"How knowledge-based human capital can drive UAE’s diversification efforts", Oped in The National, 27 Nov 2020

The article titled "**How knowledge-based human capital can drive UAE’s diversification efforts**" appeared in the print edition of The National on 27th November 2020 and is posted below.

How knowledge-based human capital can drive UAE’s diversification efforts

Nasser Saidi & Aathira Prasad

Recent structural reforms related to labour will help remove distortions in the market, attracting high-skilled professionals and investment

The UAE recently announced an expansion of its current 10-year golden visa to include medical doctors, scientists and data experts as well as PhD holders, in a bid to attract professionals to the country. The liberalisation comes on the heels of visas for retirees and options for remote working in Dubai: these provide added incentives for expatriates to remain, invest and contribute further to the country’s development.
Currently, an expat’s UAE residential status is linked to an employer, and in the event of job loss, the person has 30 days to either find a new job or secure a new visa. With Covid-19

changing the outlook for jobs globally, these steps come at an opportune time for the country to retain the best talent.

Traditionally, construction and services were the largest sectors offering employment within the UAE's private sector, according to the UAE central bank's quarterly report. This data, however, excludes free zone activities. For example, the DIFC is home to 2,584 firms and over 25,000 employees while the DMCC last reported 17,500 member companies in its free zone.

The UAE has also made great strides in increasing the private sector's participation in the economy as it set sights on greater economic diversification. According to the 2019 Labour Force Survey by the UAE's Federal Competitiveness and Statistics Authority, the share of the private sector in the UAE has increased to 70 per cent in 2019 from 58 per cent in 2009 – a positive move that underscores diversification efforts.

By economic activity, a few sectors have seen an increase in their share: manufacturing (9.2 per cent in 2019 vs 7.7 per cent in 2009), construction (17.5 per cent vs 12.3 per cent), hotels and restaurants (5.4 per cent vs 4 per cent). The real estate sector has seen a significant drop during the decade, which is not surprising given the boom prior to 2010.

Another interesting insight from the Labour Force Survey offers a morale booster for women – women are relatively are more educated than their male counterparts (about 50 per cent of employed Emirati women have a bachelor's degree while 10 per cent have a bachelor's and above). The comparable numbers for expat women are at 42.8 per cent and 33 per cent, respectively. A high proportion of women work as professionals and managers as well. This shows that though women are transforming the labour force they still face a glass ceiling. It is time that we have more women on boards and at top management levels in the private sector.

The survey also showed that the public sector, with better salaries and benefits, continued to outweigh the private sector in terms of appeal. Though wages by sector breakdown is not available (publicly), it is safe to assume the government sector has relatively higher salaries where close to three-quarters of citizens work. According to the UAE’s Labour Force Survey, more than one-third of Emirati respondents disclosed receiving monthly wages between Dh20,000 to 35,000 (versus just 5 per cent of expats in the same income bracket).

But for long-term growth and to further increase the private sector’s contribution to GDP, it is important to increase the proportion of UAE nationals in privately-held firms.

While attracting foreign talent to take up such jobs in the near-to-medium term is necessary, it is also critical to reform the education sector and invest in building a knowledge economy.

There is a persistent skill mismatch in the country compared to market requirements. Though spending per capita is high and student-teacher ratios are comparable to OECD levels, the outcomes are not strong: the PISA 2018 scores, for example, reveal that UAE students are placed 50th in maths, 49th in science and 46th in reading. It is time to invest in curricula that support job readiness, ‘Digital Education-for-Digital Employment’, early exposure to the workplace (summer internships and labour policies that facilitate such changes, for example), vocational and on-the-job training. Increasingly, emphasis should be to invest in and promote STEM (Science, Technology, Engineering and Mathematics) – especially given the official policy focus on innovation and a shift to the digital economy in the UAE and the region.

The recent structural reform related to labour will help remove distortions in the market, attract high-skilled professionals and help the UAE diversify further while also supporting domestic investment (including in the real estate sector). This will happen in tandem with a reduction in outflow of remittances, which in turn will boost the balance of payments. Last year, outward remittance flows from the UAE reached $44.9bn.

Long-term residents will be keen to invest in medium- and long-term financial instruments, secure mortgages and invest in start-ups and growth companies.

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

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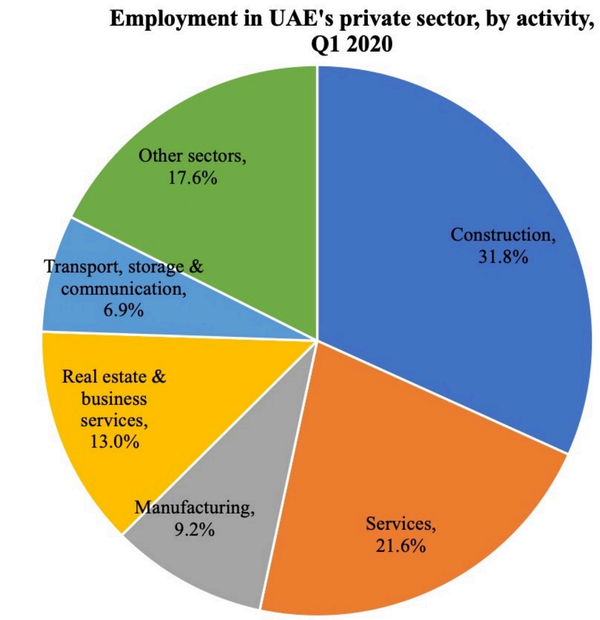
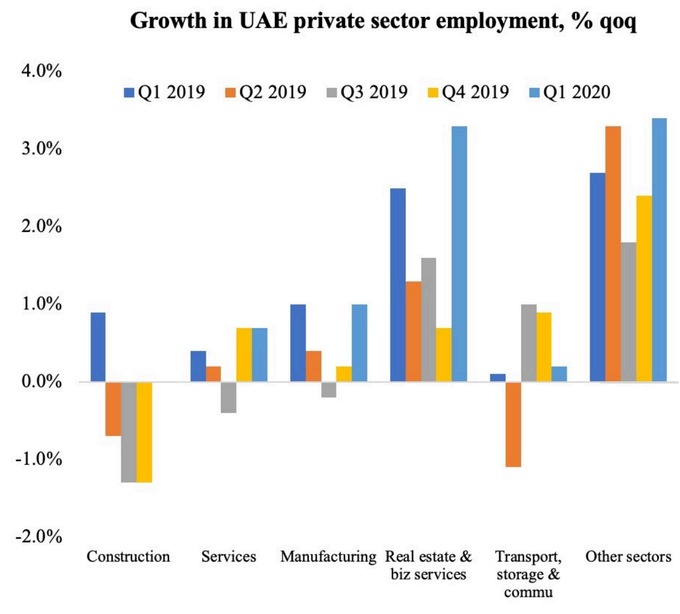
Knowledge-based human capital to drive the next phase of UAE's diversification efforts

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

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

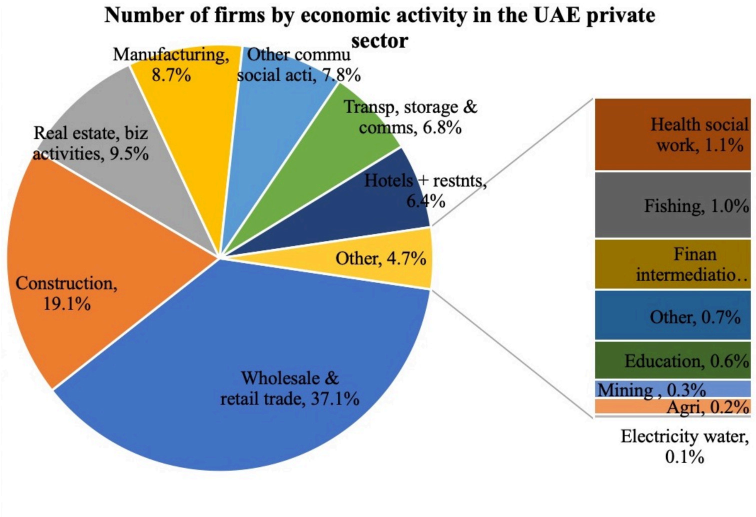


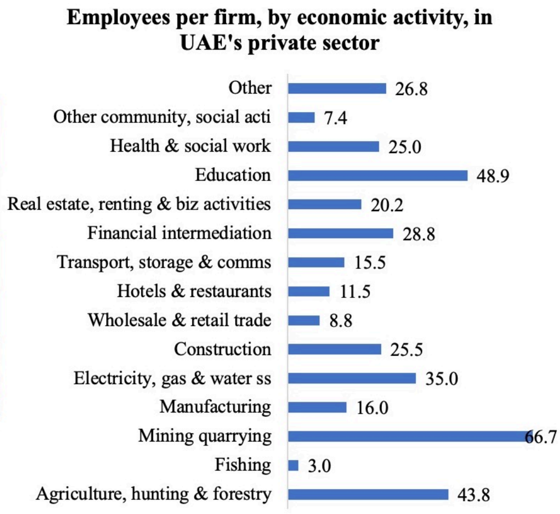


Source: UAE Central Bank Quarterly Report Q1 2020, Nasser Saidi & Associates

Structural change signals the UAE's greater economic diversification

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



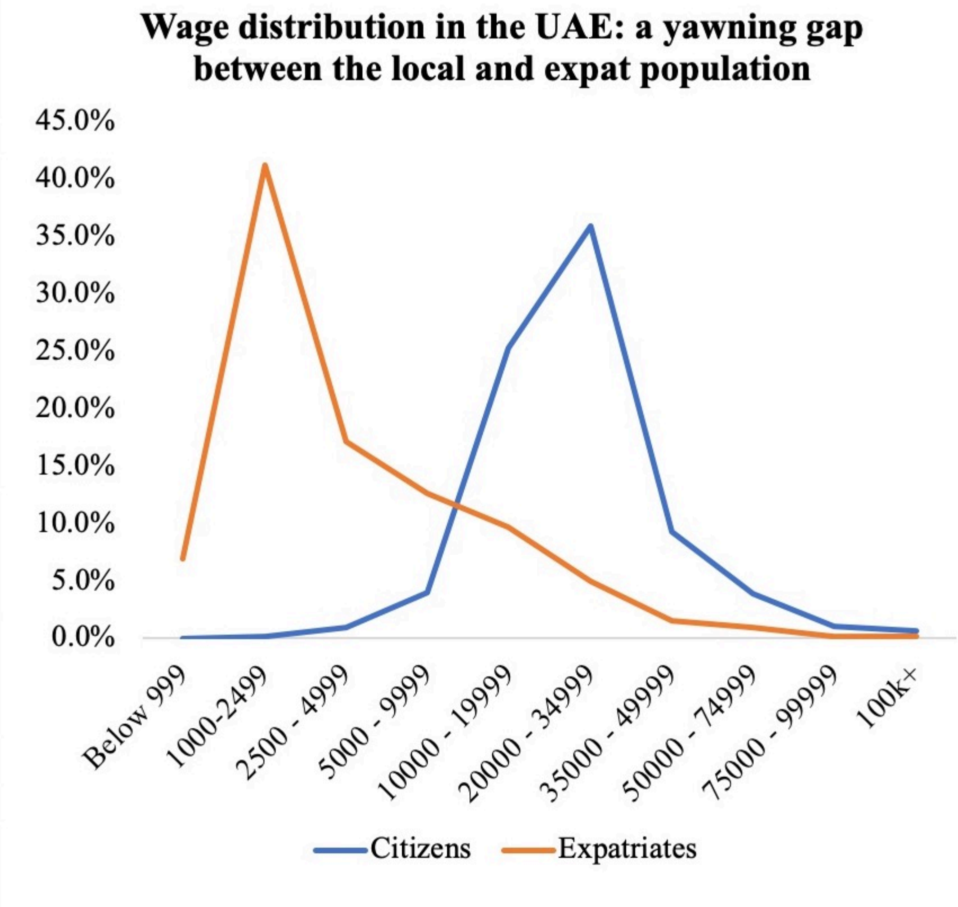


Source: UAE Ministry of Human Resources & Emiratisation, Nasser Saidi & Associates

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

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

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



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

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

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

(b) The need to attract high-skilled professionals to support private sector activity. This needs to be carefully addressed: while attracting foreign talent to take up such jobs in the near- to medium-term is necessary, it is critical to reform the education sector and invest in building a knowledge economy. There is a persistent skill mismatch and low educational quality in the country compared to market requirements. Though spending per capita is high and student-teacher ratios are comparable to OECD levels, the outcomes are not strong: the PISA 2018 scores, for example, reveal that UAE students are placed 50th in math, 49th in science, and 46th in reading. Radical modernisation of education curricula is essential for creating a 21st century able workforce. It is also time to invest in curricula that support job-readiness, 'Digital Education-for-Digital Employment', early exposure to the workplace (e.g. summer internships and labour policies that facilitate such changes), vocational and on-the-job training. Increasingly the focus should be to invest in and promote STEM (Science, Technology, Engineering and Mathematics) – especially given the official policy focus on innovation and a shift to the digital e-economy and -services in the UAE and the region.

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

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

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

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

"Eight steps to pull the Lebanese economy back from the brink", Op-ed in The National, 28 Oct 2020

The article titled "Eight steps to pull the Lebanese economy back from the brink" appeared in The National on 28th Oct 2020 and is reposted below.

Eight steps to pull the Lebanese economy back from the brink

Without the immediate implementation of these comprehensive reforms, Lebanon is heading for a lost decade

Lebanon is engulfed in a long list of overlapping and connected problems –fiscal, debt, banking, currency and balance of payments crises – that together have created an economic depression and a humanitarian crisis. People are going hungry: food poverty has affected some 25 per cent of Lebanon's own population. But the fiscal and monetary instability has caused more than just a shortage of bread. Confidence in the banking system has collapsed. The Lebanese pound has depreciated by 80 per cent over the past year.

Inflation is at 120 per cent and hyperinflation – a runaway increase in prices – is on the horizon.
Unemployment has risen to 50 per cent, leading to mass emigration and depleting Lebanon of its main asset: its human capital.
The explosion at the Port of Beirut, combined with the Covid-19 lockdown, created an apocalyptic landscape.
It aggravated the country's economic crises. The cost of rebuilding alone exceeds $10 billion – more than 35 per cent of the this year's GDP – which Lebanon is incapable of financing.
Prospects for an economic recovery in Lebanon are dismal. The new government must recognise the economy's large fiscal and monetary gaps and implement a comprehensive, credible and consistent reform programme.
The immediate priorities are economic stabilisation and rebuilding trust in the banking and financial system.
Lebanon desperately needs a recovery programme – akin to the Marshall Plan that helped rebuild Europe after the Second World War – of about $30-35bn, in addition to the funds to rebuild Beirut's port and city centre.
To achieve this, the new government will have to implement rapidly an agreement with the International Monetary Fund, based on a national consensus. The confidence-building policy reform measures over the next six months must include:
A credible capital controls act to protect deposits, restore confidence and encourage the return of remittances and capital back into the country. Credit, liquidity and access to foreign exchange are critical for private sector activity, which is the main engine of growth and employment.
The restructuring of public, domestic and foreign debt to reach a sustainable ratio of debt to GDP. Given the exposure of the banking system to the debt of the government and central bank (known by its French acronym, BDL), public debt restructuring would involve a restructuring of the banking sector, too.
A bank recapitalisation process that includes a process of

merging smaller banks into larger banks. Bank recapitalisation requires a bail-in of the banks and their shareholders (through a cash injection and the sale of foreign subsidiaries and assets) of some $25bn, to minimise a haircut on deposits. This will require passage of a modern insolvency law.

Monetary policy reform is needed to unify the country's multiple exchange rates, move to inflation targeting – that is, price stability – and shift to greater exchange rate flexibility. Multiple rates create market distortions and incentivise more corruption. The BDL will have to stop all quasi-fiscal operations and government lending. Credible reform requires a strong and politically independent banking regulator and monetary policymaker.

Reform the Electricite du Liban (EDL), the country's largest utility, and appoint a new board to improve governance and efficiency.

Reform the inefficient subsidies regime that covers electricity, fuel, wheat and medication. These generalised subsidies do not fulfil their purpose – only 20 per cent goes to the poor.

All that the subsidies do is benefit rich traders and middlemen and they are the basis of large-scale smuggling into sanctions-ridden Syria. Subsidies reform should be part of a social safety net to provide support for the elderly and vulnerable.

Pass a modern government procurement act. This would help prevent corruption, nepotism and cronyism.

Restructure and downsize the public sector. Start by removing the 20 per cent of public sector "ghost workers" – people on payrolls who don't actually work for the government – and establish a National Wealth Fund, a professional holding company that would independently manage public assets. These include basic public utilities like water, electricity, public ports and airports, Lebanon's carrier Middle East Airlines, the telecom company Ogero, the Casino du Liban, the state-run tobacco monopoly and others, in addition to public commercial lands.

These assets are non-performing, over-staffed by political cronies and suffer from nepotism. In most cases, they are a drain on the treasury.

A comprehensive IMF programme that includes structural reforms is necessary. It is the way to restore trust in the economy and win back the trust of the private sector, the Lebanese diaspora, foreign investors and aid providers. This would then attract funding from international financial institutions and Cedre Conference participants, including the EU and the GCC.

Such measures, if properly executed, would translate into financing for reconstruction and access to liquidity. They would also stabilise and revive private sector economic activity. Without the immediate implementation of these comprehensive reforms, Lebanon is heading for a lost decade.

Nasser Saidi is a former Lebanese economy minister and first vice-governor of the Central Bank of Lebanon