

State and Future of the GCC Economies: A Story of Transformation

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@ International Jurists

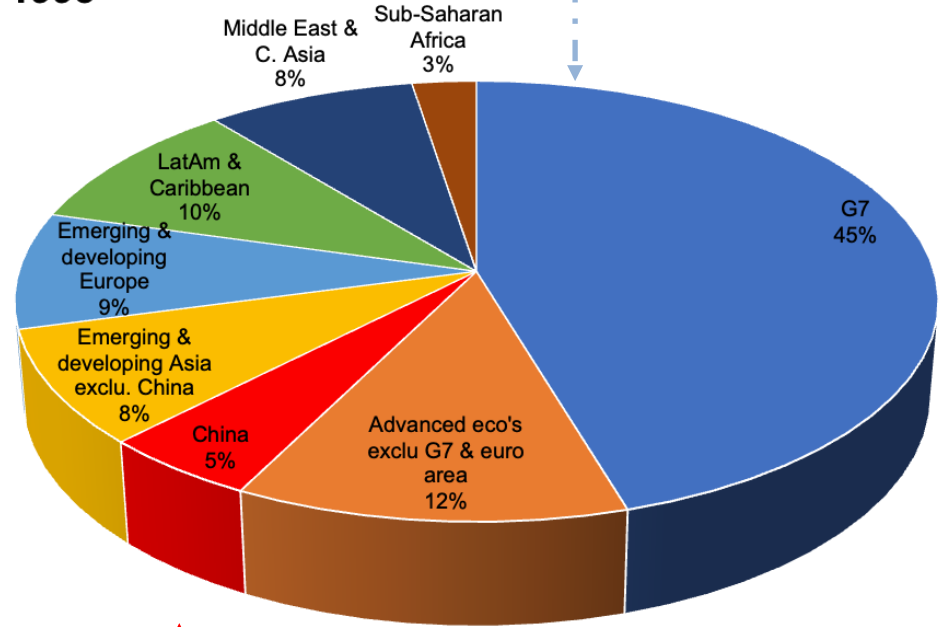
Agenda

- **Shifts in Global Economic Geography**
- **Regional Economic Developments**
- **Gulf Falcons: Transformation of KSA and UAE & Economic Prospects**
- **Key Takeaways**

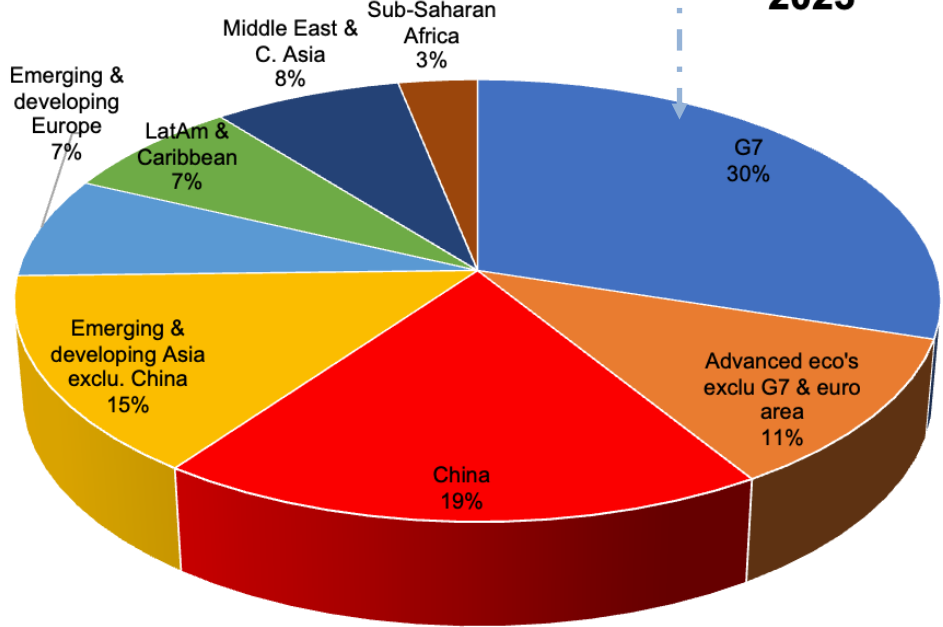
Shift in Global Economic Geography towards Emerging Asia

Gross domestic product based on purchasing-power-parity (PPP) share of world total

1993

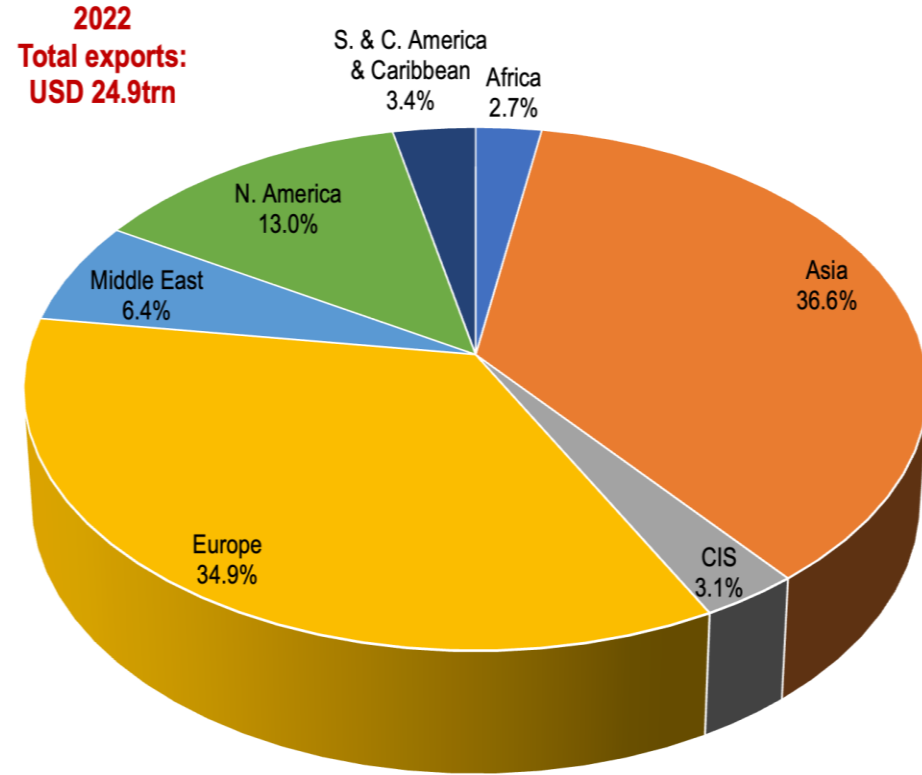
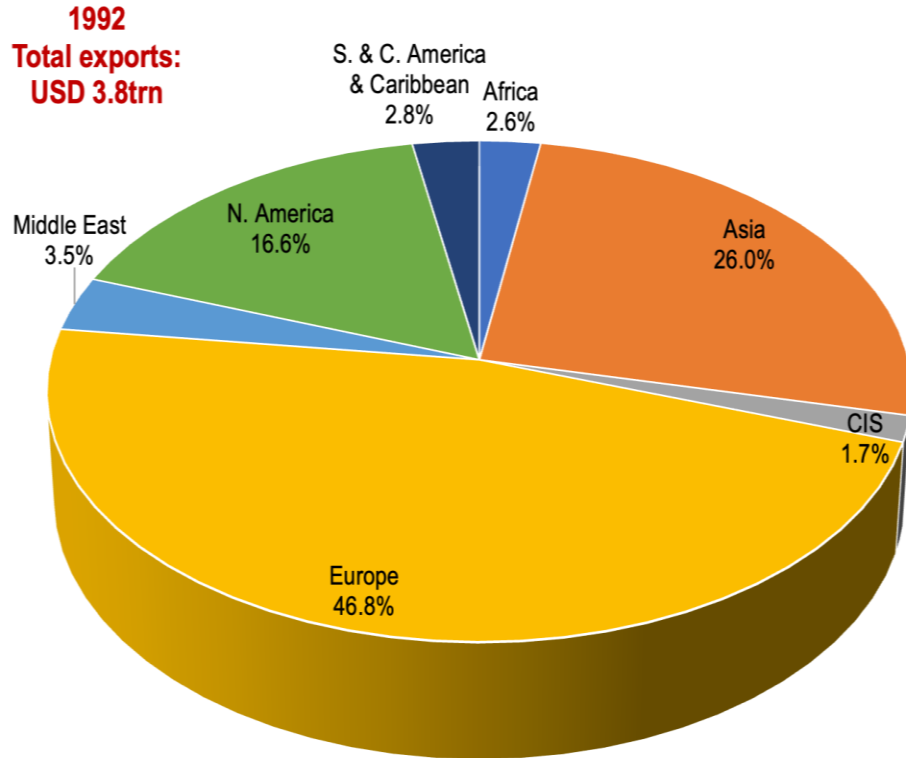


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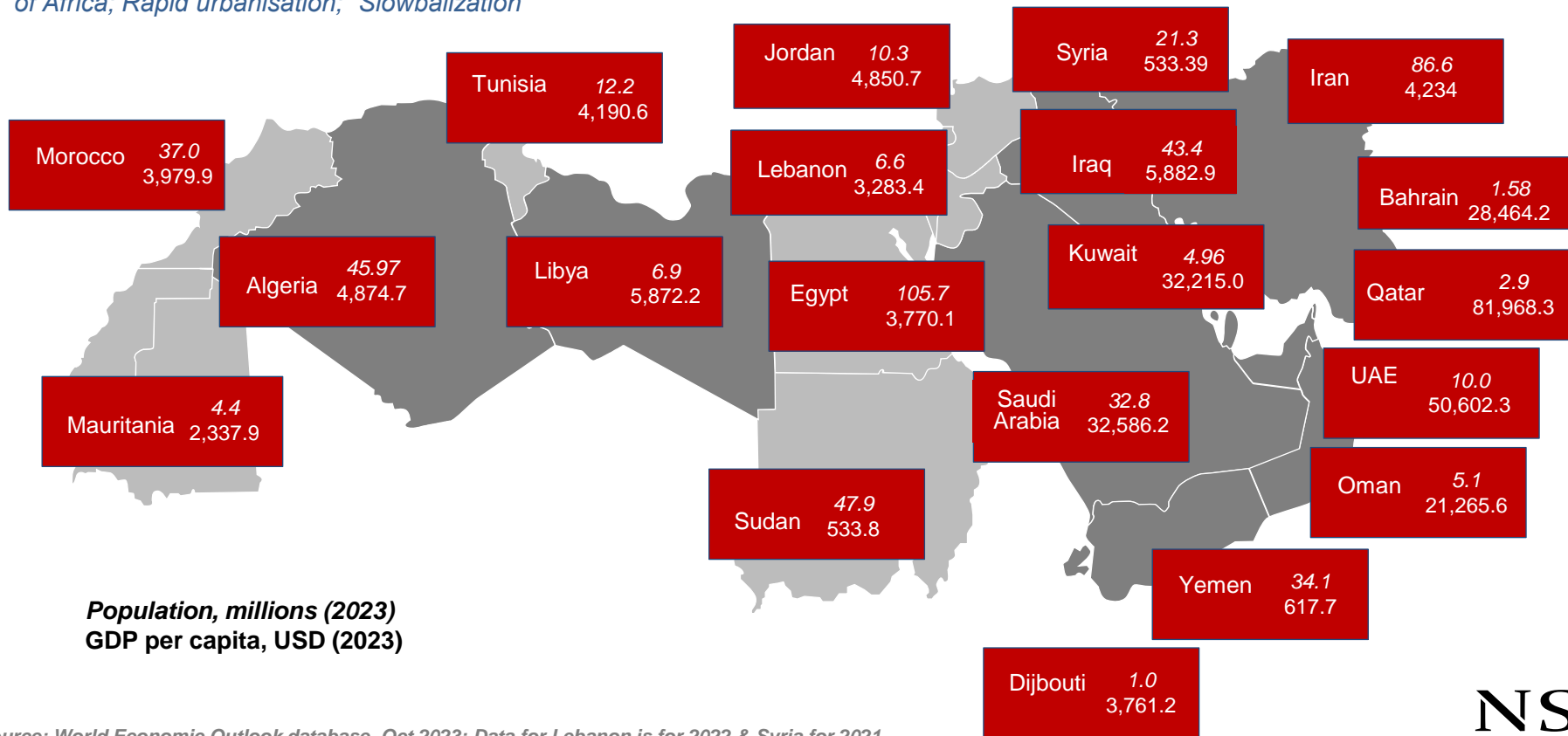
Source: World Economic Outlook database, Oct 2023

Global Trade rapidly expanded with Globalisation: Asia is the dominant trade partner for the World



MENA: Wide Inequality in Incomes, Wealth & Resources; Divergent Pandemic Recoveries

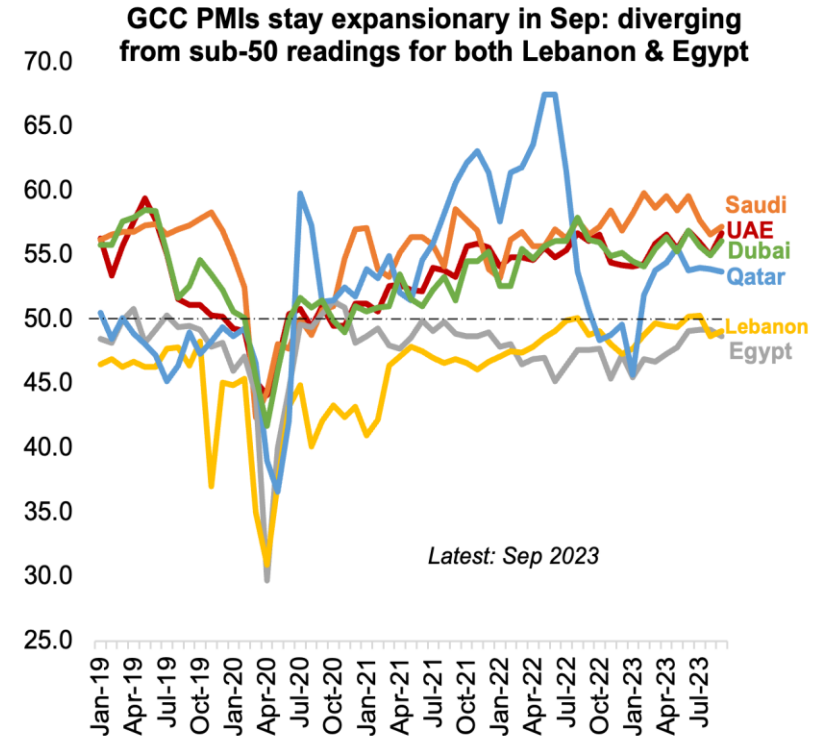
Drivers of growth: accelerating trade & investment links with China & wider Asia; Digital transformation plans; Demographics & the rise of Africa; Rapid urbanisation; "Slowbalization"



Population, millions (2023)
GDP per capita, USD (2023)

Middle East: Macroeconomic & Geo-Political Developments

- **MENA region shows divergent post-Covid recovery patterns:** oil exporters rapid recovery (including non-oil activity); oil importers lagging & facing headwinds (food & energy prices, appreciating US\$, foreign debt)
- Medium / Long-Term risks in MENA notwithstanding (e.g., climate change, regional conflicts), **GCC are on an Economic Diversification 2.0 path** (post-Covid).
- **Inflation** relatively subdued in GCC alongside surging rates across rest of MENA; food prices are rising faster, leading to concerns of poverty / inequality, food security and potential social unrest (e.g., Egypt, Jordan)
- **Regional impact of the Israel-Hamas conflict** will depend on length/depth of conflict, spillover and drawing in other parties, international ramifications/global supply chains



Source: S&P Global, Refinitiv Datastream.







Israel-Gaza Conflict & Potential Regional Impact

- Growth momentum has already slowed significantly this year; this conflict has the **potential to further slow growth** and **raise** already record-high **public debt** levels.
- Any **disruption in transport and logistics will have an impact on global supply chains, energy & food prices** => increase in global inflation, slower growth
- **Downward impact on tourism** if conflict spreads (e.g., Egypt & Jordan)
- Investor confidence will be affected, resulting in **capital outflows & lower FDI inflows**
- Geopolitical tensions could **see the dollar benefit** given its safe-haven status: difficult for nations facing currency depreciation; supports nations pegged to the dollar
- At the **end of 2022, the MENA region hosted about 2.4mn refugees** in addition to about 12.6mn internally displaced persons & more (UNHCR). Any further addition to this would put **severe strain on the hosting nations' budget & finances and socio-economic-political stability.**
- **Sectors that could be negatively affected** : markets, tourism, hospitality, real estate **NS**

GCC: On a Mission to Accelerate Diversification

- **GCC expected growth to be robust in 2024**, at a faster pace in year-on-year terms (% yoy). Relatively sheltered from the Israel-Gaza conflict
- **Strong non-oil sector activity** to drive economic growth (as evidenced by PMI & business sentiment)
- **Inflation easing**; but some categories indicate persistently high rates (e.g., housing in KSA, UAE)
- Fiscal surpluses: the GCC have **avoided procyclical spending**; more fiscal consolidation in the future
- **Strong external positions** incl. official reserves & SWFs
- Despite dollar peg, **central banks have become more active** (new policy instruments, cross-border CBDC)
- **Capital market development**: expect more debt-raising activities; public asset divestments to continue
- Evidence of **greater regional integration** within GCC & **new normalizations** => higher trade, FDI, capital flows








GCC: Selected Economic Indicators, 2023-24

	GDP (\$bn)	Real GDP growth (% yoy)		Inflation (% yoy)		Fiscal balance (% GDP)		Current account bal (% GDP)	
		2023	2024	2023	2024	2023	2024	2023	2024
	45.0	2.7	3.6	1.0	1.4	-5.0	-3.2	6.6	7.0
	159.7	-0.6	3.6	3.4	3.1	14.0	9.5	30.3	27.7
	108.3	1.2	2.7	1.1	1.7	6.2	5.9	5.1	5.4
	235.5	2.4	2.2	2.8	2.3	10.8	10.1	17.6	15.4
	1069.4	0.8	4.0	2.5	2.2	-0.3	0.3	5.9	5.4
	509.2	3.4	4.0	3.1	2.3	5.1	4.4	8.2	7.7
GCC	2127.1	1.5	3.7	2.6	2.3	3.5	3.3	9.6	8.8

Source: *Regional Economic Outlook for MENA & Central Asia, International Monetary Fund, Oct 2023.*

Pandemic Demonstrated Vulnerability of GCC's ED 1.0 Strategy

Double whammy of Covid + Oil price shock => acceleration of reforms

	Impact from Pandemic + Oil Price Shocks	Changes to Policies
GDP growth	 2019: 1% 2020: -4.8%	Diversify into new economic sectors/ investments/ policies (manufacturing, start-ups, SMEs, "new" & digital economy)
Non-oil sector growth	 2019: 2.4% 2020: -4.0%	Opening up new sectors (e.g. KSA tourism); adjusting to the "new" normal; accelerated digitisation, automation etc.
Jobs		Long-term residency & new visas for skilled workforce; build a "knowledge economy"
Fiscal balance (% of GDP)	 2019: -1.8% 2020: -9.0%	Fiscal consolidation & sustainability
SWFs		Re-focus on domestic & regional investments in addition to advanced nations. Placing bets on "new" asset classes
Trade balance (surplus)	 2019: \$207.7bn 2020: \$103.2bn	Trade agreements with old & new strategic partners
FDI	 2020: +12.4% to \$27.7bn	New sectors of opportunity (renewable energy, fintech, hydrogen etc) in addition to investments in energy infrastructure
Foreign policy		Disengagement from regional conflicts, foreign aid and support directed at Bahrain, Egypt, Pakistan and others

Tools for Economic Diversification 2.0

- Regional Integration
- Trade & investment to Asia & Africa
- Devt of the Red Sea

Regionalised Globalisation

Liberalisation & Structural Reforms

- Increase private sector activity
- Labour market / residency reforms
- Digitalisation
- Privatisation; PPP; Capital Market devt

New Economy Investments & Policies

- Digital Economy/ Transformation
- Energy Transition
- Domestic/ regional SWF investments

Fiscal Consolidation & Sustainability

- Mobilize non-oil revenue
- Phase out poorly targeted subsidies
- Social security

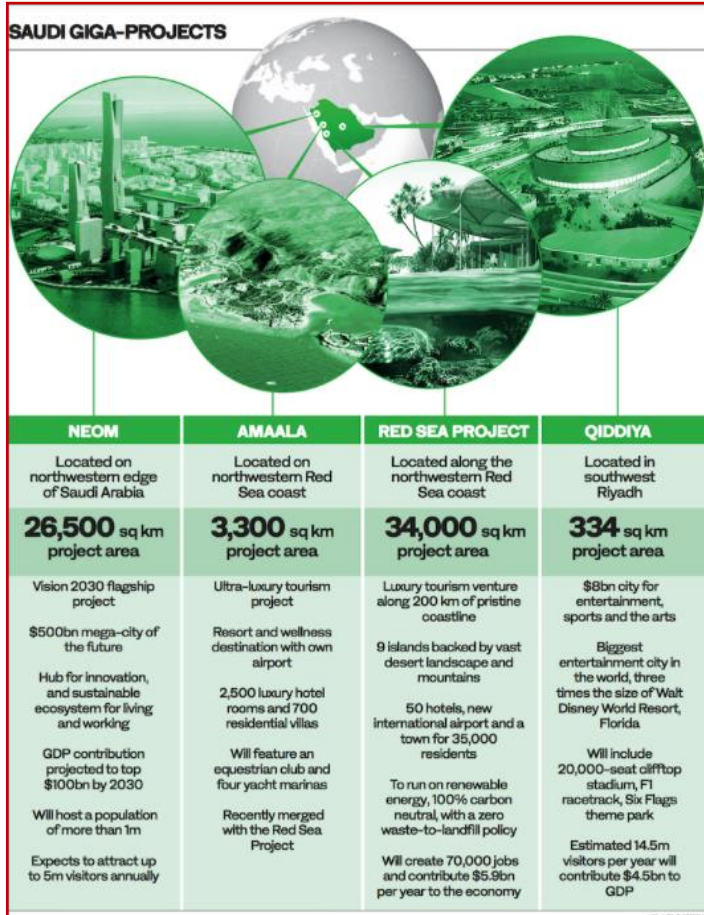
Countercyclical Monetary & Fiscal Policies

- Avoid procyclicality
- Leverage higher oil prices to reduce debt burdens
- Develop deep, liquid financial markets

Recent Reforms in the GCC enable increased access

- Opening up to **foreign investors** & supporting new sectors/ businesses (e.g. AI, EVs)
- Inclusion in **MSCI** (UAE, Qatar, Saudi Arabia)
- **Privatisations** of state-owned assets
- **Listings** of SOEs, family-owned businesses and related
- Alternative stock exchange with **lighter listing requirements** Nomu in Saudi Arabia; plans for Nasdaq Dubai Growth Market
- **Debt market development** gathers pace: green bonds & sukuk issuances are developing; UAE federal govt's debut dollar bond sale (Oct 2021)
- Priority reforms incl. developing a yield curve, increasing market liquidity through secondary markets trading & developing domestic corporate bond markets
- Longer-term visas => diversify labour market, **attract talent** + increase flexibility for expatriates
- **Normalisation policies**
- Support **increased trade-investment linkages** using trade agreements (GCC-China, GCC-S. Korea in discussions) and CEPAs (UAE has ratified 4; another 6 more to be signed before end-2023)

4 Transformational Giga Projects in Saudi Arabia being Funded by the PIF



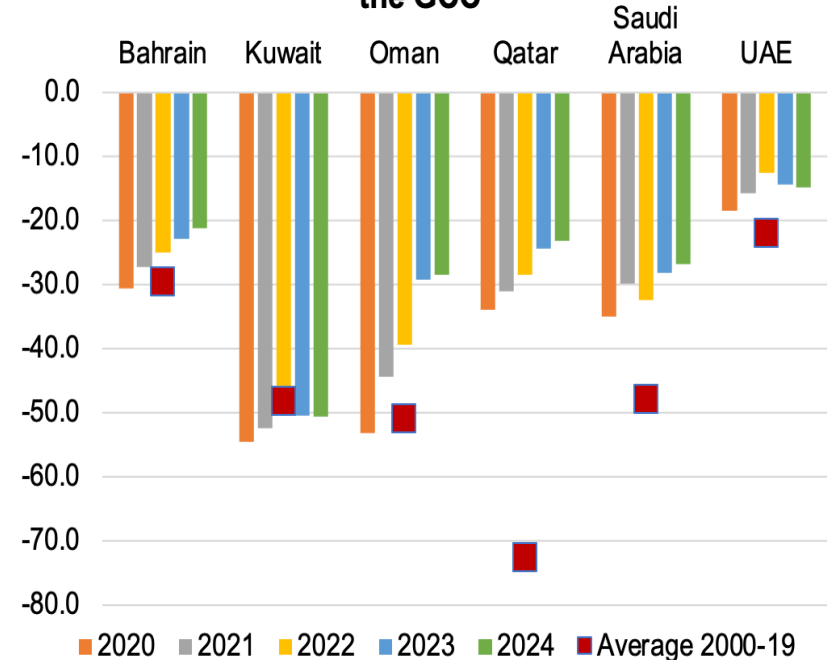
Saudi Arabia: Ambitious Megaprojects to Support Growth

- **Non-oil sector** to drive economic growth (services / tourism, investments). **Mega & Giga projects** to support diversification efforts + job creation
- Saudi to keep **funding options** open: debt issuance to finance fiscal deficit; further sales of Aramco shares.
- Public Investment Fund (**PIF**) to continue **investing in regional & domestic projects**
- **Riyadh's Expo bid for 2030**: win would solidify Vision 2030
- **Inflation** to remain contained in 2024 (despite pressure on rents). **Credit growth has been strong** (thanks partly due to mortgages); policy tightening has seen this pace slow in recent months
- **Fall in oil revenue** to be mirrored in lower trade & current account surpluses alongside a return to fiscal deficits
- Sustained **momentum of structural reforms to continue**

UAE: Recovery Driven by Oil & “New” Non-oil Sectors

- **GDP** growth supported by **strong domestic activity** (non-oil sector)
- Focus on “**new**” non-oil sectors like manufacturing, **Renewable Energy**, FinTech, AI & Blockchain **alongside** “**old**” players tourism & hospitality and trade & logistics (albeit with a difference)
- **Ongoing structural reforms** (e.g., long-term residency, pensions, support for SMEs) to attract firms & skilled personnel
- **Trade liberalisation**: forging new trade & investment linkages via CEPAs (re-export hub, boost non-oil sector exports)
- **Growing regional links**: e.g., swaps with Egypt central bank, industrial integration with Jordan, CBDC with Saudi Arabia
- **Fiscal & external surpluses to remain high** thanks to elevated oil prices
- **Fiscal sustainability & consolidation**: phased introduction of **corporate income tax** to boost non-oil revenues

Diversification benefits: UAE's non-oil fiscal deficit as % of non-oil GDP remains lowest in the GCC



Source: IMF's Regional Economic Outlook for MENA & Central Asia, Oct 2023.

MENA Economic Prospects will be heavily influenced by GCC's strategies & policies

- **Saudi & UAE are implementing Economic Diversification 2.0** => less volatile, sustainable, growth & development + **expanding Regionalised Globalisation and integrating GCC-linked region.**
- **ME/GCC structural transformation will be driven by:**
 - ✓ **Privatisation, PPP, Capital Market Development**, efficient management of State assets, labour market liberalisation
 - ✓ **Energy transition:** Global Energy Crisis and investments in RE and Climate risk resilient infrastructure change will draw a **New Global Energy Map**
 - ✓ **Digitalisation** & modern technologies (AI, automation & robotics)
 - ✓ **Regionalised Globalisation** can lead to a transformation of the GCC-linked region including ME, East Africa; e.g., **Red Sea Council**
- **Emergence of the GCC Falcons**

GCC's 30-year Economic Transformation & Future Prospects

Initial Phase: Oil discovery & modernisation

- Moving from desert lifestyle to creating urban spaces
- Oil wealth used to develop the economies: GDP growth + fiscal, current & BoP surpluses
- Massive spending on infrastructure, health, and education => raise standards of living
- Creation of Sovereign Wealth Funds to manage oil wealth
- Peg to the USD for monetary stability

Diversification Phase

- Population surges: young demographics + immigration
- Melting Pot of nationalities, cultures, races, religions, ethnicities drives innovation
- Build up of world standard hard & soft infrastructure, transport & logistics
- SEZs as a means of clustering, diversification & private sector development, FDI
- Liberalisation of rights of establishment, trade, FDI
- Sound & efficient legal & regulatory frameworks
- International Financial Centres (ADGM, DIFC, KAFD, QFC) & SWFs to manage & deploy region's Wealth and Assets

Future: Soaring Falcons

- Benefit from global decoupling/fragmentation
- Digitalisation + New Tech sectors (Fintech, DeFi, Space, AI, transversal tech)
- New, emerging Global Energy Map & energy transition
- Attracting specialized human capital + more labour mobility
- New economic partners (via FTAs)
- Regionalised Globalisation: Driving & supporting Regional Economic Integration.
- Moving towards sustainable development, Net-Zero emissions

Common factors: political stability, absence of burden of legacy systems (tech, regulations/ legal, sound macroeconomic policies, low taxation, peg to the \$, no financial crises

Not Without Risk: Major Headwinds for Outlook

- **Israel-Gaza conflict:** regional impact will depend on length/depth of the conflict, spillovers and expansion of conflict.
- **Geopolitical risks:** breakdown of Israel normalisation pacts; social unrest
- **Oil prices:** Much higher prices if conflict extends => higher global inflation & strained budgets => risk of global slowdown & lower demand. Fiscal strain if oil falls < \$70 for a sustained period
- Higher **food prices**, over-dependence on food imports => food security
- Higher **borrowing costs** (raises interest expense burden)
- **Tighter financial conditions** (elevated debt burdens, esp. SoEs & effect on debt repayments)
- Additional **fiscal support** (e.g., increase in subsidies)
- Extended slowdown in **China**
- Impact from **climate change** (such as heat, droughts) & failure of climate change adaptation

Middle East highly exposed to Climate Change Risk; COP28 will witness major new commitments.

Rising temperatures: over past three decades, temperatures in the Middle East have already risen by 1.5°C, **twice the global increase of 0.7°C**. By 2050, average summertime temperatures could exceed 30°C in half the region's countries!

Global warming is exacerbating desertification, water stress & rising sea levels. 20% reduction in water supply in the Middle East could decrease GDP by up to 10%.

Negative impact on GDP: a temperature increase of 1°C in 5 of the hottest countries (Bahrain, Djibouti, Mauritania, Qatar & UAE) results in an immediate decline in per capita economic growth of ~2 percentage points.

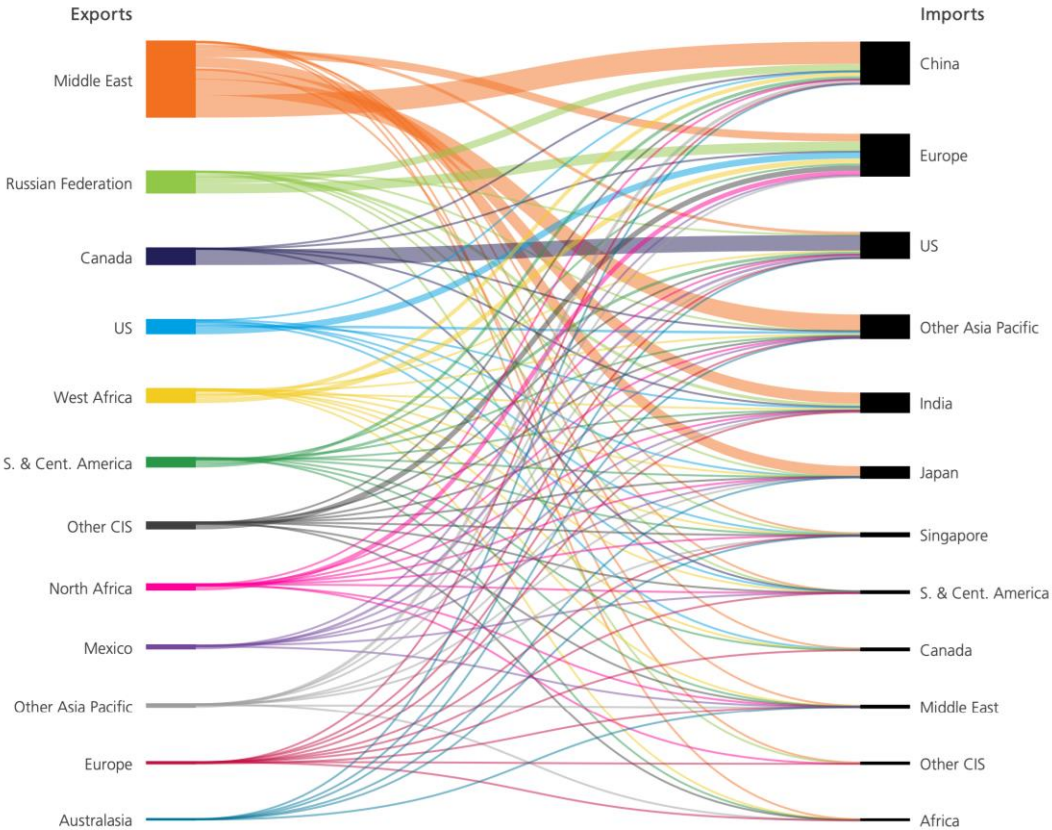
Climate migration: 22.3 million people worldwide were internally displaced globally due to extreme weather events in 2021 & accelerating with climate change.

Growing risk of Stranded Fossil Fuel assets. Global losses range between USD 21.5 -30.6trn

Climate Risk Mitigation & Adaptation are urgent priorities

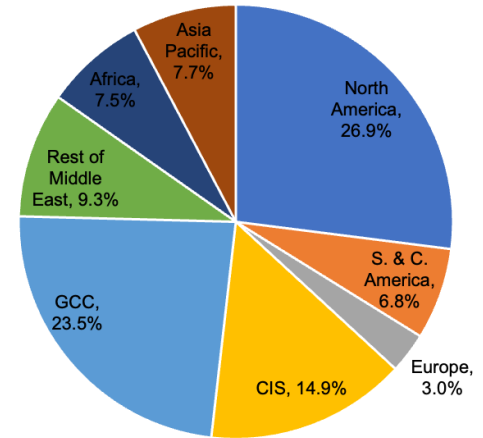
- Develop & implement **Climate Change strategies, not just NZEs**
- Massive investment in Renewables & Climate Tech
- Increase **role of the private sector**
- Measures to **contain & reduce emissions:** carbon taxes, reduce subsidies & strengthen regulation
- Boost public **investment in climate resilient infrastructure**
- **De-risk fossil fuel assets: privatisation**
- Build **financial & institutional resilience** to natural disasters/climate risk

GCC accounted for 23.5% of global oil production in 2022; but Energy Transition is underway with development of Hydrogen & RE => New Global Energy Market developing

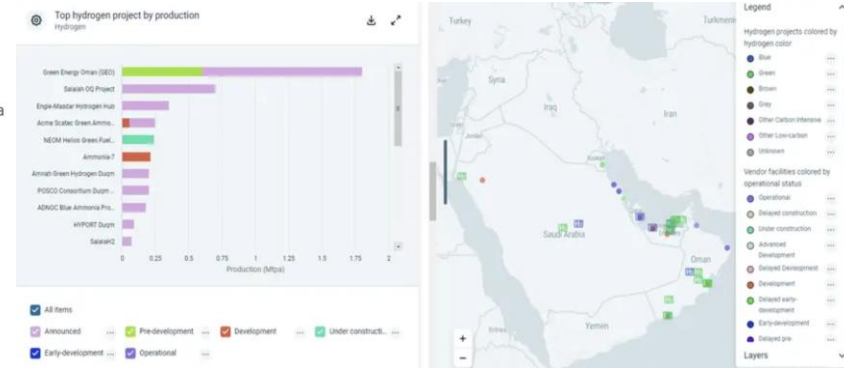


Source: Energy Institute Statistical Review of World Energy 2023

Share of global oil production, 2022



Low carbon hydrogen projects in MENA; largest share geared towards green hydrogen



Source: Woodmac LENS Hydrogen screenshot : Hydrogen projects view

Top Arab Destination Countries for 2022



UAE

continued its lead in projects (57%)

Qatar

ranked second in capex with \$29.8 billion involving 135 projects

Oman

ranked sixth in projects, capex and new jobs

Egypt

came first in capex (\$ 107 billion)

Saudi Arabia

Came second in projects (217, or 13.4% of total)

Morocco

came third in capex and jobs, and fifth in projects

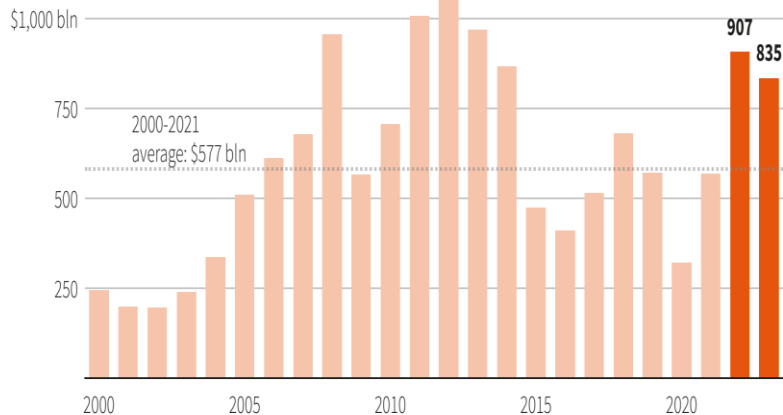
Of 20 Arab countries, the top five in all indicators, notably the UAE, Saudi Arabia, Qatar, Egypt and Morocco, make up nearly 92% of projects, 88% of capex and new jobs

Source: "The Investment Climate in Arab Countries in 2023" report, Dhaman.

GCC SWFs Increased Reach *(Global, Regional, Domestic Investments)*

- IMF: ME oil producers set for \$1.3tn oil windfall through 2026
- SWFs pursuing domestic agenda to support economic diversification & have become more active in local & regional opportunities

OPEC members' annual net oil export revenue is forecast to surge



Source: EIA

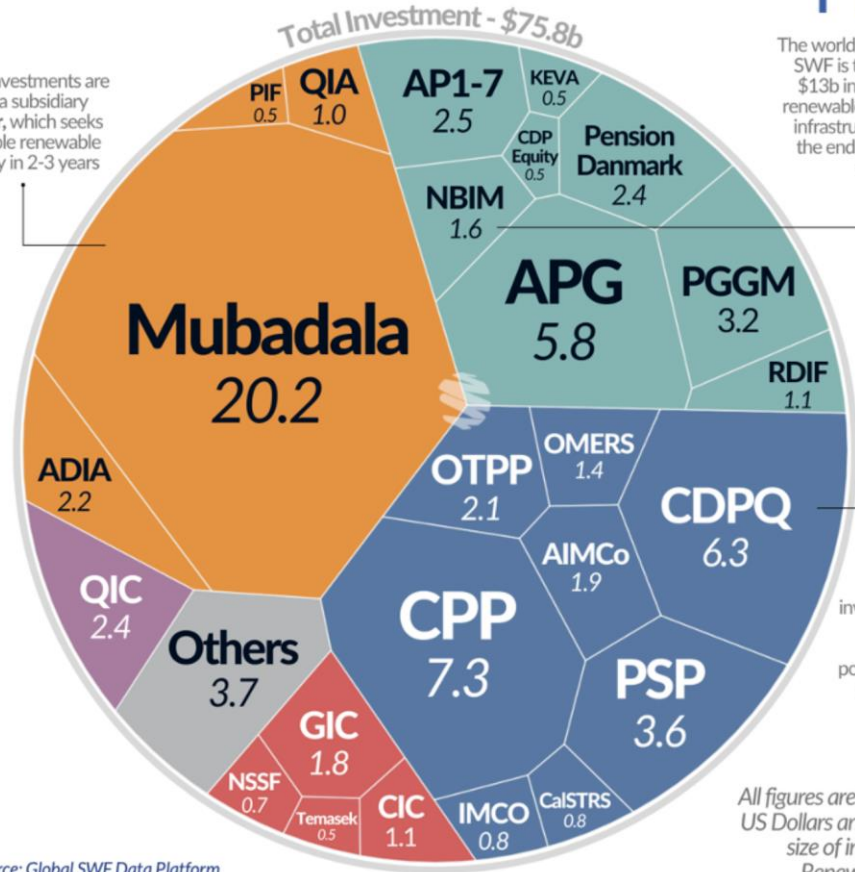


Largest State-Owned Investors in Renewable Energy



Most investments are done via subsidiary Masdar, which seeks to double renewable capacity in 2-3 years

The world's largest SWF is targeting \$13bn in unlisted renewable energy infrastructure by the end of 2022



Source: Global SWF Data Platform

The Canadian investor is aiming for its low-carbon asset portfolio to reach \$44b by 2025

All figures are in Billions of US Dollars and reflect the size of investment in Renewable Energy

● North America ● Middle East & North Africa ● Europe ● Asia ● Oceania

Changing Geopolitical Landscape => KSA & UAE are key to GCC & MENA, given Geo-eco-pol weight & regionalisation strategy

Changes in Regional Political Strategy

- **Disengagement from Regional conflicts & confrontation** (Yemen, Iran, Libya, Israel, Turkey)
- **Greater regional integration:** foreign aid & financial support; FDI, joint industrial partnerships
- **Forging new links:** diplomatic openings and new trade & investment agreements

Regionalised Globalisation

- US-China decoupling opens opportunity for greater **regional integration; GCC-China FTA**
- Opening to **Africa** (e.g. Red Sea Council, Asia)
- **Trade & investment agreements** (UAE's CEPAs with India, Indonesia, Abraham Accords..)
- **Economic partners integrated into GCC-connected Global Supply Chains**
- **GCC Regional Investments** (hard infrastructure, transport, logistics, food & energy security)
- **Integrated GCC power grid** (powered by RE), extending into ME, Europe, Pakistan & India

Key Takeaways: Soaring Gulf Falcons

- **Gulf Falcons Saudi & UAE are maturing economies**, implementing Economic Diversification 2.0 resulting in less volatile, sustainable, growth & development (fallout from the Israel-Gaza conflict: still a fluid situation)
- **Gulf Falcons are expanding & integrating GCC-linked region into Global Supply Chains**
- Global fragmentation, decoupling, opens **new opportunities for Gulf Falcons**
- **Gulf Falcons will drive regional structural transformation through:**
 - ✓ **New Global Energy Map**, Energy Transition & combating Climate Change
 - ✓ **Finance Structural Change**: Privatisation, PPP, efficient management of State assets & private sector groups
 - ✓ **Provide Infrastructure services** (transport, logistics, telecom, energy) using existing facilities
 - ✓ **Finance Regionalised Globalisation**
 - ✓ **Digitalisation & New Economy**
 - ✓ **Manage growing wealth & assets of the region** + increase financial access/ deepening

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