

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

The below opinion piece titled [“Home is where the heart is for GCC wealth funds”](#) was published in the Arabian Gulf Business Insight (AGBI) on 5th September 2024.

An [extended version](#) of the published article is posted below.

Home is where the heart is for GCC wealth funds

The Gulf’s SWFs are stepping up domestic investment

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

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

Why are GCC SWF strategies changing?

They are three major drivers.

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

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

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

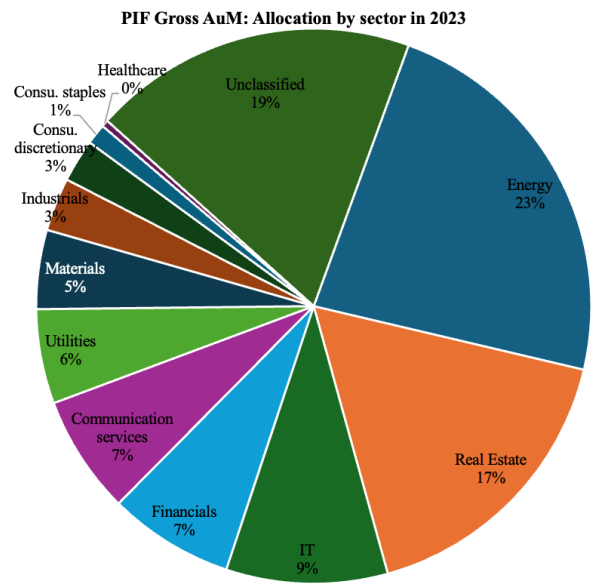
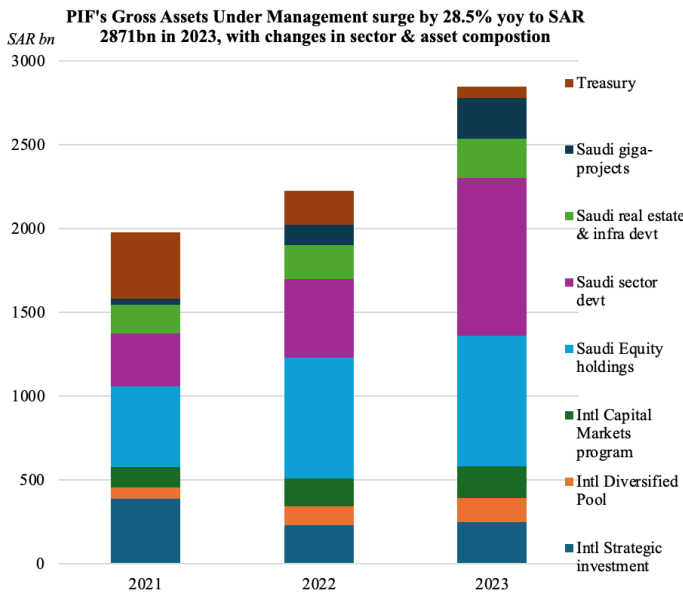
To support Saudi's maturing economy, PIF has launched 95 companies since 2017, spanning 13 strategic sectors ranging from EVs to sports and tourism, injecting about SAR 150bn into the local economy annually. Complementing Saudi Arabia's pro-private sector policies, the PIF has been supporting SMEs and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

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

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

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

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



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

“China-GCC FTA Negotiations and Prospects for Broader Economic Collaboration”, Panel Discussion, AGSIW webinar, 5 Apr 2023

Dr. Nasser Saidi participated in the panel discussion hosted by the Arab Gulf States Institute in Washington (AGSIW) titled “China-GCC FTA Negotiations and Prospects for Broader Economic Collaboration” held as a webinar on Apr 5th, 2023.

The China-Gulf Cooperation Council summit in December 2022 renewed interest in concluding negotiations for a China-GCC free trade agreement. These trade negotiations began in 2004,

but progress toward establishing an FTA has proceeded slowly. A finalized FTA with the GCC would be a prestigious accomplishment for Beijing, strengthening China's economic linkages to the region and potentially boosting trade and investment flows. For their part, GCC governments hope to expand economic cooperation with Asian partners, such as China, to advance ambitious economic diversification agendas.

What are the key Chinese and GCC interests behind completing an FTA, and what obstacles have posed the biggest challenges to finalizing negotiations? What do FTAs reveal about the nature of Chinese economic diplomacy in the Middle East? How would the establishment of a China-GCC FTA impact trade and investment ties over the short, medium, and long term? Looking beyond the potential FTA, what are the other trends and mechanisms facilitating deeper economic cooperation between China and GCC countries?

Watch the discussion below:

Panelist at the IMF's MENA Conference "Coping With Covid19", 27 Oct 2020

Dr. Nasser Saidi participated as a panelist at the IMF's event related to the Regional Economic Outlook report for the Middle East and North Africa region held on 27th October, 2020.

The panel discussion was titled "Coping with Covid19: Challenges & Policy Priorities for the MENA region and the Global Economy" and discussed in addition the impact of US elections on the Middle East.

The IMF report can be accessed at <https://www.imf.org/en/Publications/REO/MECA/Issues/2020/10/14/regional-economic-outlook-menap-cca>

Watch the video of the webinar below:

Panelist at the launch of IMF's MENA Regional Economic Outlook, 27 Apr 2020

Dr. Nasser Saidi participated as a panelist at the IMF's launch of the Regional Economic Outlook report for the Middle East and North Africa region on 27th April, 2020.

The panel discussion covered the macro outlook for the region given the inter-twined effects of Covid19, fall in oil prices and financial shocks.

The IMF report can be accessed at <https://www.imf.org/en/Publications/REO/MECA/Issues/2020/04/15/regional-economic-outlook-middle-east-central-asia-report>

Watch the video of the webinar below (link to the IMF: <https://www.imf.org/external/mmedia/view.aspx?vid=6152433693001>)

Comments on GCC's Covid-19 stimulus measures & oil

prices in S&P Global Platts, 26 Mar 2020

Dr. Nasser Saidi's comments appeared in an article titled "UAE seen as GCC nation best able to weather oil crash, coronavirus" that appeared in S&P Global Platts on 26th Mar 2020.

Comments from the article are posted below. The full article can be accessed [here](#).

With all GCC countries set to post fiscal deficits, they may have few options in plugging the shortfall.

"Given the ongoing financial crisis, the debt overhang of around \$500bn in the GCC will make it increasingly difficult for sovereigns and corporates to finance their deficits through borrowing as access to banking and financial markets will become more difficult and expensive," Nasser Saidi, president of Dubai-based consultancy Nasser Saidi & Associates, said.

The Arab World's Perfect COVID-19 Storm, Project Syndicate Article, Mar 2020

The article titled "The Arab World's Perfect COVID-19 Storm", was first published on Project Syndicate on 24 March 2020, and can be directly

accessed [here](#).

In the face of the COVID-19 pandemic, policymakers in the Gulf Cooperation Council states are rolling out stimulus measures to support businesses and the economy. But the camel in the room remains oil, especially the immediate impact on demand of the Chinese and global economic slowdown.

Middle Eastern and Gulf Cooperation Council (GCC) economies are heading toward a recession in 2020 as a result of the COVID-19 pandemic, collapsing oil prices, and the unfolding global financial crisis.

The fast-spreading global pandemic – with Europe its [new epicenter](#) – is generating both supply and demand shocks. The supply shock results from output cuts, factory closures, disruptions to supply chains, trade, and transport, and higher prices for material supplies, along with a tightening of credit. And the aggregate-demand shock stems from lower consumer spending – owing to quarantines, “social distancing,” and the reduction in incomes caused by workplace disruptions and closures – and delayed investment spending.

The two largest Arab economies, Saudi Arabia and the United Arab Emirates, are proactively fighting the spread of COVID-19, for example by closing schools and universities and [postponing](#) large events such as the Art Dubai fair and the Dubai World Cup horse race. Likewise, Bahrain has [postponed](#) its Formula One Grand Prix. Saudi Arabia has even announced a temporary ban on non-compulsory *umrah* pilgrimages to Mecca, and has [closed mosques](#). Because religious tourism is one of the Kingdom’s main sources of non-oil revenue, the *umrah* ban and likely severe restrictions on the obligatory (for all Muslims) *hajj* pilgrimage will have a large negative impact on economic growth.

True, policymakers across the GCC are rolling out stimulus measures to support businesses and the economy. Central banks

have focused on assisting small and medium-size enterprises by deferring loan repayments, extending concessional loans, and reducing point-of-sale and e-commerce fees. And GCC authorities have unveiled stimulus packages to support companies in the hard-hit tourism, retail, and trade sectors. The UAE has a consolidated package valued at AED126 billion (\$34.3 billion), while Saudi Arabia's is worth \$32 billion and Qatar's totals \$23.3 billion. Moreover, policymakers are supporting money markets: Bahrain, for example, recently [slashed](#) its overnight lending rate from 4% to 2.45%.

But the camel in the room remains oil, especially the immediate impact on demand of the Chinese and global economic slowdown. The International Energy Agency optimistically estimates that [global oil demand will fall](#) to 99.9 million barrels per day (bpd) in 2020, about 90,000 bpd lower than in 2019 (in the IEA's pessimistic scenario, demand could plunge by 730,000 bpd). Indeed, successive production cuts had already led to OPEC's global market share [falling](#) from 40% in 2014 to about 34% in January 2020, to the benefit of US shale producers.

The weakening outlook for oil demand has been exacerbated by the Saudi Arabia-Russia oil-price war, with the Saudis not only deciding to ramp up production, but also announcing discounts of up to \$8 per barrel for Northwest Europe and other large consumers of Russian oil. Although the Kingdom's strategic aim is to weaken shale-oil producers and regain market share, the price war will also hit weaker oil-dependent economies (such as Algeria, Angola, Bahrain, Iraq, Nigeria, and Oman), and put other major oil producers and companies under severe pressure. Indeed, in the two years after oil prices' last sharp fall, in 2014, OPEC member states lost a collective [\\$450 billion](#) in revenues.

That episode prompted GCC governments to pursue fiscal consolidation by phasing out fuel subsidies, implementing a 5% value-added tax (in the UAE, Saudi Arabia, and Bahrain), and

rationalizing public spending. Nonetheless, GCC countries continue to rely on oil for government revenues, and their [average fiscal break-even price](#) of \$64 per barrel is more than double the current Brent oil price of about \$30 per barrel. The UAE and Saudi Arabia have estimated break-even prices of \$70 and \$83.60, respectively, while Oman (\$88), Bahrain (\$92), and Iran (\$195) are even more vulnerable in this regard. More diversified Russia, by contrast, [can balance its budget with oil at \\$42 per barrel](#).

The near-halving of oil prices since the start of 2020, the sharp fall in global growth, and the effects of the COVID-19 pandemic will put severe strains on both oil and non-oil revenue. As a result, GCC governments' budget deficits are likely to soar to 10-12% of GDP in 2020, more than double [earlier forecasts](#), while lower oil prices will also result in substantial current-account deficits.

Governments will respond by cutting (mostly capital) spending, magnifying the negative effect on the non-oil sector. Some countries (Kuwait, Qatar, and the UAE) can tap fiscal and international reserves, while others (Oman, Bahrain, and Saudi Arabia) will have to turn to international financial markets.

But will GCC governments be able to borrow their way out of this phase of lower oil prices? Global equity and debt markets currently are close to meltdown; with investors fleeing to safe government bonds, liquidity is drying up.

The GCC countries will suffer a negative wealth effect, owing to losses on their sovereign wealth funds' portfolios and net foreign assets. And, given bulging deficits and the prospect of continued low oil prices, sovereign and corporate borrowers will find it harder and more expensive to access markets. The ongoing financial crisis will therefore exacerbate the effects of the oil-price shock and the pandemic.

The pandemic itself is still unfolding, and its eventual

global impact will depend on its geographical spread, duration, and intensity. But it is already clear that in the coming weeks, there will be heightened uncertainty about global growth prospects, oil prices, and financial-market volatility. And as the pandemic continues its deadly march, the GCC economies – like many others – will be unable to avoid recession.