

Weekly Insights 28 Oct 2020: US Presidential elections & impact on the Middle East/ GCC

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FiveThirtyEight, in its extensive [analysis and simulations](#), favours Biden to win the election, barring a major polling error. A contested election is probably on the cards. But, with less than a week left for the US Presidential elections, what would a potential change of guard at the White House mean for the Middle East? Interestingly, a recent YouGov-Arab News survey shows that respondents have little confidence in either candidate: only 12% preferred Trump versus 40% for Biden.

First and foremost is a potential return to multilateralism and international cooperation from the current (unilateralism) policies of withdrawal from the Paris climate accord, the Trans-Pacific Partnership or the World Health Organization or the Iran nuclear deal. International, multilateral cooperation – such as the Global Access (COVAX) Facility – will be critical when effective Covid19 vaccines are available to be rolled out and need to be distributed globally. A discriminatory or preferential national treatment would be detrimental to the global economy and recovery. More broadly, a US reversion to multilateralism would be welcomed internationally: less confrontation on trade/ tariffs and investment policies with China, the EU, Canada-Mexico and others would lead to a win-win globally and would lead to a cheaper dollar by encouraging non-US trade and investment.

Lower oil prices and a strong dollar along with US tariffs on aluminium and steel, have been strong headwinds and costly for the GCC. Currently, GCC members are pegged to the dollar (Kuwait pegs a basket dominated by US\$), oil is priced in

dollars, financial assets are largely dollar denominated, trade is dollar denominated and dollar financing is popular, while bond issuances have been on the surge (taking advantage of globally low borrowing costs) as nations adjust to rising fiscal deficits. Given the Covid Great Lockdown, the energy transition away from fossil fuels, it is unlikely that oil prices will revert to prices seen a few years ago given weaker demand – the IMF's latest World Economic Outlook puts oil price, based on futures markets at USD 41.69 in 2020 and USD 46.70 in 2021 (versus an average price of USD 61.39 last year). But a cheaper dollar would support an economic recovery in the region driven by tourism and services exports, as countries reopen in phases.

More important, will be the impact on the oil market. A re-elected Trump administration would continue its policies supporting US shale oil, encourage drilling and roll back of climate-related regulations and support US oil & gas exports, weakening OPEC+ and oil prices. By contrast, a Biden Administration would be climate and environment policy friendly, revert back to the Paris Agreement, support renewable energy, including through "Green" and "Blue" New Deals. In a scenario where fossil fuel demand is already weak, an additional push towards renewables would tend to reduce US supply but also reduce demand, the oil price impact would depend on the balance between demand and supply effects.

Oil exporters in the region are still highly dependent on oil, with lower oil revenues implying limited fiscal room and higher fiscal deficits which are averaging 10% in 2020 for the GCC countries. As real oil prices trend downward, fiscal sustainability becomes increasingly vulnerable. The elephant in the room remains the risk of being left with stranded assets. According to the IEA, stranded assets refer to "those investments which have already been made but which, at some time prior to the end of their economic life, are no longer able to earn an economic return". The strategy imperative is the need to emphasise diversification policies, along with a policy to de-risk fuel assets. National oil companies and

related state-owned enterprises, that are majority owners/operators of oil and gas assets, would need to pursue a low-carbon energy transition plan in addition to the privatisation of fossil fuel assets. Examples are the Aramco part-privatisation, and ADNOC's part-pipeline privatisation. This should be complemented by a major drive to accelerate investment in and adoption of green/ clean energy policies by both government entities and the private sector.

The bottom line is that the outcome of the US elections will directly impact a host of global issues from dealing with Covid and climate change, de-escalating confrontation and preventing a Cold War with China, restoring confidence in multilateral agreements and institutions like the WHO, the WTO, the UN and geopolitics, with repercussions on regional power struggles involving Israel, Iran, Turkey and the Gulf states. Important as these issues are, the other bottom line is the need for a renewed focus of the GCC and the regions oil producers on economic diversification strategies and de-risking fossil fuel assets within a well-designed energy transition strategy.

For additional views about this and the wider regional economic outlook, listen to the [IMF panel discussion from yesterday](#).