

Future of MENA: through the looking glass

**Keynote at Thomson Reuters “Future of MENA”
150-year Anniversary event**

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Agenda

- ✓ **MENA complicated landscape amidst shifts in economic & financial geography**
- ✓ **Adjusting to the “New Oil Normal”: GCC’s economic policy & structural reforms**
- ✓ **Through the looking glass to 2026**
- ✓ **Key Takeaways**

2006-2016: A tumultuous decade with changing landscapes

Economic/ Financial

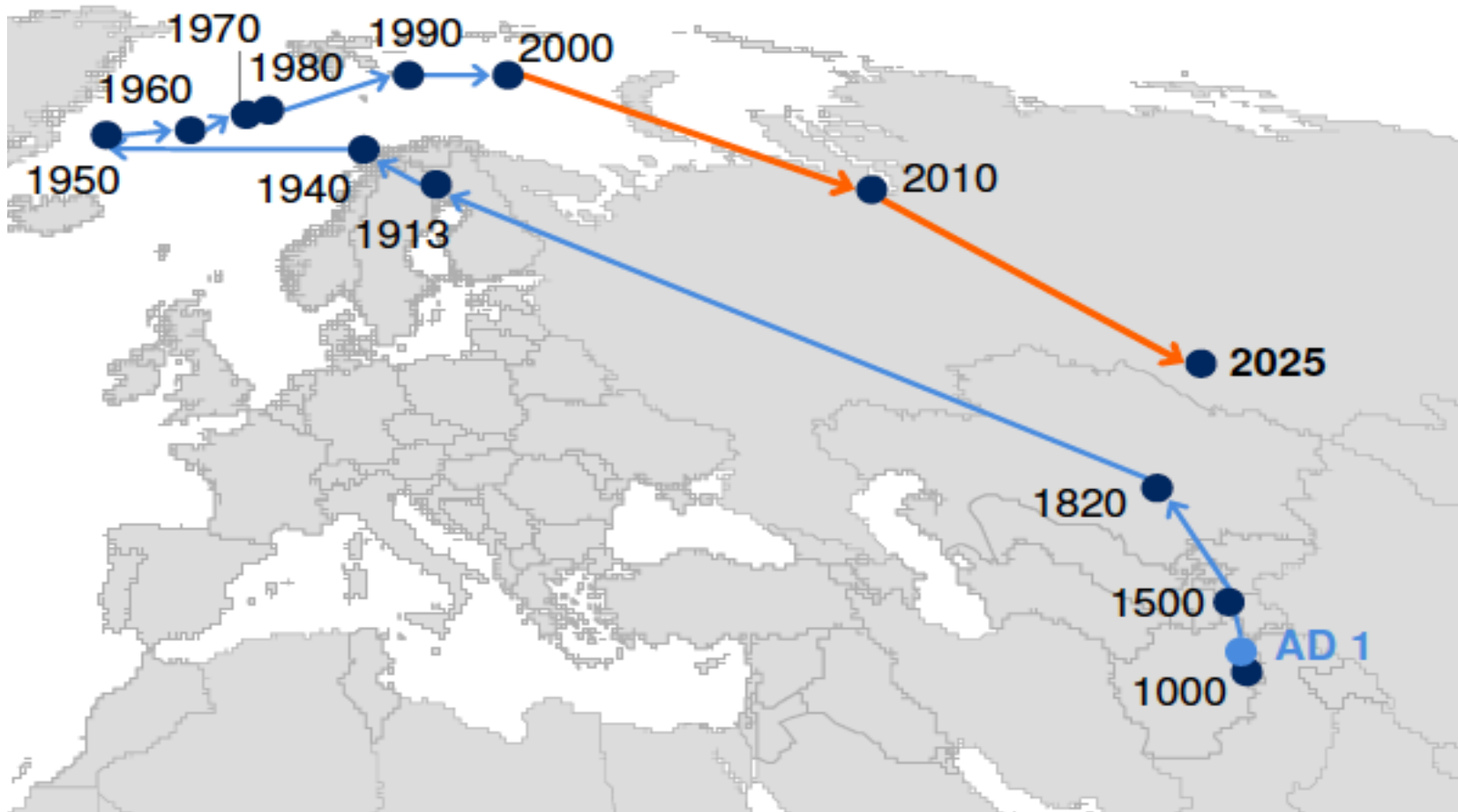
- New Economic Geography: Shift to Emerging markets / Rise of Asia
- Great Financial Crisis/ Great Recession and aftermath
- New oil Normal
- Shift in UAE & GCC links towards Asia
- Climate change and decarbonisation

Political/ Geo-political

- Arab Spring, Turmoil, Fault Lines and Reform
- Demise of ISIS/ Daesh?
- Ongoing wars in Iraq, Libya, Syria, Yemen, Sudan
- Iran: sanctions & beyond
- End of neo-liberalism & growth of populism, nationalism, protectionism and anti-globalisation?

The most rapid shift in world's economic center of gravity happened in 2000–10, reversing previous decades of development

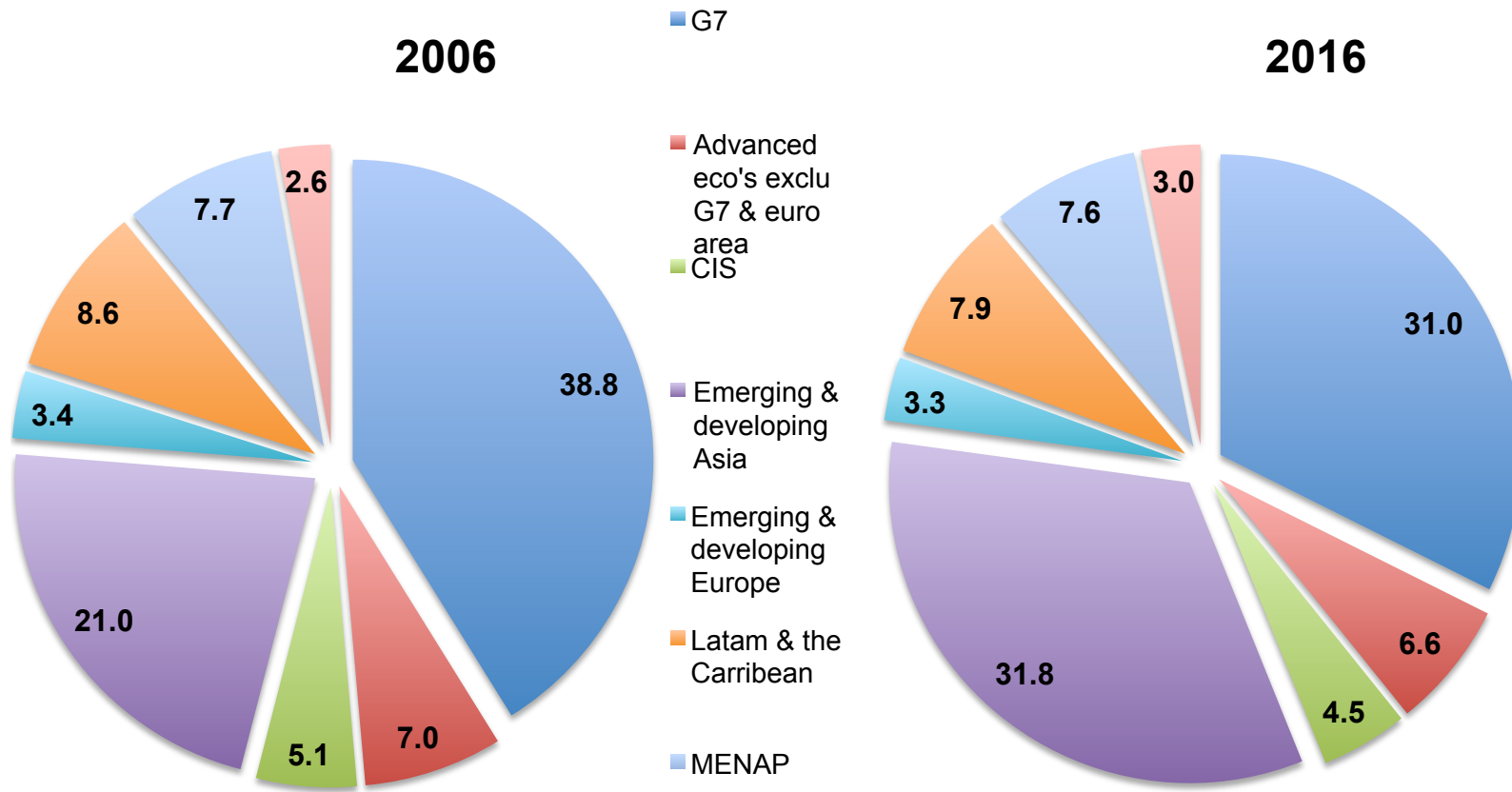
Evolution of the earth's economic center of gravity AD 1 to 2025



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Momentum has shifted to Asia, which is main trade partner of the GCC

GDP based on purchasing-power-parity (PPP), share of world total



عدو عدوي هو صديقي أنا وأخي على ابن عمي وأنا وابن عمي على الغريب

Legend: Friends Enemies It's complicated

	Al-Qaida	Egypt	Hamas	Hezbollah	Iran	Iraq	ISIS	Israel	Palestinian Authority	Saudi Arabia	Syria	Turkey	United States
Al-Qaida													
Egypt													
Hamas													
Hezbollah													
Iran													
Iraq													
ISIS													
Israel													
Palestinian Authority													
Saudi Arabia													
Syria													
Turkey													
United States													

New Oil Normal: downside risk for oil prices & resources

- **Demand side: cyclical, structural & tech factors imply downward trend in oil demand relative to activity**
 - Slowdown in EMEs, China
 - Greater Energy Efficiency Trend: falling (E/GDP) ratios
 - Climate Change & COP21 commitments; changing energy mix
- **Supply side: tech is making RE, CE, shale more competitive**
 - Shale: technology & exploitable resources widely available
 - Renewable & Clean Energy increasingly competitive
 - Return of Iran, Libya, Iraq to oil market
- **Technological innovation** affects both demand and supply side: energy storage, e-cars, flexible capacity, 4th Industrial Revolution
- **∴ Decarbonisation implies growing risk of stranded fossil fuel assets**

Oil's Future...

- While front-month oil futures have moved around, stability for longer-term ones has shifted from a level around \$85 to around \$50-\$55 a barrel
- Shale producers can live with oil at \$45-50: they are the marginal producers

● Near-month futures price ● Long-range average



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Zaki Yamani: “The Stone Age did not end for lack of stone, and the Oil Age will end long before the world runs out of oil.” (2002)



Implications of the New Oil Normal & spillover to oil importers/labour exporters

Oil Exporters

Decline in oil revenues

Tighter fiscal constraints & budget deficits

Decline in current account balance

Drop in net foreign asset accumulation

Lower government spending

Lower growth prospects

Oil Importers

Lower spending on oil imports (+)

Lower remittances (-)

Drop in tourism (-)

Decline in FDI (-)

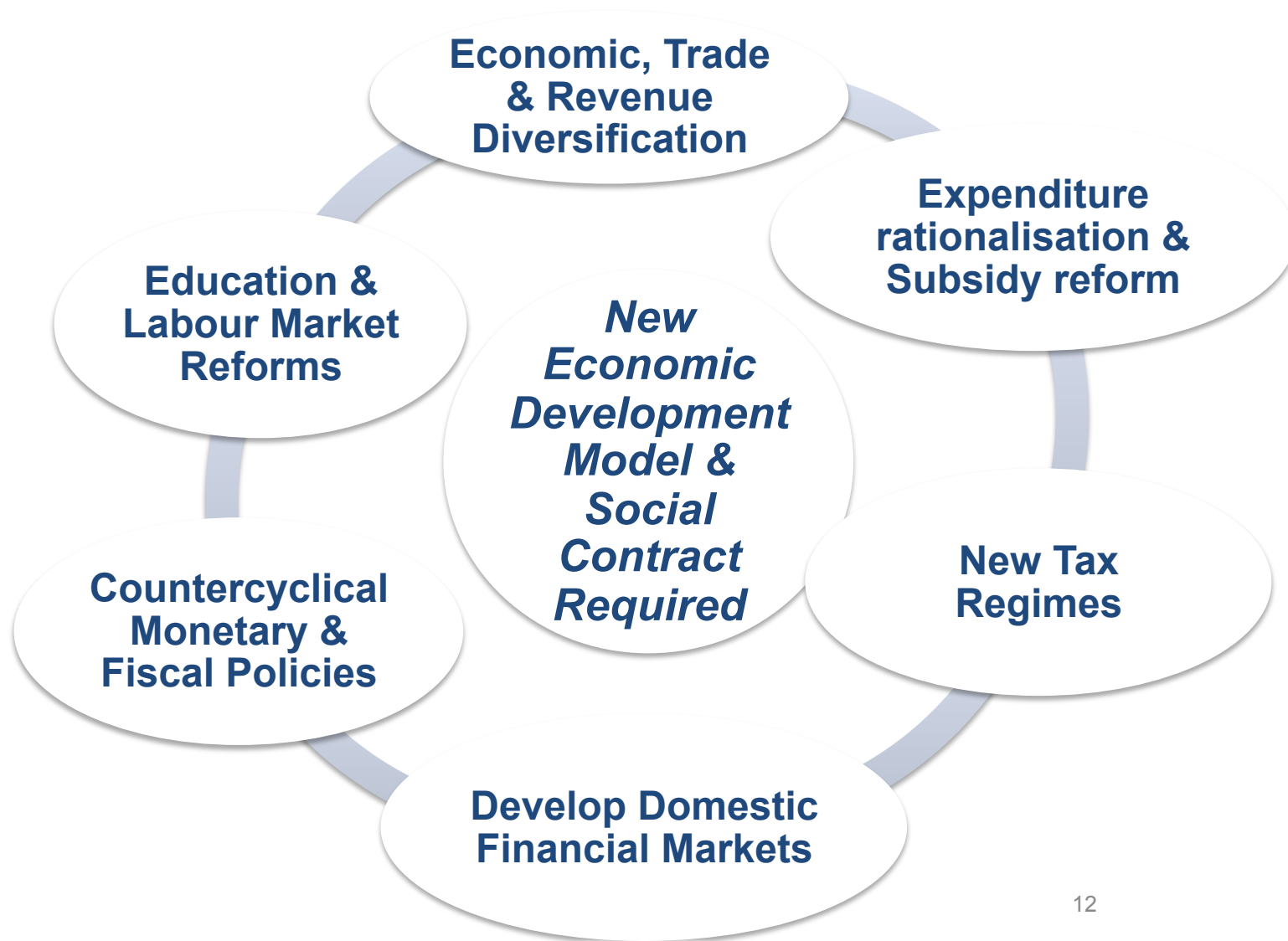
Drop in foreign aid levels (-)

MENA economies: Adapting to New Oil Normal, in Turmoil and in Transformation

	GDP (\$bn)	Real GDP growth (% change)			Fiscal balance (% GDP)			Current account balance (% GDP)		
		2016	2017	2018	2016	2017	2018	2016	2017	2018
Bahrain	32	3.2	2.4	2.6	-12.5	-10.2	-7.9	-3.8	-1.3	-1.2
Kuwait	113	3.7	2.3	3.0	-2.6	0.2	2.5	-2.1	1.8	4.0
Oman	68	1.3	1.7	4.6	-20.8	-9.0	-6.0	-17.8	-7.2	-4.5
Qatar	161	2.4	3.0	3.2	-4.0	-0.8	-0.3	-3.4	-1.2	1.0
Saudi Arabia	640	1.4	0.8	1.8	-16.8	-8.4	-5.8	-5.0	-0.3	0.1
UAE	371	2.2	1.9	3.0	-3.2	-1.2	-0.7	2.4	3.2	3.9
Algeria	151	3.3	2.8	3.1	-13.3	-8.5	-6.3	-19.2	-14.0	-12.9
Iran	376	5.2	3.0	2.7	-0.6	-0.3	-0.4	2.7	3.2	2.9
Iraq	141	6.1	1.0	1.2	-10.6	-5.3	-4.0	-8.6	-4.9	-4.1
Libya	48	2.1	15.1	12.1	-33.0	-16.5	-5.5	-40.8	-19.2	-8.9
Egypt	347	3.7	3.3	4.6	-12.2	-9.8	-7.8	-5.5	-6.2	-4.5
Jordan	39	2.7	3.2	4.0	-3.2	-2.7	-2.5	-7.7	-8.0	-3.0
Lebanon	52	1.4	3.0	3.5	-8.2	-7.8	-7.0	-17.1	-15.8	-14.3
Morocco	104	1.2	3.6	3.3	-3.5	-3.4	-3.0	-3.3	-3.5	-3.0
Tunisia	47	1.4	2.7	3.0	-5.5	-5.1	-4.5	-8.1	-7.0	-5.4
Turkey	573	2.7	2.9	3.3	-2.8	-3.5	-3.0	-4.5	-5.3	-5.5

Source: IIF MENA Outlook, Feb 2017, IMF

GCC need major economic & structural reforms to adjust to New Oil Normal



MENA/ GCC Risk Landscape

Near-term

Medium-term

Political shocks
Energy price shocks

Trumpism, Trumponomics & US policies; China rebalancing

Change in US Fiscal/Monetary & Regulatory Policies
US\$ volatility

Debt overhang & Market Liquidity/ Financial Resilience

Daeshism
Regional conflicts

Military arms Buildup

Spillover: refugees, FDI, aid, remittances

Political & social tensions

US\$ Peg

Youth Unemployment

Economic non-diversification

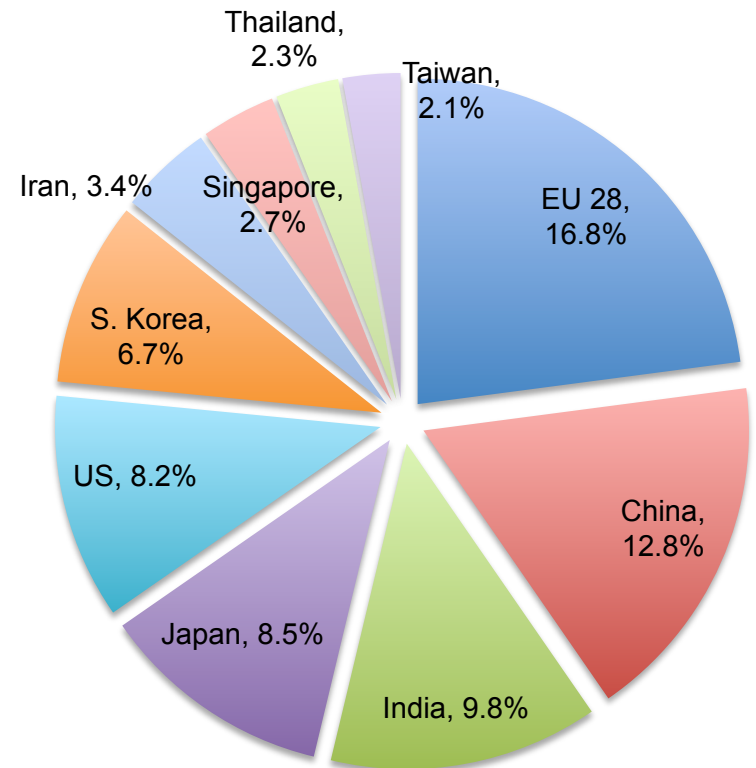
Lower oil/ energy prices

Geopolitical tensions

Will GCC continue to be the engine of growth of the region?

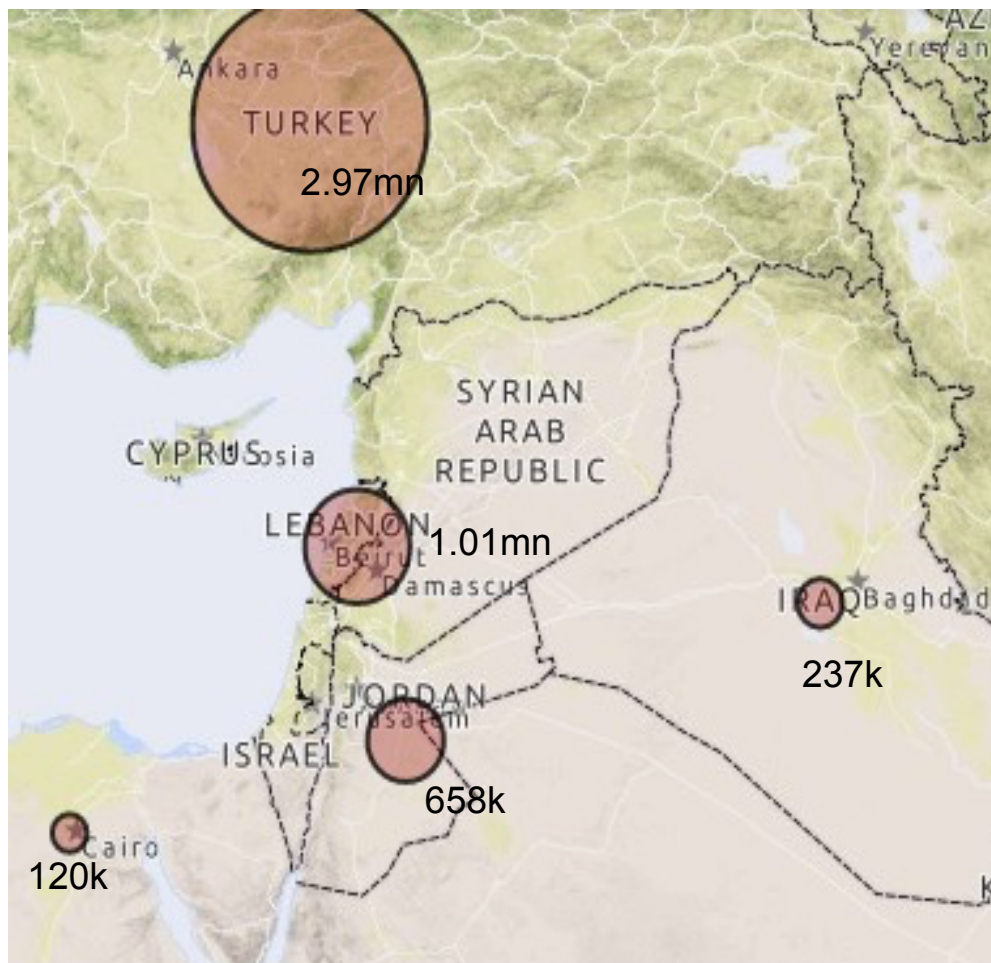
- GCC account for 50% of region's GDP & 75% of its trade
- Major capital exporter
- World class infrastructure & international connectedness
- Young, fast-growing population + attracting (young) people from the region => diversification & urbanization
- Business & investment friendly with growing international economic integration
- New Silk Road. Growing trade & investment links w Asia & Africa

Top 10 trading partners of the GCC



Conflicts, Migration/ Displacement, Destruction, Spillover => Massive Reconstruction needs

- **Half the Syrian population has been forcibly displaced:** 7.6mn internally displaced, 5mn refugees
- **Destruction of physical capital -** \$75bn (SCPR); **Cumulative losses** b/n 2011-2015: \$260bn
- **Syria needs \$180bn investment** to bring GDP to pre-conflict levels
- **Iraq** reconstruction costs≈ \$750bn
- Yemen ? Libya? Sudan? Tunisia?
- Sum reconstruction: > \$1.2 trillion
- **Time for a ME Bank for Reconstruction& Development**



Total Persons of Concern (registered):
5,029,562
(as of Apr 6, 2017)

Growth drivers & Investment Opportunities

- **Demographics driven:** infrastructure & logistics, urbanisation, Smart cities, health education
- **Leverage GCC assets:** Infrastructure, Transport, Logistics to serve region (COMESA, CA, South Asia). Integrate into New Silk Road & GVC emerging from Asia
- **Post-war Reconstruction**
- **New Oil Normal driven:** diversification, privatisation & PPP
- **Decarbonisation:** Energy Efficiency, Renewables, Clean Tech; **New Energy Finance Hub**
- **Digital economy & knowledge based innovation;** FinTech; nanotech, robotics, life sciences

Key Takeaways

- **New global economic geography has emerged over past 15 years with growing dominance by Asia**
- **Trumpism:** ↓ oil prices, ↑ conflicts; trade & economic disruption
- **New Oil Normal** requires **new Economic Development Model, New Social Contract & deep Structural Reform agenda**
- **GCC countries are on reform path.** KSA's NTP is key indicator for the region
- **GCC is the focus of MENA economic growth.** Need regional economic & financial integration & international integration into 'Silk Road Economic Belt' & EME GVCs
- **Growth drivers:** demographics, decarbonisation, Digital economy & knowledge based innovation, privatisation & PPP, postwar reconstruction

Future of MENA: through the looking glass

Thank you

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