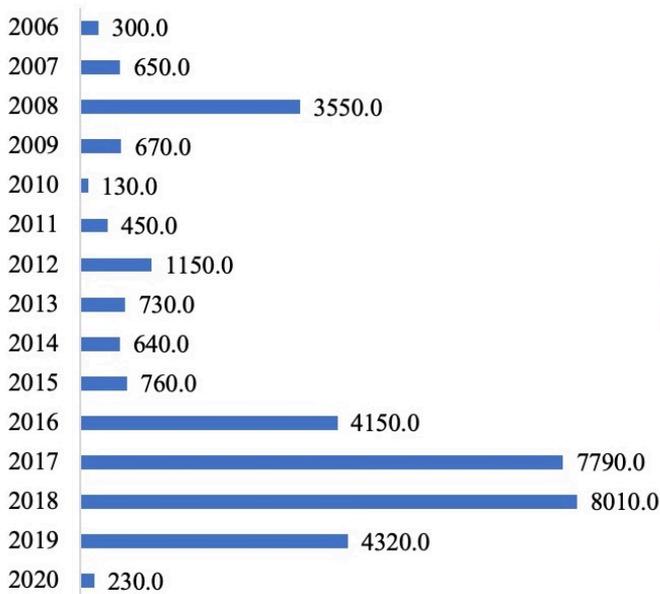
**Top investing source countries in the Arab region, by capital investment, 2019**



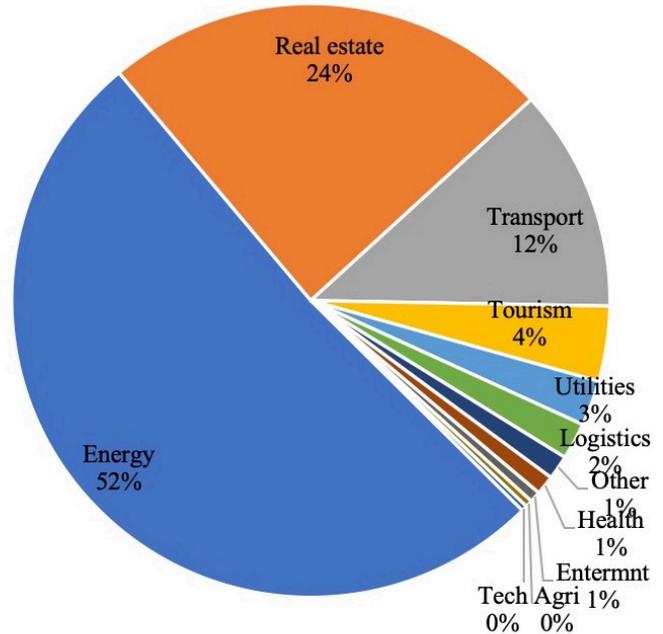
Source: *FDI Markets, Arab Investment & Export Credit Guarantee Corporation, Nasser Saidi & Associates.*

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)



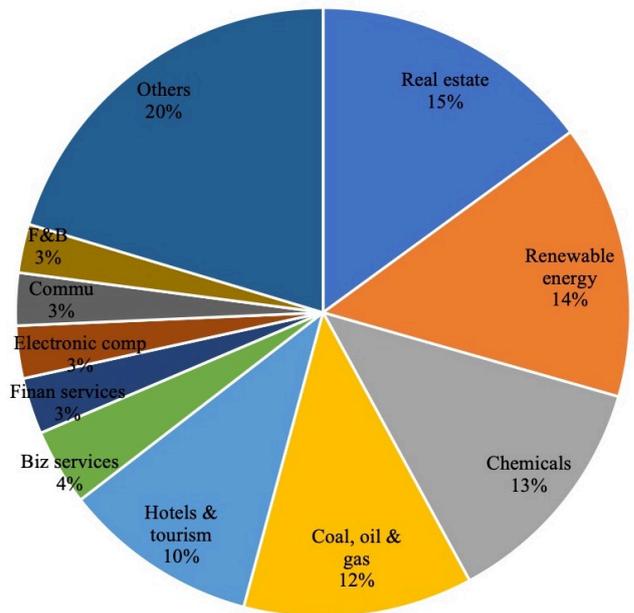
**Total Chinese investments in the UAE, by sector (2006-2020)**



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 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-

**Top sectors attracting FDI in the Arab region, by capital investment, 2019**



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*

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# **Weekly Insights 10 Aug 2020: Lebanon's way forward, PMIs & Mobility, Saudi monetary statistics, Arab FDI**

*The Beirut blast and its recovery/ reconstruction dominate news in the Middle East. Our take on the path for Lebanon's economic recovery is part of this Weekly Insight edition. Given the scheduled global PMI releases last week, we take a close look at the region's PMIs and Mobility indicators in parallel. Also covered are the latest **monetary indicators from Saudi Arabia and FDI flows in the Arab region (Q1 2020).***

## **1. Beirut blasts and Lebanon's way forward**

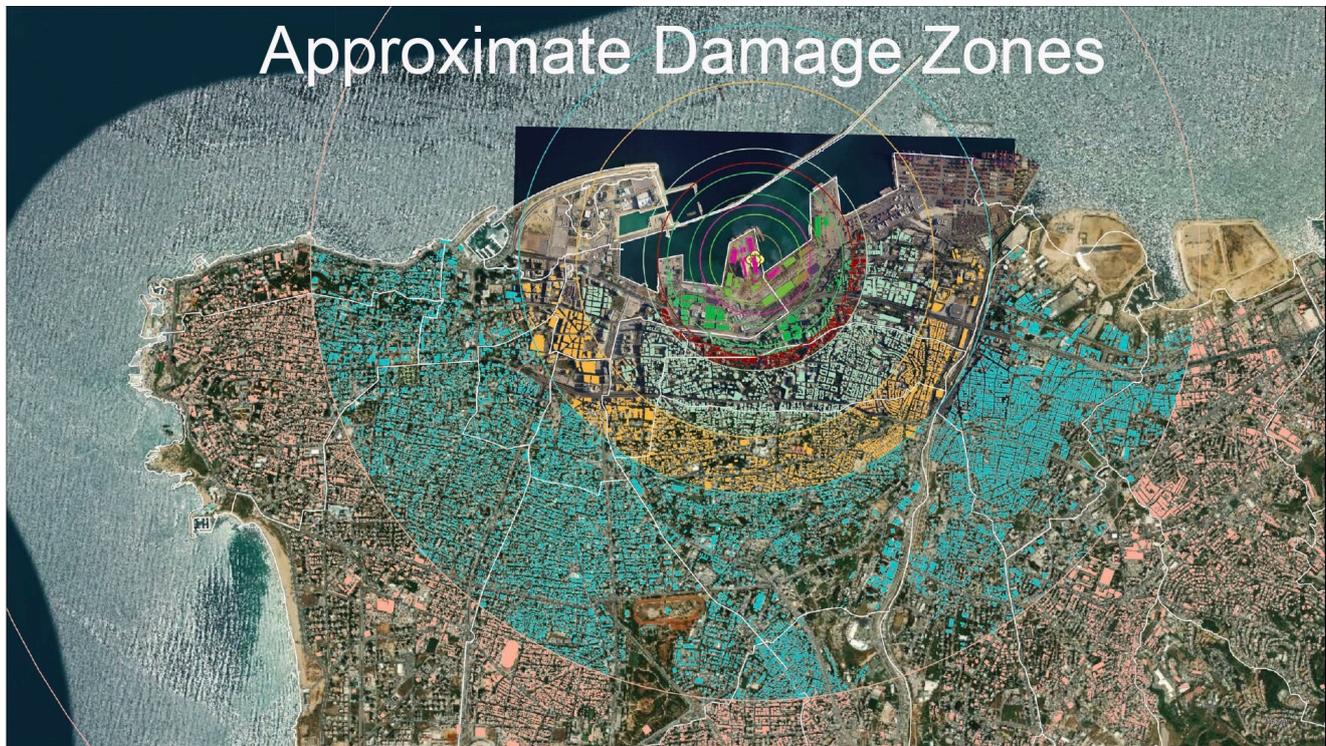
**The Beirut port explosion on Aug 4th – which left at least 158 people dead, 6000 injured and 300k homeless – was possibly the last straw for the people already immiserated by an economic, banking & financial meltdown (since Oct 2019) alongside dealing with the Covid19 outbreak. The explosion led to calls for resignation of the government (three ministers have resigned, including after the blast, citing failure to reform), with demonstrations gaining traction over the weekend. In addition to the loss of human lives and destruction of buildings (homes and businesses), it is critical to understand the **importance of the ports**: 80% of the country's food imports come through the port, in addition to medical supplies as well as oil and gas. The silos have been demolished (which hold 2-3 months supplies of grain), leading to shortages of food (& higher prices – food inflation had surged by 108.9% in H1 2020 and by 250% in Jun 2020);**

expedited imports of food and fuel will also be constrained by damaged logistics (transport and warehouses). Additional cuts in electricity (given the impact on fuel supplies) will negatively affect hospitals (that are fighting the Covid19 outbreak in addition to normal operations) and businesses.

**Damage to infrastructure (port, transport, logistics and related facilities), housing and businesses is extensive. A detailed survey will be required to assess the total costs of reconstruction but it is clear that Lebanon does not have the fiscal space and will require international support. The destruction will further depress economic activity through a negative impact on consumption, investment and export activity. We forecast an overall reduction in real GDP by some 30% (Great Depression levels) along with continuing and potentially accelerating inflation.** Beirut's governor stated (without presenting evidence or survey estimates) that the repair bill for the capital alone will cost up to USD 5bn while overall cost of damages is estimated at around USD 15bn. The Cabinet's approval of an exceptional allocation of LBP 100bn [*or USD 26.3mn at the central bank's set rate of LBP 3,800 to the USD at money transfer firms*] to deal with the crisis will fall way short of requirements. **International donors pledged EUR 252.7mn for humanitarian aid at the Paris conference yesterday** held to raise emergency relief for Lebanon. President Macron during his visit to the location stated that he would "propose a new political pact" to all political forces in Lebanon, also assuring that aid would "not go to corrupt hands".

**The way forward is to undertake a comprehensive series of macroeconomic reforms, including at various sectoral levels** – ranging from reforms of the power sector to the banking sector, to exchange rate reform alongside an active intent to increase transparency and stamp out corruption. So far, there has been a refusal by the authorities to bite the bullet and undertake reforms. The donor conference yesterday (as well the CEDRE pledges in 2018) are promising: but the aid should only be released within the umbrella of a broader IMF programme –

with clear conditionalities of reform (and potentially bringing in independent 'technocrats' to form a new government). **The country is in urgent need of an equivalent of a Marshall Plan (size of USD 25-30bn and growing), given cumulative losses owing to lack of reforms so far.**



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2. **PMI Activity recovers across the globe, including in the Middle East**

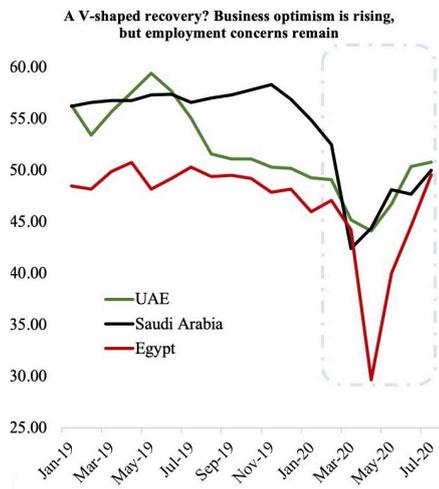
|        | US   | Germany | EU   | UK   | Japan | China | India | UAE  | Saudi Arabia | Egypt | Lebanon |
|--------|------|---------|------|------|-------|-------|-------|------|--------------|-------|---------|
| Jan-19 | 54.9 | 49.7    | 50.6 | 52.8 | 50.3  | 48.3  | 53.9  | 56.3 | 56.2         | 48.5  | 46.5    |
| Feb-19 | 53.0 | 47.6    | 49.5 | 52.1 | 48.9  | 49.9  | 54.3  | 53.4 | 56.6         | 48.2  | 46.9    |
| Mar-19 | 52.4 | 44.1    | 48.3 | 55.1 | 49.2  | 50.8  | 52.6  | 55.7 | 56.8         | 49.9  | 46.3    |
| Apr-19 | 52.6 | 44.4    | 48.4 | 53.1 | 50.2  | 50.2  | 51.8  | 57.6 | 56.8         | 50.8  | 46.7    |
| May-19 | 50.5 | 44.3    | 47.9 | 49.4 | 49.8  | 50.2  | 52.7  | 59.4 | 57.3         | 48.2  | 46.3    |
| Jun-19 | 50.6 | 45.0    | 47.6 | 48.0 | 49.3  | 49.4  | 52.1  | 57.7 | 57.4         | 49.2  | 46.3    |
| Jul-19 | 50.4 | 43.2    | 46.6 | 48.0 | 49.4  | 49.9  | 52.5  | 55.1 | 56.6         | 50.3  | 47.7    |
| Aug-19 | 50.3 | 43.5    | 47.1 | 47.4 | 49.3  | 50.4  | 51.4  | 51.6 | 57.0         | 49.4  | 47.8    |
| Sep-19 | 51.1 | 41.7    | 46.0 | 48.3 | 48.9  | 51.4  | 51.4  | 51.1 | 57.3         | 49.5  | 46.4    |
| Oct-19 | 51.3 | 42.1    | 46.2 | 49.6 | 48.4  | 51.7  | 50.6  | 51.1 | 57.8         | 49.2  | 48.3    |
| Nov-19 | 52.6 | 44.1    | 47.0 | 48.9 | 48.9  | 51.8  | 51.2  | 50.3 | 58.3         | 47.9  | 37.0    |
| Dec-19 | 52.4 | 43.7    | 46.4 | 47.5 | 48.4  | 51.5  | 52.7  | 50.2 | 56.9         | 48.2  | 45.1    |
| Jan-20 | 51.9 | 45.3    | 48.1 | 50.0 | 48.8  | 51.1  | 55.3  | 49.3 | 54.9         | 46.0  | 44.9    |
| Feb-20 | 50.7 | 48.0    | 49.1 | 51.7 | 47.8  | 40.3  | 54.5  | 49.1 | 52.5         | 47.1  | 45.4    |
| Mar-20 | 48.5 | 45.4    | 44.3 | 47.8 | 44.8  | 50.1  | 51.8  | 45.2 | 42.4         | 44.2  | 35.0    |
| Apr-20 | 36.1 | 34.5    | 33.4 | 32.6 | 41.9  | 49.4  | 27.4  | 44.1 | 44.4         | 29.7  | 30.9    |
| May-20 | 39.8 | 36.6    | 39.5 | 40.7 | 38.4  | 50.7  | 30.8  | 46.7 | 48.1         | 40.0  | 37.2    |
| Jun-20 | 49.8 | 45.2    | 47.4 | 50.1 | 40.1  | 51.2  | 47.2  | 50.4 | 47.7         | 44.6  | 43.2    |
| Jul-20 | 50.9 | 51.0    | 51.7 | 53.3 | 45.2  | 52.8  | 46.0  | 50.8 | 50.0         | 49.6  | NA      |

Source: Refinitiv Datastream, Nasser Saidi & Associates

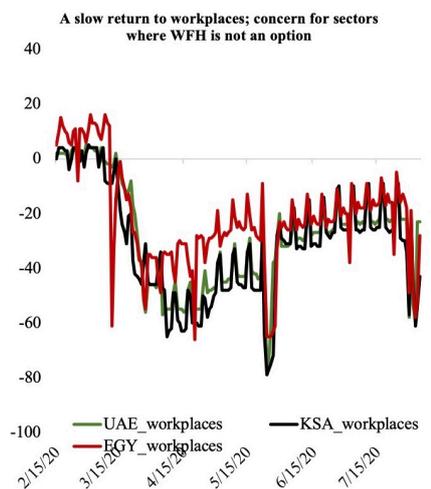
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turing PMIs mostly ticked up, given rebounds in both output and new orders. India was one of the nations reporting a lower PMI in Jul: unsurprising given the fast pace of Covid19 confirmed cases – it took only 9 days for India to go from 1.5mn to 2mn – and restricted lockdowns in parts of the country. In spite of the V-shaped recovery in PMI, all is not smooth: restrictions have not been eased fully, demand is largely domestic-driven, and supply chains issues remain – average vendor delivery times lengthened for the 12<sup>th</sup> consecutive month for global manufacturing PMI. A resurgence in cases/ 2nd and 3rd waves will only add to the burden.

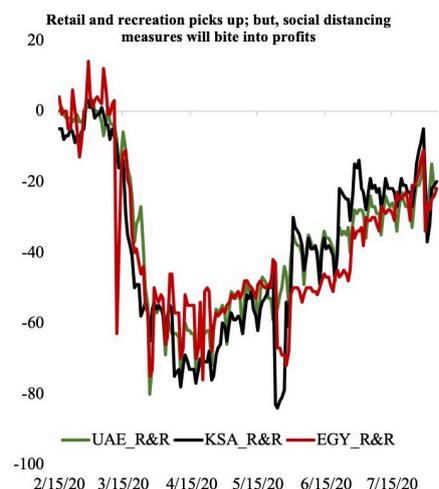
### 3. What can we learn from the latest PMI & Mobility indicators?



Source: Refinitiv Datastream, Nasser Saidi & Associates



Source: Google Mobility Indices, Nasser Saidi & Associates



Source: Google Mobility Indices, Nasser Saidi & Associates

region indicate a sharp V-shaped recovery following the lockdown period, but is it too much optimism from those surveyed? Order books have improved, though export orders remain weak, indicating domestic demand driving the rise.

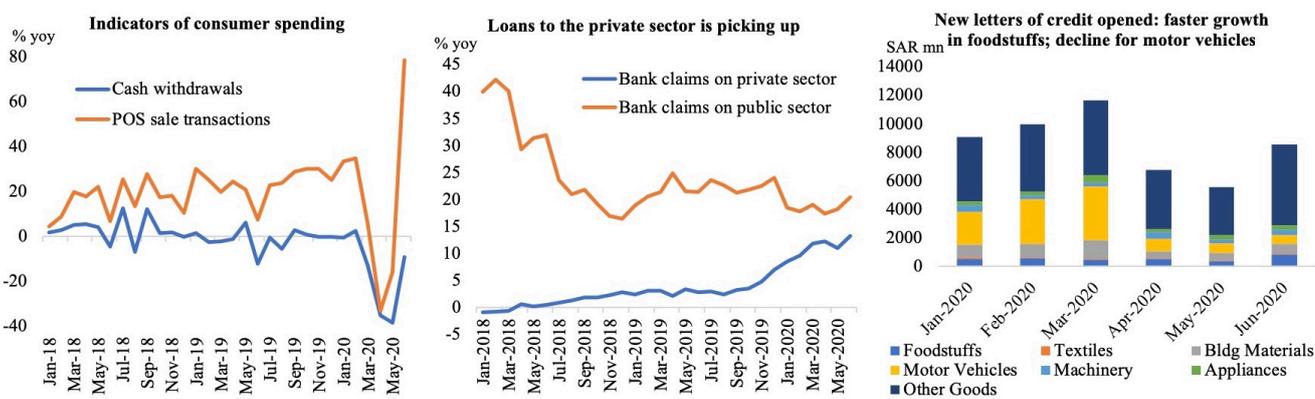
This is reflected in the **retail and recreation segment** of the Google Mobility indicators: with less stringent restrictions in place, movements were higher in the days running up to the Eid Al Adha holidays (across the three nations) while in Saudi Arabia, a similar trend was also visible towards the last week of June, ahead of Jul's hike in VAT. For firms in the retail and recreation sector, social distancing measures are likely to eat into the firms' profits (if any) and the road to recovery is likely to be slow. In spite of marketing efforts, it will be affected by spending capacities, salary reductions/cuts in allowances/ job losses & return of expat labour to their home countries (e.g.~500k Indians have registered for repatriation flights from the UAE).

**Workplace mobility** is still around 20% below the baseline numbers (excluding Eid holidays): widespread availability of telework technology and the feasibility of performing work remotely has kept firms operational. However, those sectors where work from home is not the ideal option (think retail, tourism, hospitality), the learning curve has been steep – e.g. retail firms' rolling out previously unavailable online options.

*Bloomberg* reported that while working from home, workdays were longer by 48.5 minutes, with 1.4 more emails sent to

colleagues per day and an 8% increase in emails sent after hours (questioning the work-life balance and happiness quotient) though offering more flexible work hours (and potentially higher productivity levels). The UAE government's announcement of **flexible working hours** for its staff is a good move to raise productivity, reduce peak hour traffic and can act as a precursor for the private sector to emulate. The obvious next step is providing **the option for employees to work from home**, when possible – think of either shorter work hours (in the office) daily or working from home a full workday during the week.

#### 4. Saudi Arabia: monetary indicators



Source: SAMA, Nasser Saidi & Associates

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y statistics for Jun 2020 in Saudi Arabia reinforce the trends from the Mobility indicators in the previous panel. Both **indicators of consumer spending** – cash withdrawals and point-of-sale (POS) transactions have ticked up in Jun, ahead of the hike in VAT from July 1<sup>st</sup>. **Loans to the private sector is picking up**, thanks to the various measures in place to support the economy as it tackles the Covid19 outbreak. Initiatives like the provision of concessional financing for SMEs and loan guarantee programme likely supported the faster pace of growth. The Corporate Sustainability Programme launched by the Ministry of Finance mid-Jul to support the private sector will also provide support going forward. The final chart tracks **new letters of credit opened**, by sector – an insight into trade finance. A letter of credit is a financial instrument, usually

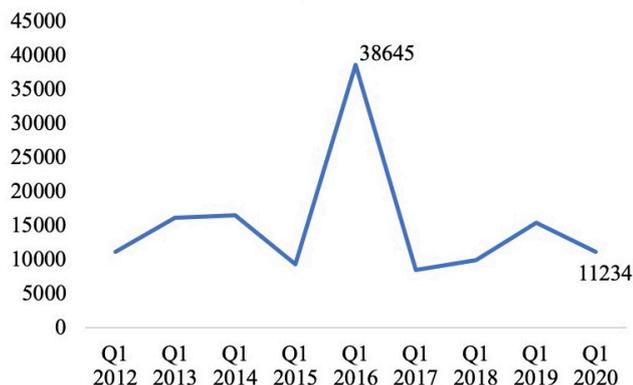
issued by a bank, which guarantees the seller will receive payment for goods sold to a foreign customer. The Covid19 outbreak put the brakes on activity from Apr-May. Recovery is visible in June's data, but the difference is stark: LoCs opened for foodstuffs has been rising faster than say motor vehicles (accounted for 25.6% of total in Jan 2020 vs 7.2% in Jun). It is time to **switch trade finance to blockchain technology** – which will make trade faster, safer, and simpler (elimination of paperwork and associated costs, increased transparency and prevention of fraud)!

## 5. FDI flows in the Arab region

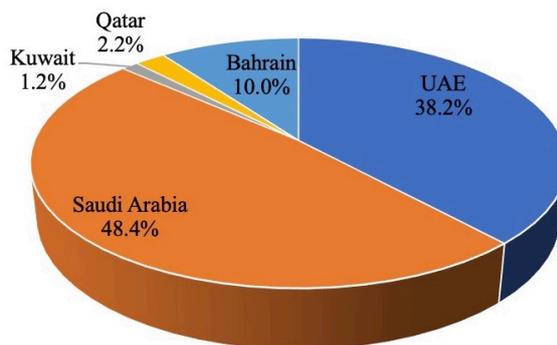
In Q1 2020, the number of new FDI projects in the Arab region contracted by 30% yoy to 185 projects in Q1 2020, with investments down by 27.3% to USD 11.2bn while job creation slipped by 23% to 21.3k, according to the Arab Investment & Export Credit Guarantee Corporation (Dhahran). GCC's share of investments in the Arab region show that Saudi Arabia and UAE together account for 86.6% of the total in Q1 this year. **FDI flows are likely to slow in the region this year**, mirroring global trends: UNCTAD estimates global FDI inflows to decline by USD 1.1trn this year. The slowdown of implementation of ongoing projects will hurt prospects in the region as well as potential shelving of projects in the near- to medium-term – underscoring the **need to diversify sectors into which FDI flows** (oil and gas & real estate).

Egypt, UAE and Saudi Arabia together accounted for two-thirds of the FDI inflows into the Arab region during the period 2015-2019 though in terms of number of projects, UAE topped the list (41.4% of the total). The top two sectors attracting investments – coal, oil and gas and real estate – together account for almost half of the total investments (from just 7% of total number of projects). The largest number of FDI projects recorded during 2015-19 were in business services (13%) and financial services (11%) – but its share of investments was only 2% each.

Investments in FDI projects in Arab nations, Q1 2020, USD mn



GCC's share of FDI investments into Arab nations



Top 5 recipients of FDI in the Arab region during 2015-2019, by number of projects & investment

|              | Investment (USD mn) | % of total | Number of projects | % of total |
|--------------|---------------------|------------|--------------------|------------|
| Egypt        | 124,478             | 35.2       | 476                | 10.9       |
| UAE          | 53,619              | 15.2       | 1814               | 41.4       |
| Saudi Arabia | 53,079              | 15.0       | 513                | 11.7       |
| Oman         | 32,575              | 9.2        | 235                | 5.4        |
| Morocco      | 22,160              | 6.3        | 432                | 9.9        |

Top 5 sectors attracting FDI in the Arab region during 2015-2019, by number of projects & investment

|                     | Investment (USD mn) | % of total | Number of projects | % of total |
|---------------------|---------------------|------------|--------------------|------------|
| Coal, oil and gas   | 86,965              | 25.0       | 116                | 3.0        |
| Real estate         | 83,102              | 24.0       | 180                | 4.0        |
| Chemicals           | 28,816              | 8.0        | 107                | 2.0        |
| Renewable energy    | 26,355              | 7.0        | 127                | 3.0        |
| Transportation & st | 18,477              | 5.0        | 235                | 5.0        |

Source: Arab Investment & Export Credit Guarantee Corporation (Dhahran), Nasser Saidi & Associates

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# "Whither Saudi Arabia & the GCC? Challenges & Opportunities": Opening Keynote at the the Bonds, Loans & Sukuk Saudi Arabia, 19 Nov 2019

Dr. Nasser Saidi presented the opening keynote at the Bonds, Loans & Sukuk Saudi Arabia event held in Riyadh on 19th Nov 2019.

The presentation titled "[Whither Saudi Arabia & the GCC? Challenges & Opportunities](#)" covered a perspective on growth

and structural change in Saudi Arabia alongside views on MENA's economic outlook and risks. With the global economy in a synchronized slowdown, it was also pertinent to understand the key drivers of asset prices and also discuss the impact of trade and economic wars.

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# **Trends in trade and investment policies in the MENA region: Policy Brief prepared for the OECD MENA-OECD Working Group on Investment and Trade, Nov 2018**

The MENA-OECD Working Group on Investment and Trade's 2018 meeting was held in Dead Sea, Jordan on 27-28 Nov, 2018. (More: <http://www.oecd.org/mena/competitiveness/investment-and-trade.htm>)

A policy brief titled "Trends in trade and investment policies in the MENA region" was prepared by Nasser Saidi & Associates to aid discussions during this meeting.

The executive summary is shared below; the paper can be downloaded [here](#).

## **Executive summary**

The Middle East and North Africa (MENA) region accounted for

only 5% of global exports and 4.3% of total imports in 2017. Merchandise exports from the MENA region to the rest of the world stood at 893bn USD in 2017 (up from just under 250bn USD at the start of this century). MENA countries are particularly vulnerable to terms-of-trade shocks because of the volatility of their export earnings, caused by the high concentration of exports in primary commodities and exacerbated by the high concentration of export markets. The region can achieve greater economies of scale if each country can better use its comparative advantage through production sharing networks and integration into global value chains.

There has been a significant shift in the region's trade patterns toward Asia over the past few decades. Asia now accounts for about 55% of the region's total trade compared to around 40% in 1999. **Regional trade remains dismal at under 10%.** MENA oil importers' share of trade within the region remains relatively high: Lebanon (44% of total exports in 2017) Jordan (43%), and Egypt (22%). Maghreb countries export the least within the region (under 10%), with much of their exports going to Europe.

FDI inflows into the region increased between 2000 and 2008, thanks to efforts to improve the business environment and investment climate and to related structural and institutional reforms. Slowdown appeared after the financial crisis in 2008 followed by regional turbulences, with limited recovery. **In 2017, investment flows into the GCC were 15.5bn USD, almost 3.5 times lower than in 2008 at their peak.** The bulk of FDI inflows into the region have gone into energy, real estate, financial services and consumer products.

Overall, the MENA region remains less regionally integrated in terms of trade and investment flows. **The main barriers to growth in trade and investment (including intra-regional) are multi-fold:**

- Though average tariffs have reduced over time, they remain very high; non-tariff barriers (e.g. burdensome technical regulations, import authorisation procedures,

- cumbersome customs clearance and border controls) are obstacles to both regional and global integration;
- MENA's trade facilitation performance – in terms of procedures, harmonisation, transparency, border agency cooperation and so on – leaves much to be desired;
  - Though regional trade agreements are in place, their implementation and enforcement are lacking and benefits are not visible;
  - Lack of diversification is a serious drawback, given that oil and agricultural products remain by far the most important exports;
  - Regional economic integration has seen very little progress due to different factors including weak institutions, the lack of infrastructure and state-owned enterprises;
  - Cumbersome licensing processes, complex regulations and opaque bidding procedures create both business and investment barriers;
  - Competition legislation is particularly needed in countries where markets are highly concentrated and where barriers to imports are still high;
  - Trade has been negatively affected by the wars, sanctions and political barriers in the region; and
  - The scarcity of quality data and statistics on both domestic and foreign investment means a lack of evidence-based public policy and increases perceived investment risk.

While the region has undertaken significant reforms to support trade and investment – ranging from lowering tariffs to improving infrastructure to protecting minority investments to institutional investment reforms – it is evident that there is **a long way to go for greater trade integration. In this context, it is recommended that the MENA region:**

- Invest heavily in trade-related infrastructure and logistics;

- Deepen intra-regional trade through trade facilitation;
  - Invest in moving towards greater digital trade facilitation;
  - Use GCC countries as engines of economic integration;
  - Reflect the shift in trade partners in new trade and investment agreements;
  - Improve legal and institutional framework to support private sector growth and diversification
  - Make a digital transformation in order to support trade and investment: from transport (electric vehicles), to banking and financial services (Fintech), commerce (e-commerce), to health and agriculture (Agrytech), and the government sector ;
  - Ensure the availability, harmonisation and dissemination of regular, timely, comparable and quality statistics, which are essential to conduct sound trade and investment policies.
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## **MENA-OECD Working Group on Investment and Trade meeting, 27-28 Nov 2018**

Dr. Nasser Saidi participated in the MENA-OECD Working Group on Investment and Trade meeting held over 27-28 Nov 2018 at Dead Sea, Jordan.

Titled “Making trade and investment policies work for all”, the meeting’s first panel session discussed the state of play of investment and trade trends and reforms in the region in a changing world economy. It also took stock of the global debate on trade and investment, while analysing the impact on regional and national policies of the growing scepticism about

the benefits of international economic co-operation, and looking at ways MENA countries and societies can better benefit from trade and investment.

Click [here](#) to download Dr. Saidi's presentation which focused on the findings of the policy paper prepared for the OECD titled "[Trends in trade and investment policies in the MENA region](#)".