

## MONICA MALIK

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Thank you very much. If you forgive me, I am going to speak from the economic side, which is my role at work and my main area of focus, and on the GCC. Of course, compared to the wider region, I think the GCC economic environment is relatively far more favorable. From an economic stance, we are not being directly impacted by the devastating regional developments that are happening, so we are relatively isolated from that. I have been looking at the Gulf economies now for 30 years and, of course there are significant challenges, including energy transition, job creation for the youth population, etc., but I think what particularly makes me positive about this region at this moment, really since the oil price collapse in 2015, is the policy focus, the strength to move forward with reforms, and make difficult decisions that were earlier found difficult to progress with. When the oil price collapsed, we all knew about the social contract where oil revenue comes to the government and is then spread throughout the economy through government spending, and you started seeing now things like VAT and excise tax being introduced. These are still relatively small, but you continue to see the focus on governments realizing that they cannot continue to just be oil exporting countries, and that they need to gradually diversify and morph into new economic models. If you see in 2014 budget breakeven oil prices, which we see as a key indicator of the strength of the fiscal position, for most of the GCC countries they were over 80, Saudi Arabia, Bahrain and Oman were over 100. Thanks to these reforms and a focus on spending, many of these have come down. For the UAE and Qatar, we expect the budget breakeven to be below USD 60 per barrel. Of course, Qatar is in a very different position and an easier one because gas comes in and the revenue that is going to generate going forward is going to be very different.

That is one side and of course, the role of Saudi Arabia has also woken up the region. Since Saudi Arabia has progressed with Vision 2030 and its diversification plan, that has also changed the narrative in the wider Gulf economies where the focus on either staying ahead or progressing with reforms has been very important, so the focus on diversification.

I think the third area that really was a seismic sort of view on policymakers here, especially for small externally facing economies, was when the pandemic hit. At that point, you saw economies shut off, key areas such as tourism, totally grinding to a halt and then there is that view again that for economies like the UAE where the population is 10 million, much of it expatriate, that they do have to be externally facing but need to increase the catchment area. What we have seen from the UAE, for example, is that we have increasing CEPA, comprehensive economic partnership agreements, so we have seen the catchment area of being a trading and service hub, as well as a capital hub, has moved from the Gulf to the region to the Indian subcontinent and Africa. It is now spreading more and more to the wider globe and really being a transshipment service hub all the way from China to the Americas. I

think that is one key area of diversification. Of course, a small economy is easier to manage than somewhere like Saudi Arabia, the population still requires a large influx of expats, and it means that through your economic zones you can be competitive as well.

For Saudi Arabia, on the other hand, the key challenge ultimately of Vision 2030 is to create sufficient jobs for its own domestic population. I did my PhD on Saudi Arabia in the nineties, and I would not have expected the social reforms and the speed at which they have happened, as well as the buy-in from the youth population and the development of new sectors such as tourism. However, these are relatively low-paid jobs and if we look at technology coming in, it is not only about getting the jobs, but also about getting the employment and the know-how to be competitive on these fronts. We talk a lot to companies that go to Saudi Arabia and visit different areas, such as the investment areas, but a critical area going forward to create jobs will be labor productivity and cost of labor. There, the key challenges are going to be competing with places like Asia where you have a different education base, lower cost of labor and higher productivity. Also, talking about the role of the private sector, which has traditionally been the family businesses, what you have seen in Saudi Arabia is the state, including entities like the PIF, taking up more and more of the economy. That is also creating an environment in which the independent private sector can thrive and that will be critical going forward. We talked about budget breakeven oil prices and as foreign investment has not come in at the level Saudi Arabia has needed, you can see the state tapping more and more areas of strength, trade, easing of policies, digitalization, etc. FDI to GDP was 6%, greenfield FDI in the UAE was second only to the US in absolute terms, so this is a place where the private sector can thrive alongside the state-owned entities, which are key drivers. In the case of Saudi Arabia, even though we have seen it increase, it is still 2.5% of GDP and Oman has also seen FDI much higher as a percentage of GDP. You can see those challenges going forward as an increasing youth population enters the labor market and I think the biggest challenge is providing the deliverable on the labor front to keep them happy.

On the energy transition side, if you speak to different members of the GCC, the UAE feels that the transition will come sooner, 2030, Saudi Arabia thinks it will be later, and I think a lot of the GCC countries will be the last man standing on the oil front, the cost of extraction and production. However, the rents coming from these areas will keep coming down as the population grows and the ability to replace that with areas such as hydrogen, especially as we are even seeing huge investment in renewable energy in China. We are already seeing discussions that Chinese oil imports might peak this year, coming forward from 2030, so we are seeing how quickly this is happening. I think the ability to invest is different and, in the UAE, which is further in its investment, whether on infrastructure, tourism, etc., you are seeing more resources going into that. In Abu Dhabi 40% of energy generation comes from clean and nuclear energy. Oman is doing a lot on green hydrogen and gas, Qatar too does gas capture. However, in the case of Saudi Arabia it is going to be a key challenge to meet its own energy demands and to be able to export green energy and have the rent to support the population.

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Thank you, Monica, I love the input.