

THE MIDDLE EAST IN A FRAGMENTED, MULTI-POLAR WORLD

*Presentation at the 19th Korea Middle East Cooperation Forum
Doha, 5-8 November 2023*

Dr. Nasser Saidi
6 Nov 2023

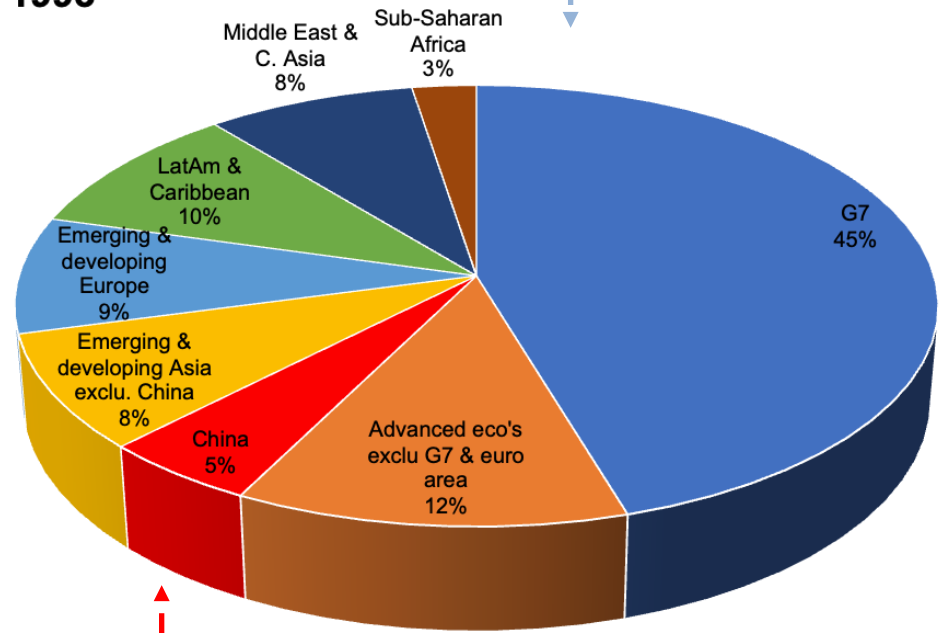
Agenda

- **Tectonic shift of the global economy towards Asia**
- **Ascendancy of the GCC, Regionalised
Globalisation & rise of the Gulf Falcons**
- **Geo-Eco-Political developments & Israel-Gaza war**
- **Building blocks for ME stability & development**

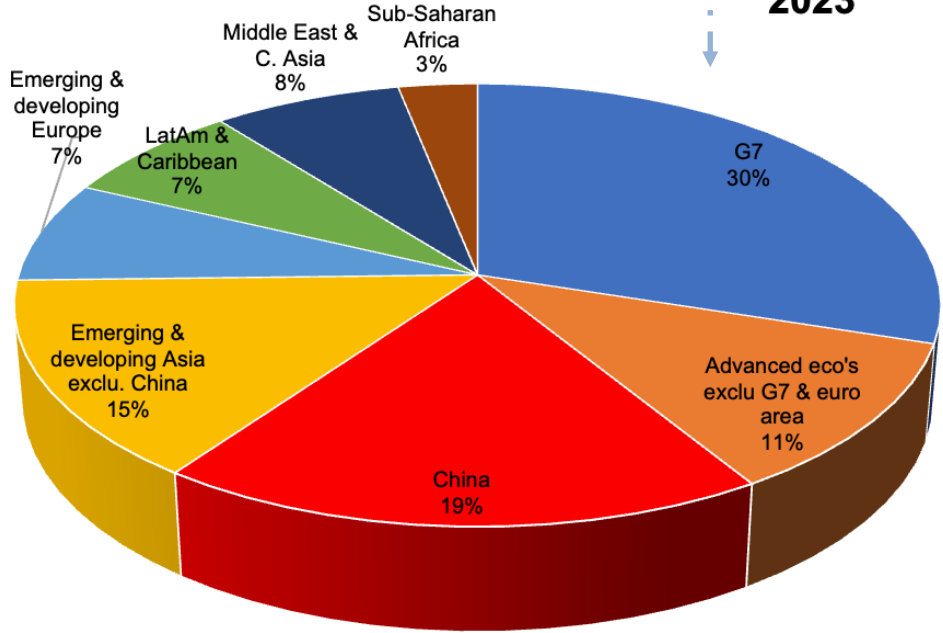
Shift in Global Economic Geography towards Emerging Asia

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

1993

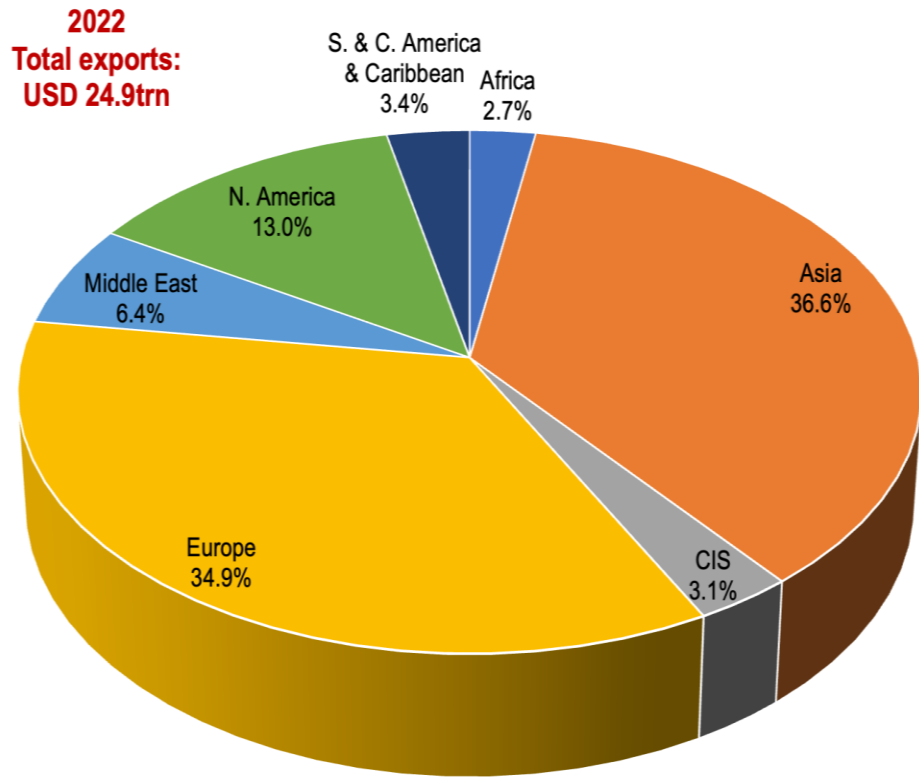
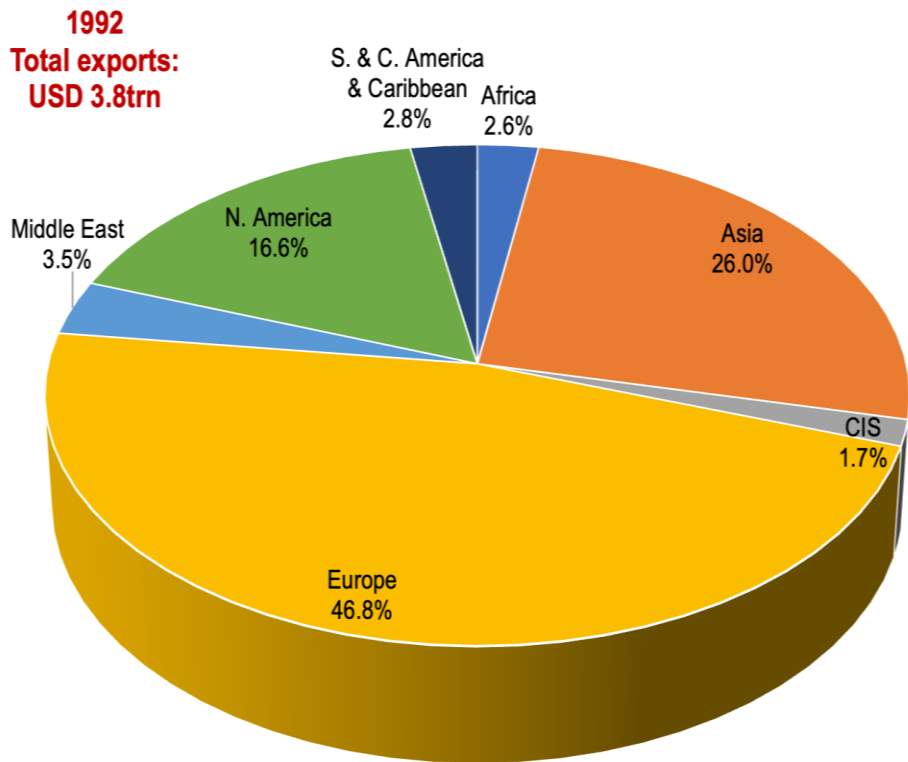


2023



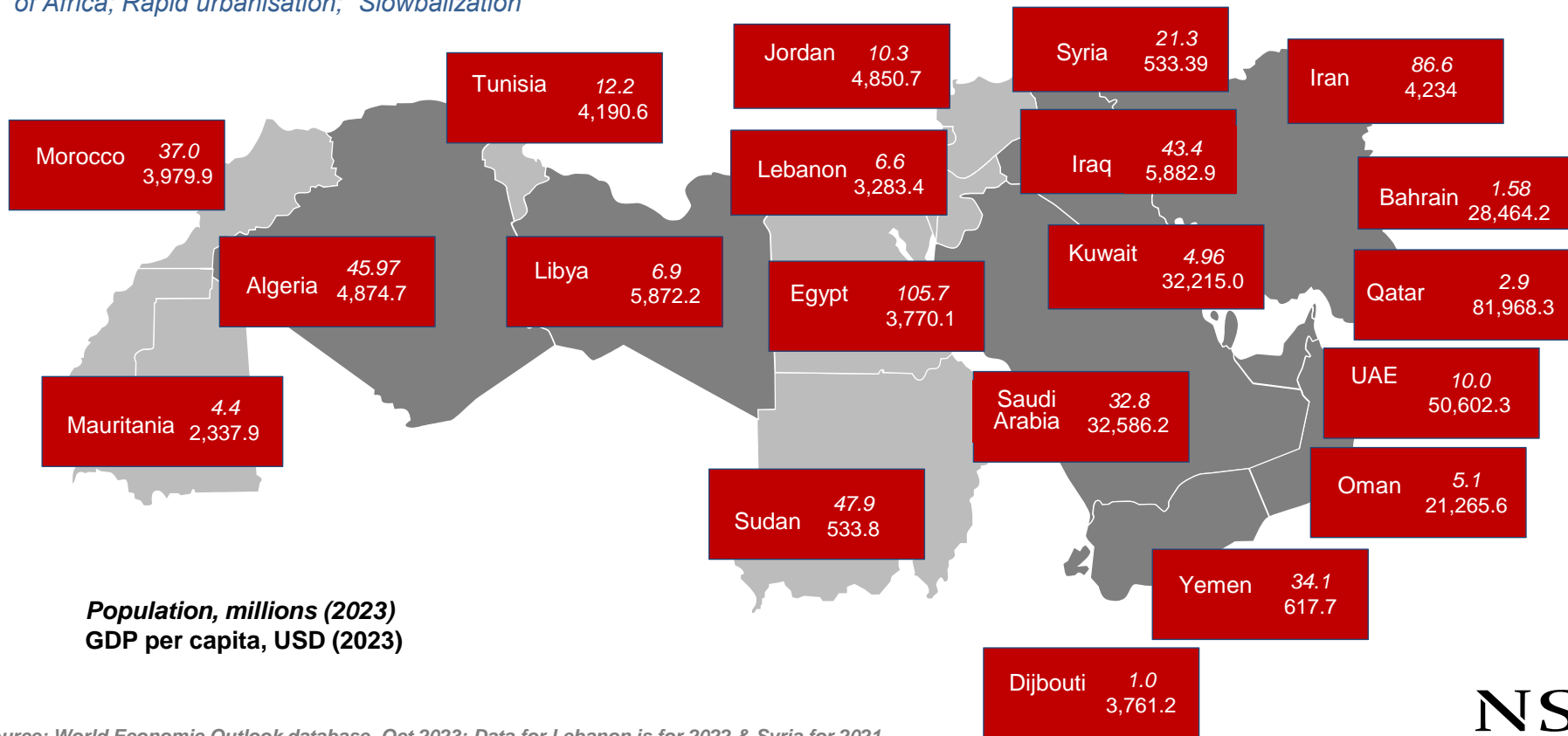
Source: World Economic Outlook database, Oct 2023

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



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)

GCC: On a Mission to Accelerate Economic Diversification

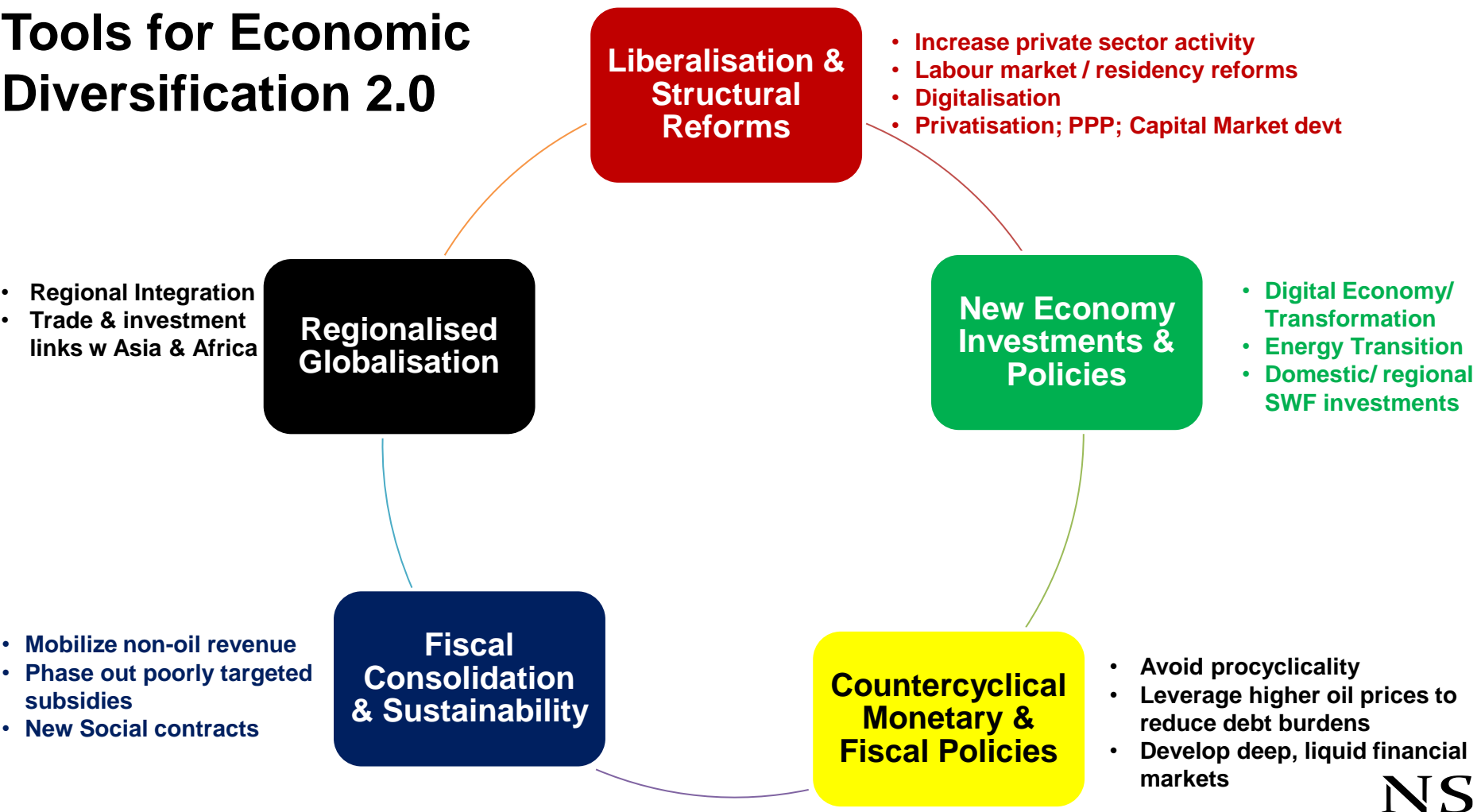
GCC: Selected Economic Indicators, 2023-24

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

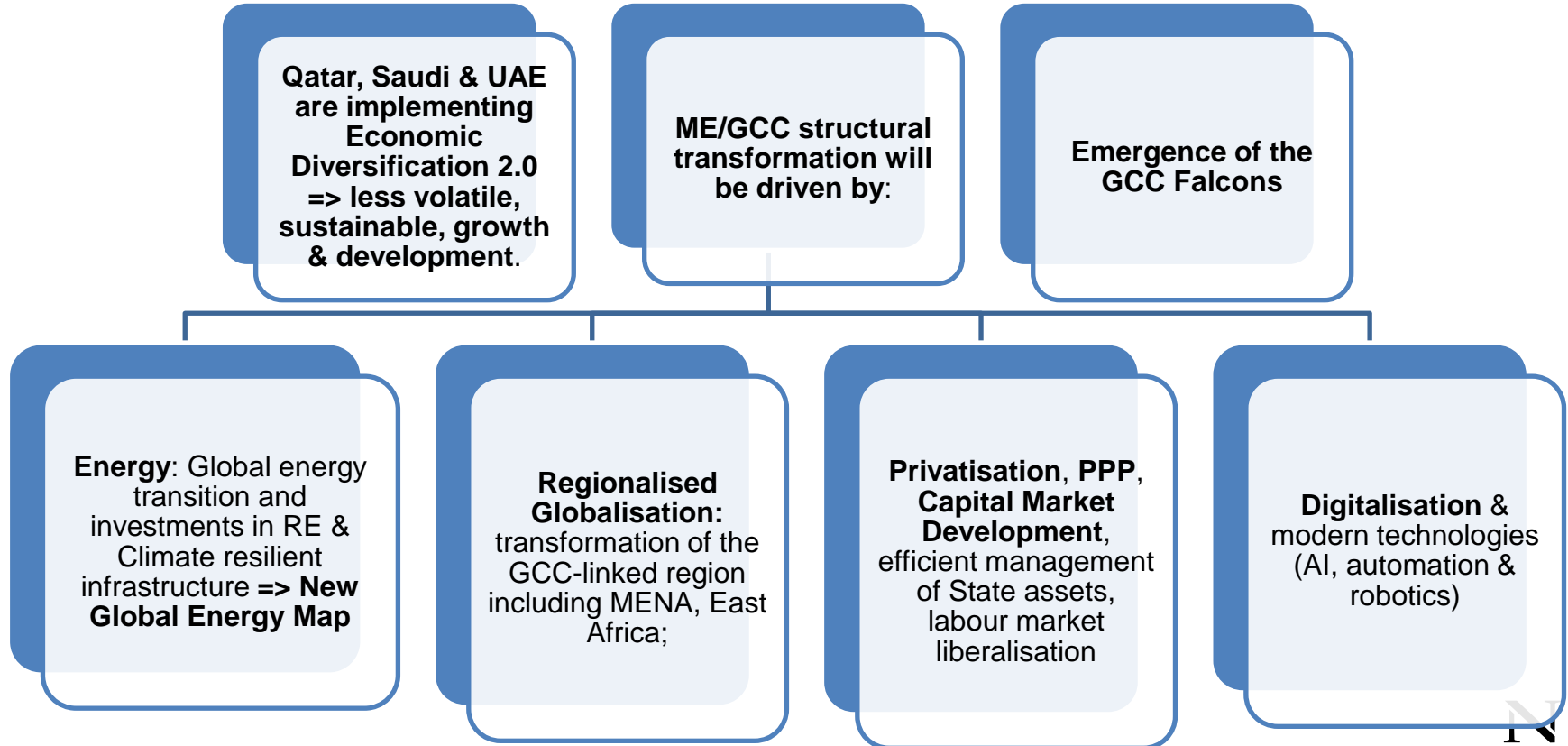
	GDP (\$bn)	Real GDP growth (% yoy)		Inflation (% yoy)		Fiscal balance (% GDP)		Current account bal (% GDP)	
		2023	2024	2023	2024	2023	2024	2023	2024
	45.0	2.7	3.6	1.0	1.4	-5.0	-3.2	6.6	7.0
	159.7	-0.6	3.6	3.4	3.1	14.0	9.5	30.3	27.7
	108.3	1.2	2.7	1.1	1.7	6.2	5.9	5.1	5.4
	235.5	2.4	2.2	2.8	2.3	10.8	10.1	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.

Tools for Economic Diversification 2.0



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



Regionalised Globalisation

- Multipolar & fragmented world + US-China decoupling opens opportunity for greater **regional integration & cooperation with Asian countries.**
- **Trade & investment agreements: GCC-China FTA, CEPAs** (India, Israel, Turkey, Indonesia, Georgia & Cambodia), **BRICS+**
- Opening to **Africa & Asia: AfCFTA, AFTA, APEC, RCEP**
- Regional 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

Israel-Gaza War & Potential Impact

- Impact of the Israel-Hamas war will depend on length/depth of conflict, spillover and drawing in of other parties, international ramifications, global supply chains effects.
- **Lebanon, Egypt, Jordan, Iran most vulnerable:** decline in growth, current account and fiscal deficits, fall in international reserves. Sectors that could be negatively affected : tourism, hospitality, construction/real estate, 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
- Any **disruption in transport and logistics will have direct an impact on global energy market, global supply chains & food prices** => increase in global inflation, slower growth
- Global growth momentum has already slowed significantly this year; the war has the **potential to further slow growth rates, raise** already record-high **public debt** levels into crisis.

3 Scenarios. Scenario 1 assumes that Israel launches precise raids to retrieve hostages, targeting Hamas leadership, and destroying military infrastructure in Gaza. Scenario 2 involves large-scale ground operation & higher chances of regional conflict. Scenario 3: ceasefire followed by release of hostages & negotiations towards some peace.

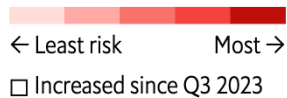
Exhibit 3: Main Macroeconomic Indicators based on Three Sets of Forecasts										
Forecasts prior to the war, and hypothetical projections of scenario 1 (limited war), and scenario 2 (prolonged regional war)										
	Lebanon		Iran*		Israel		Jordan		Egypt*	
	2023	2024	FY 2023/24	FY 2024/25	2023	2024	2023	2024	FY 2023/24	FY 2024/25
Real GDP Growth										
Prior to the War	0.6	1.2	2.5	3.1	3.0	3.0	2.8	2.5	3.3	4.1
Scenario 1	-0.5	-1.0	2.4	1.3	2.3	2.8	2.3	1.5	3.0	3.8
Scenario 2	-4.0	-30.0	-4.2	-6.0	1.5	-5.0	2.2	-1.0	0.5	1.5
Current acc. bal., % of GDP										
Prior to the War	-18.2	-12.9	3.6	3.7	4.2	4.0	-5.4	-4.3	-2.9	-2.4
Scenario 1	-17.5	-18.2	2.1	-0.9	3.2	2.1	-5.8	-6.2	-3.3	-2.9
Scenario 2	-21.0	-44.7	-1.2	-2.0	2.1	-1.5	-6.4	-10.2	-5.0	-4.8
Fiscal balance, % of GDP										
Prior to the War	-5.1	-2.0	-5.3	-5.7	-1.3	-1.5	-3.7	-3.0	-11.1	-8.2
Scenario 1	-5.3	-6.3	-5.8	-6.0	-2.3	-3.5	-4.1	-4.9	-11.4	-9.5
Scenario 2	-6.0	-9.5	-6.4	-7.5	-2.6	-4.7	-5.3	-7.4	-12.3	-11.3
Official reserves, USD bn **										
Prior to the War	9	8	19	14	199	201	11	11	27	31
Scenario 1	8	7	18	14	192	170	10	9	25	28
Scenario 2	6	3	15	5	180	130	9	7	21	13
Memorandum: Scenario 2										
Nominal GDP, in USD billion	20	12	412	343	511	460	49	48	395	365
External debt, % of GDP ***	309	517	29	33	83	86	43	47
Government debt, % GDP	222	287	33	40	60	63	107	112	93	98
Population, in million	4.9	4.7	88	88	10	10	11	12	109	110

Source: IIF, War in Gaza: The Fallout for the MENA Region, October 26, 2023

Could the conflict result in regional unrest?

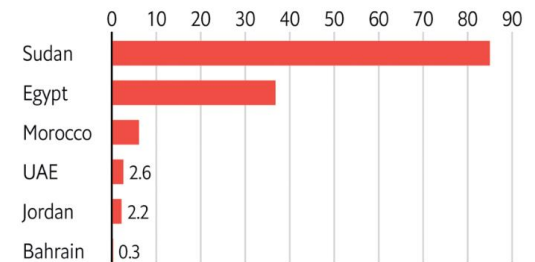
- **EIU's risk of social unrest:** Egypt, Jordan, Lebanon and Yemen are now considered to be more at risk given their political or geographical proximity to the conflict.
- At end-2022, MENA hosted about 2.4mn refugees in addition to about 12.6mn internally displaced persons & more (UNHCR). Any further addition to this would put severe strain on the hosting nations' budgets & finances and socio-economic-political stability.

Risk of social unrest, Nov 2023

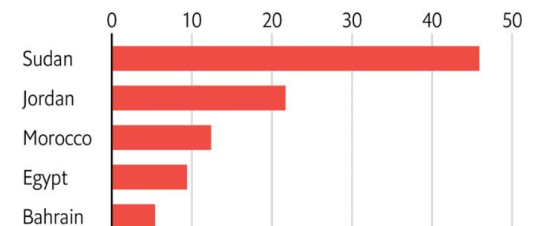


Selected countries with diplomatic ties with Israel

Average inflation, 2023, %

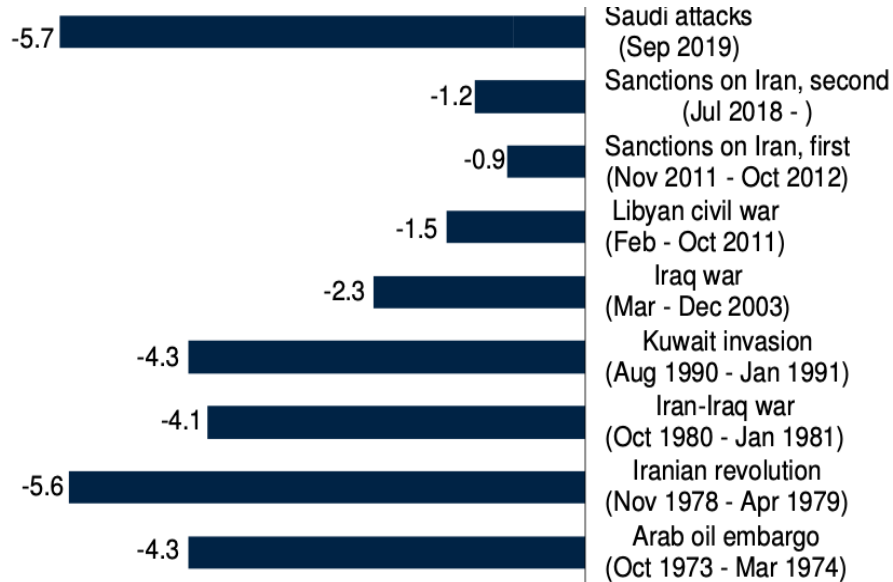


Unemployment rate, 2023, %

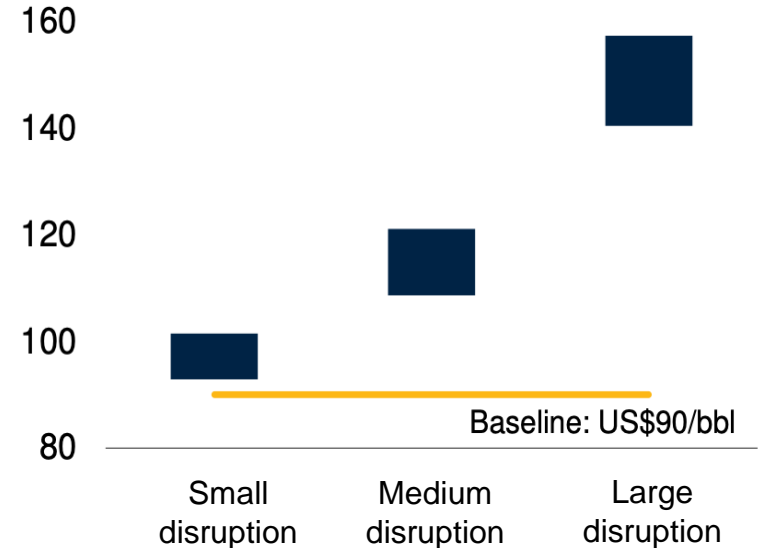


Conflict in the world's biggest oil-supplying region would damage global economy; so far, effects have been modest.

Past oil shocks have caused big price jumps (mn barrels per day)



Brent crude oil price forecasts for 2024 under three different disruption scenarios (\$ per barrel)



Destruction & Violence beget Violence; There are no military solutions



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.

About 32.6mn people worldwide were internally displaced globally due to extreme weather events in 2022 & accelerating with climate change. Disaster-related internal displacement accounted for 54% of all new displacements in 2022

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

Energy Transition + Climate Risk Mitigation Policies: GCC will be at the Centre of a Transformed Global Energy Map

Diversified Energy supply: solar, hydrogen, nuclear complementing O&G.

Regional integration: create an integrated GCC electricity grid & market.

Diversify into new markets with new products: trade in renewable energy goods & tech (e.g. KSA & EV production); export electricity into MEA, India, Pakistan, Europe...

Market-based policy instruments + Energy efficiency policies: phase out subsidies, carbon taxes, electricity markets, compliance and voluntary carbon markets, building codes & standards

De-risk stranded fossil fuel assets: privatisation & PPP

E-Transport system transformation; EV policies & investment in infrastructure

GCC can become global hubs for Climate Finance

Building Blocs for ME stability & development: Governance and Institution building

- **GCC is fulcrum for ME stability & development.**
Re-invigoration of GCC Customs Union & Common Market.
- Establish an **Arab Bank for Reconstruction & Development**
- GCC security architecture. Establish a **Gulf Security Council**

Building Institutions, I: Arab Bank for Reconstruction & Development

- Region has suffered wars & destruction, violence & population displacement: Palestine, Iraq, Lebanon, Libya, Sudan, Syria, Yemen. Prior to latest Israel-Gaza war, rough estimate was ~\$1.4trn; now add massive costs of reconstructing Gaza.
- **Reconstruction & Re-development are a priority to prevent resurgence of extremism and violence**, assist countries in transition & finance regional economic integration and infrastructure
- **Arab region only one without a dedicated bank for reconstruction & development**
- Set-up an **Arab Bank for Reconstruction and Development**; a joint venture financed by the GCC, G20, IsDB, AIIB, ADB, IFIs, EIB/EBRD, IFIs.
 - ABRD would serve in financing private sector investment, assist financial sector development and growth, and contribute to the region's economic and financial integration, notably by financing regional infrastructure.
 - ABRD to focus on providing concessional loans/grants to low-income nations + those devastated by war & violence;
 - ABRD would provide long-term financing to middle-income, esp. small countries, who due to lack of development or high fixed costs, do not have adequate access to financial markets

Building Institutions, II: Gulf Security Architecture

- Global fragmentation, increased polarisation, China decoupling requires increased regional focus.
- Conflicts in the region have made ME the most militarized region in the world. 7 out of the 10 highest military spenders in the world are from ME.
- Estimates of the opportunity costs in financial, economic, social, political, military, environmental, diplomatic terms for the entire region for the period 1991-2015 is a staggering \$15 trillion. Add: Gaza, Lebanon, Sudan, Yemen
- Need to develop a Gulf security architecture including GCC+ Iraq + Iran with non-permanent members and selected observers. A **Gulf Security Council** with charter & mandate.



Key Takeaways

- **Tectonic shift towards Asia => growing energy, trade & investment links**
- **Gulf Falcons Qatar, Saudi & UAE are maturing economies**, implementing Economic Diversification 2.0 => less volatile, sustainable, growth & development.
- **Fallout from the Israel-Gaza war: still a fluid situation. No military solutions. Long-term scarring effects.**
- Global fragmentation, decoupling, opens **new opportunities for Gulf Falcons**
- **Gulf Falcons can drive regional structural transformation through:**
 - ✓ **New Global Energy Map**, Energy Transition & combating Climate Change
 - ✓ **Provide Infrastructure services** (transport, logistics, energy) using existing facilities
 - ✓ **Finance Regionalised Globalisation**
 - ✓ **Digitalisation & New Economy**
- **Building blocks for ME stability: GCC Common Market, Gulf Security Council & Arab Bank for Reconstruction & Development**

MULTI-POLAR WORLD

19th Korea Middle East Cooperation Forum

Doha, 5-8 November, 2023

Shukran 감사합니다

Nasser Saidi

nsaidi@nassersaidi.com