GRC Economic Webinar Summary:

"The Future of the Gulf Economies in the Age of Sparsity"

28 October 2020

On October 28, 2020, the Gulf Research Center invited a group of six distinguished panelists to participate in a digital roundtable discussion to address the issue of the future of the Gulf economies with perspectives on the subjects of fiscal sustainability and debt, business attractiveness, and FDI, and diversification efforts and the role of the state.

The discussion was moderated by Dr. John Sfakianakis, Chief Economist and Head of Research. The panelists all converged on the conclusion that the Gulf region requires real economic growth and a change in the economic environment. These changes will allow for more FDI's, importance to strengthen & better governance in the sovereign wealth funds in the region and undertake necessary actions in introducing reform to facilitate economic expansion. The following is a summary of the main arguments that were put forward by the panelist to support their conclusion.

The starting point in the reasoning is that there needs to be more focus on understanding market dynamics to coordinate and strategize diversification efforts. Horizontal policies should be incorporated under good business climates, with a focus on promoting innovations, improving productivity, and support access to finance. While oil prices remain low due to the effects of COVID-19, it has been proposed to adopt more countercyclical policies to avoid volatility in the Gulf region. The Gulf countries need to reflect the needs and desires of the growing educated youth and improve transparency, cultivate more trust in the government by the citizen and the business community.

Attracting FDI is crucial and maintaining the fixed exchange rates is necessary to improve and strengthen investment minority protections. This is relevant to bank & bank credit for both domestic and foreign investors that could use local banks, therefore building up credit base in the regional economy. Promoting trade FDI cooperation with other Arab countries will enable intra-regional trade. The GCC States are in a good position to restructure the social contract and avoid rigid unsustainable fiscal posture & low labor productivity that adopts a growth strategy, which relies on migrant labor. More social alternatives and solutions would be focusing on privatization and to decrease state dominance in the real economy. State dominance has affected profitability in most successful companies that have been listed in the GCC stock exchanges. With aggressive privatization, this will create room for the real economies to broaden out and enable the private sector to absorb more of the unemployed nationals in the region.

Today, major oil-producing companies still largely rely on oil and there will be major deficit financing over the next couple of years. As oil prices started to decline, this led to a dramatic change to the local environment, as the Gulf States are still correlated to the effects of oil in the region. This will have implications on the economies of the region and the way governmental activities as they continue to tap & access the capital markets. This is a pivotal moment for the GCC States, reemphasizing that opportunities have now opened up to technological innovations and investments in the venture capital eco-system. It is important to be aware that businesses are shifting from traditional businesses to technology-driven businesses. Given the size of the region's economy, there needs to be accessibility to adjacent markets and open up to regional and international markets. This will allow the Gulf to be regionally integrated, accelerate the cycle of building and create space for more cooperate competition. The drive for real FDI's and a dynamic economy is also imperative for the region to obtain real economic growth and activity. The GCC States should be driving for accessibility to transparency, as they cannot continue to be opaque and allow investors to have clarity on market share, movement of goods & services, and ease of access to tariffs.

Concerning economic development and the environment, oil wealth has helped the Gulf States with GCC economic development far from being sustainable. The implications of international policies to tackle climate change have affected the economic sector through attempts of reducing fossil fuel consumption and the global carbon energy transition, which will lead to the decline of oil and further decline of oil prices. It is important to highlight that GCC countries have signed and ratified many international environmental & climate treaties such as the UN framework convention on climate change & the Paris Climate Accord. GCC countries have established environmental organizations and institutional architectures that are dedicated to addressing environment and climate change, e.g.: Saudi Green Building Forum & Saudi Energy Efficiency Centre – help to reduce electricity consumption in Saudi Arabia. As part of the Saudi G20 presidency, Saudi Arabia proposed a shift from linear to circular carbon economy approach – mitigating carbon emissions associated with carbon-intensive industries. Concerning the GCC current developments on a regional level, this is far from sustainable. This is due to the fact there is a belief that costs for investing in sustainability options for the environment are high and secondly, there is a lack of awareness of the opportunities available. The GCC States should look to invest completely in renewables, leading to social, economic, and environmental benefits including creating around 50,000 – 500,000 jobs in the long-term. The region should also develop energy security and reduce air pollution. Gulf States should start investing in electric markets to attract new markets in the region, enhancing the long-term sustainability of the economy, and avoid the volatility of oil prices.