

# GCC : Some Key Economic Policy Options

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# The GCC policies agenda

Some clear, others implicit

1

**Incorporate the private sector more for economic diversification**

3

**Attracting more inward FDI**

5

**Promoting intra-GCC trade**

2

**Structural reforms & revamped incentives framework for stimulating innovation and competitiveness**

4

**Gradual and smooth reduction in recurrent state spending**

Implicit

# The GCC economy is under transition

<b>GCC Economy - Secular Shift</b>		
	<b>1980's and 90's</b>	<b>2005-2015</b>
<b>Economic Scenario</b>	Average growth 3.6% 1981-1986: 45% fall in GDP. Recovery time 14 years	Expected to grow by 7% p.a.
<b>Oil price</b>	Volatile	Structural shift leading to higher oil price
<b>Fiscal Surplus</b>	No significant fiscal surplus	Accumulated fiscal surplus 50% of GDP
<b>Capital Spending</b>	Focused on oil	Diversified to include construction, industrial, power, water, etc Influence of SWF's
<b>Job Creation</b>	2.5%	4.5%
<b>Foreign Investment</b>	Nothing significant	Gaining speed

# The GCC competitiveness under scrutiny...

Almost all member states characterized by high GDP/capita

The one-dimensional oil based growth has led to several structural deficiencies

Workforce below the expected levels of global competitiveness

**The region's oil & gas reserves have proven lucrative, but their reserves are finite**

GCC underperforming in research, talent development and innovation

The oil & gas prices across the world are also subject to severe price fluctuations

## ...however, models vary

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### Conservative Model

- Reliance on oil revenues
- Public sector dominates the scene
- Rigid employment market
- Restricted Real estate access to foreigners
- Excellent credit worthiness

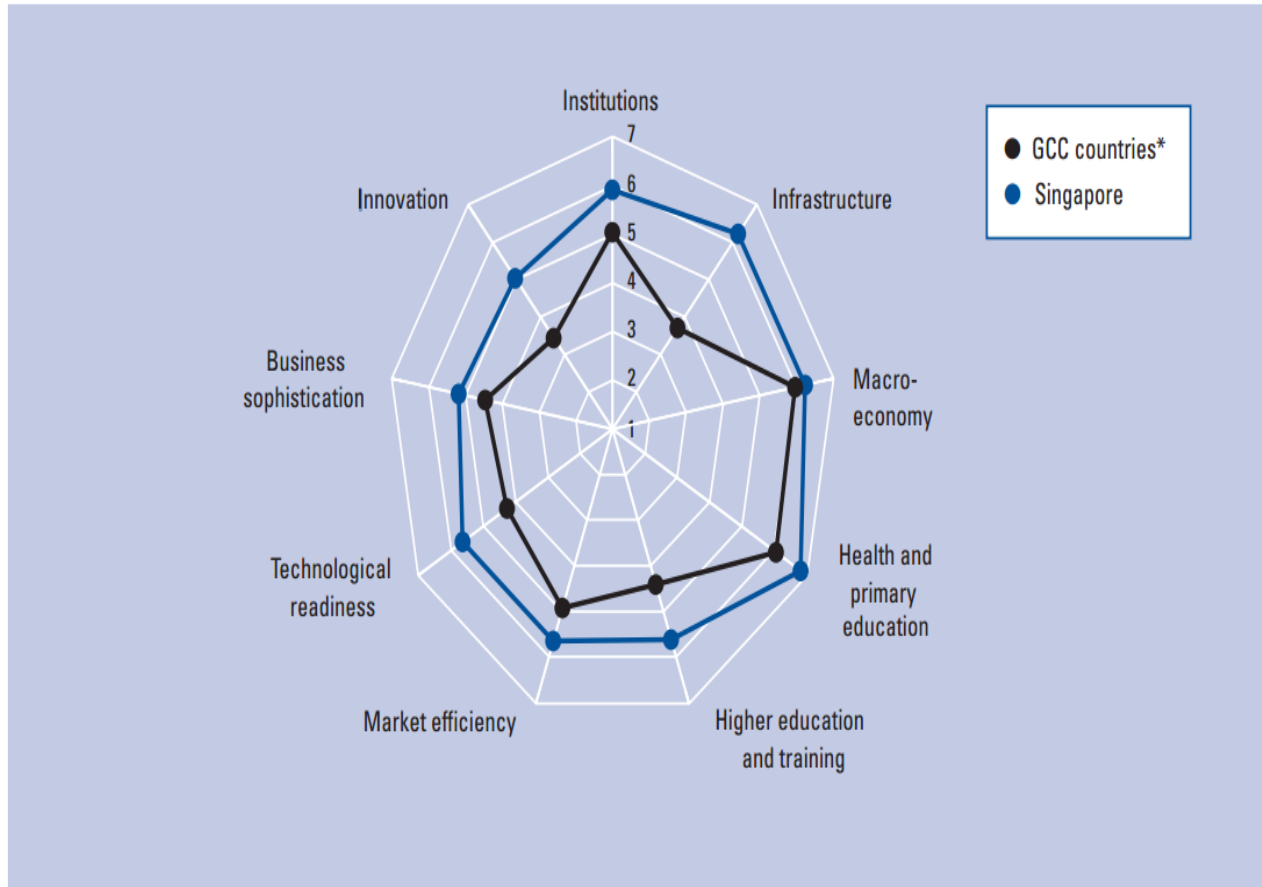
### Liberal Model

- Increase contribution of non oil revenues
- Free zone characteristics and quality infrastructure
- Competitiveness
- FDI friendly
- Favorable investment climate
- Real estate open to foreigners
- Increased financial leverage

# GCC lags behind in World Economic Forum competitiveness rankings

## Benchmarked against Singapore

### GCC societies need reforms



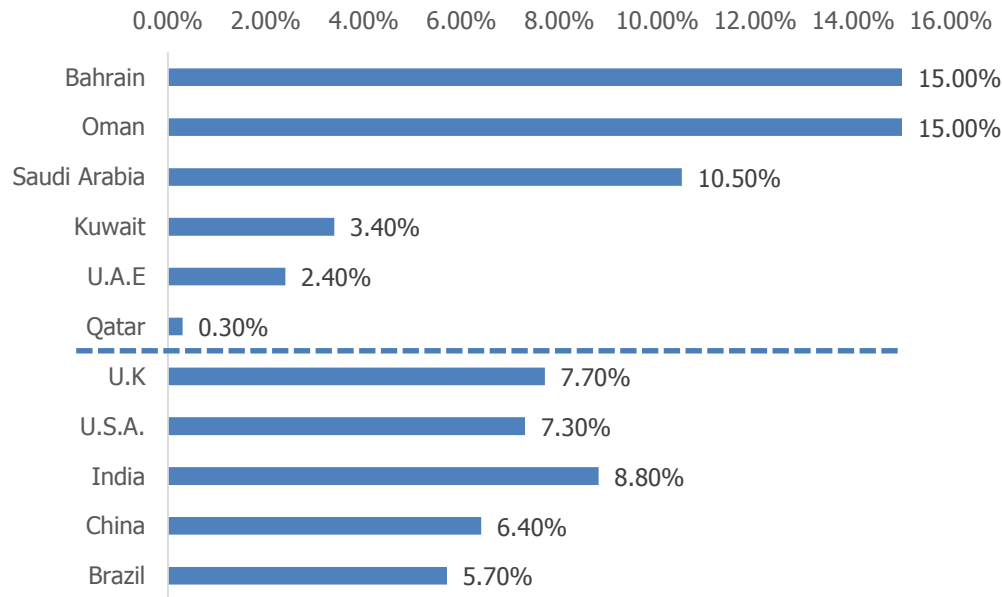
- The GCC is displaying a wide lag behind advanced innovation economies such as Singapore in the areas of higher education and training, innovation, capacity of institutions and infrastructure
- In order for societies to allow competitiveness and private sector excellence, they might have to go through a process of 'creative disruption through innovation'

\*Note: excluding the Kingdom of Saudi Arabia  
Source: World Economic Forum, 2010

# Many elements of basic societal existence are facing problems

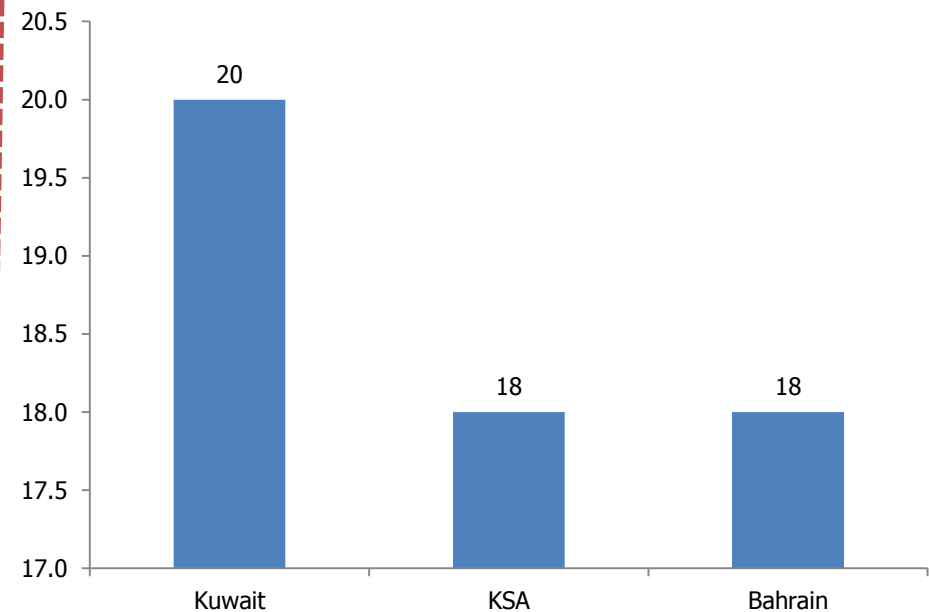
Some of the richest states have employment and housing challenges!

**Unemployment Rates across GCC in comparison with select world economies (2013), %**



Source: IMF, Markaz Research (Data as of 2013 or latest available figures)

**Housing Waiting List in Select GCC States (2013), in Years**



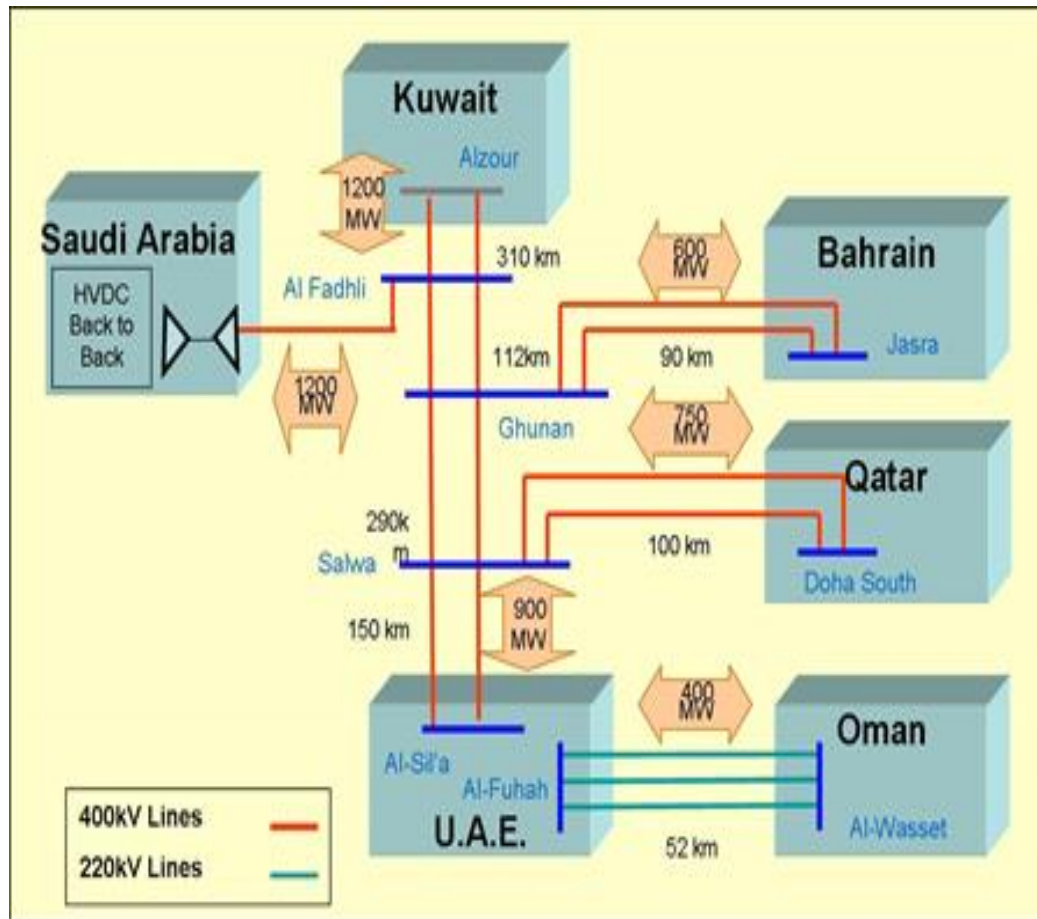
Source: Markaz Research

The oil wealth is the reason behind greatly increased affluence in the region . However, it has not addressed the problem of growing youth unemployment or affordable housing in the region

# Burning increasing quantities of oil for power is not sustainable

Plans to integrate the national grids of the GCC countries go back to 1982

## GCC Interconnection Scheme



Source: IFRI

- The current GCC power interconnection typology is a hybrid system between the neighbor to neighbor principle and a backbone or common link typology
- The long-term purpose now is to reduce investments in power-capacity by sharing both the generation reserves and investments in generation infrastructure
- The grid integration can also be a source of diversification; for instance, countries could export nuclear power
- An integrated market by networking the distribution of power



# A rentier revenue structure will have to give way to sustainable income

## The high GDP/capita should be supported by more non-oil sources

**Strategic FDIIs will bring in technology & knowledge transfers, business expertise & managerial skills, and professional training**

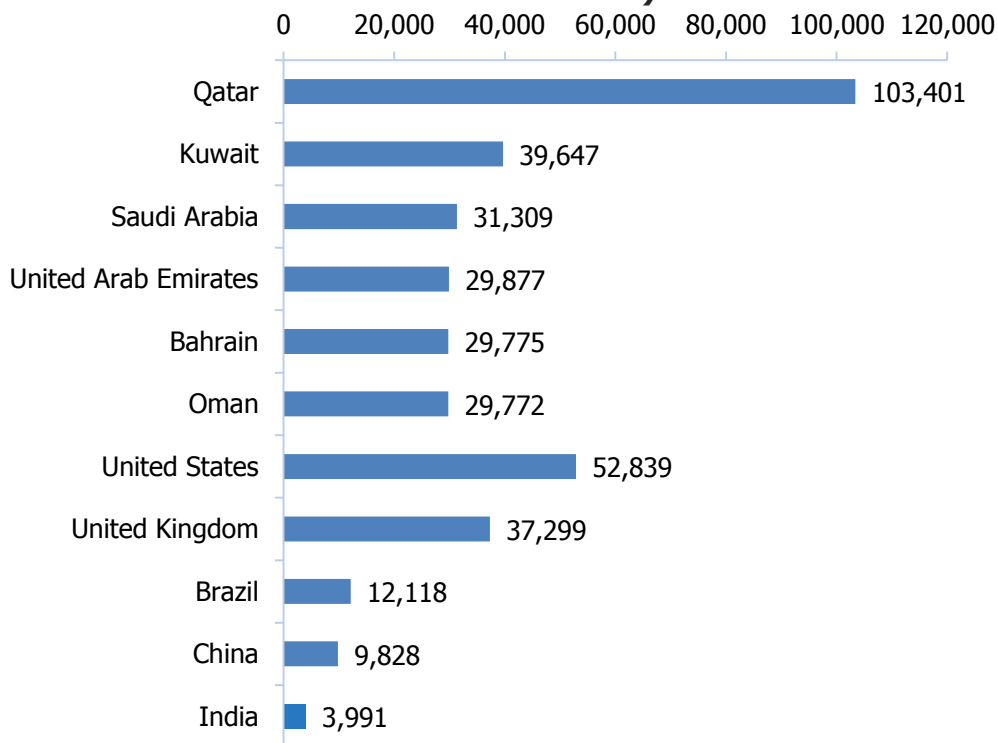
**FDI Inflow in GCC (in USD millions)**

Countries	2008	2009	2010	2011	2012
Bahrain	\$1,793.9	\$257.2	\$155.9	\$780.9	\$891.2
Kuwait	-\$6.0	\$1,113.8	\$456.0	\$855.0	\$1,851.1
Oman	\$2,952.0	\$1,485.0	\$1,243.0	\$739.0	\$1,514.0
Qatar	\$3,778.6	\$8,124.7	\$4,670.3	-\$86.8	\$326.9
Saudi Arabia	\$39,455.9	\$36,457.8	\$29,232.7	\$16,308.0	\$12,182.0
United Arab Emirates	\$13,723.6	\$4,002.7	\$5,500.0	\$7,679.0	\$9,602.0
<b>Total GCC</b>	<b>\$61,698.1</b>	<b>\$51,441.3</b>	<b>\$41,257.9</b>	<b>\$26,275.0</b>	<b>\$26,367.3</b>

Source: IMF, Markaz Research

**The private sector will frame the new social contract in terms of maintaining high levels of GDP in a post-oil scenario**

**GDP per capita (PPP) across GCC and world (US\$ 2013)**



Source: IMF, Markaz Research



# Private sector jobs is a core imperative

## Qatar and Kuwait have close to 99% urbanization rate!

The private sector does not seem to believe that there is enough critical mass of talent, especially up the applied knowledge scale

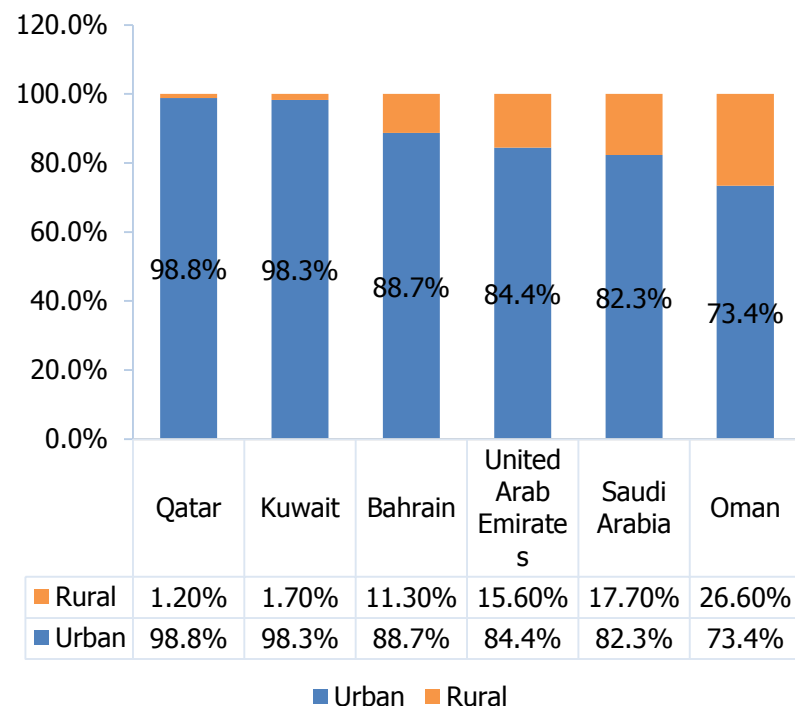
Given the high rates of urbanization, lack of good jobs can have a dampening impact on the entire social climate

**GCC Job Creation, Cumulative (2000-2010 & 2010-2015), in Thousands**

	2000-2010 Estimate			2010-2015 Forecast		
	Total Jobs	Private	Public	Total Jobs	Private	Public
Bahrain	297	284	14	167	155	12
<i>Bahraini</i>	55	42	13	43	32	11
Kuwait	986	680	306	635	365	270
<i>Kuwaiti</i>	135	65	69	107	32	75
Oman	527	481	46	467	414	53
<i>Omani</i>	157	105	52	118	73	45
Qatar	1,118	1,078	40	866	827	39
<i>Qatari</i>	40	21	19	44	22	22
UAE	1,546	1,391	155	1,060	954	106
<i>Emirati</i>	110	99	11	83	75	8
Saudi Arabia	2,598	2,344	254	2,502	2,153	349
<i>Saudi Arabian</i>	1,302	1,068	234	1,172	865	307
<b>Total</b>	<b>7,072</b>	<b>6,258</b>	<b>814</b>	<b>5,697</b>	<b>4,868</b>	<b>829</b>
<i>o/w nationals</i>	1,799	1,401	398	1,567	1,099	468

Source: IMF, Gulf Cooperation Council Countries, December 2011

**Urbanization (As a % of total population)**

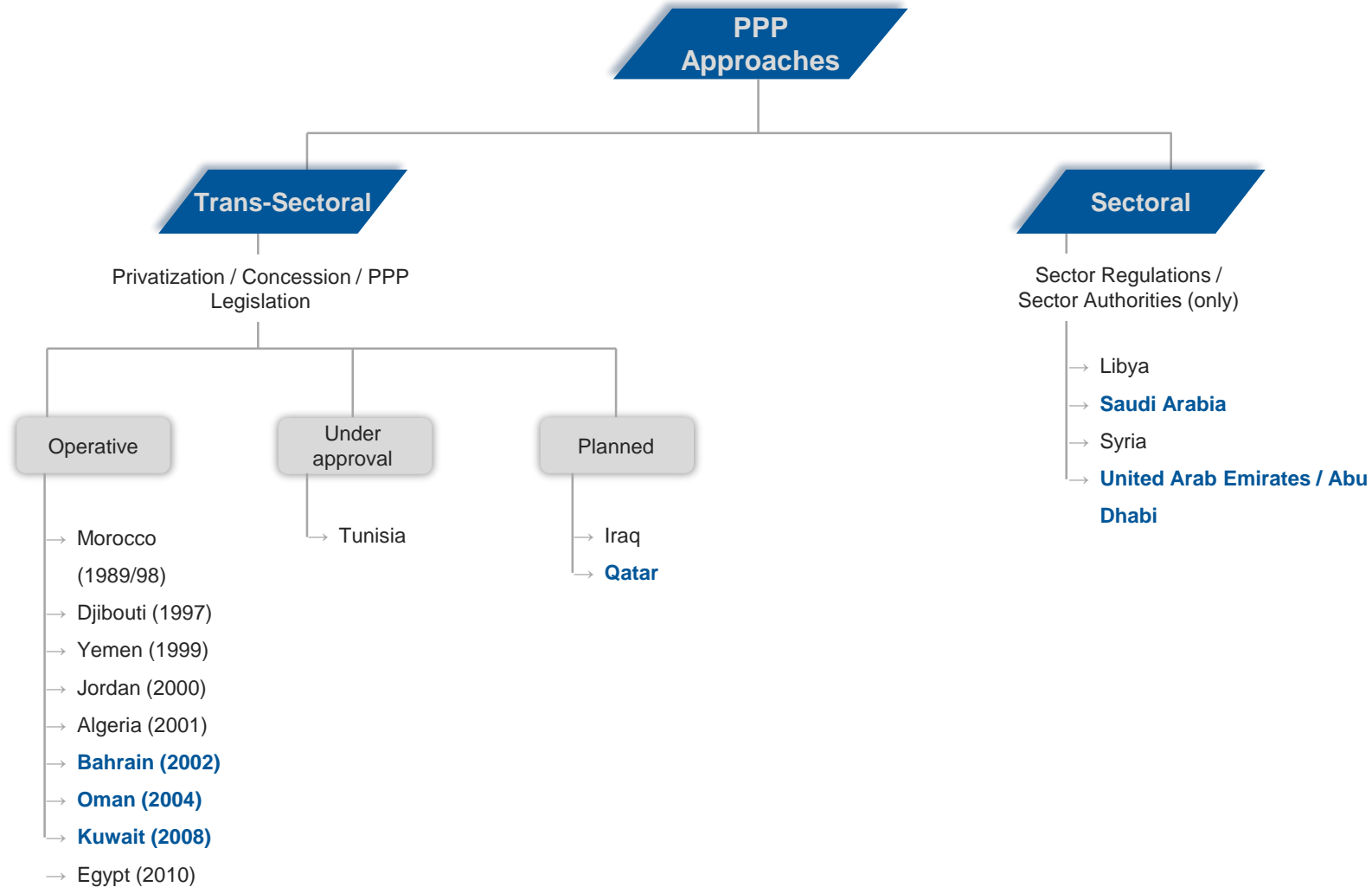


Source: IMF (2011), Markaz Research



# PPPs can facilitate increasing levels of privatization

## Individual GCC states have their own PPP preferences



Source: MENA-OECD Investment Program, Key elements of a PPP framework



# Meanwhile, what is the recipe for controlling state spending?

There are some radical measures suggested like one time cash transfers

**Actual Budget Expenditure, FY 2008/09 – FY 2012/13, Kuwait (KD million)**

Expenditures; Rounded Values	FY08/09	FY09/10	FY10/11	FY11/12	FY12/13*
Wages & salaries (A)	3,039	3,194	3,423	4,103	4,800
Goods & services (B)	3,002	2,172	2,792	2,760	3,600
Misc & transfers (C)	10,741	4,577	8,165	8,345	9,000
<b>Current expenditure (A+B+C) = (D)</b>	<b>16,782</b>	<b>9,943</b>	<b>14,380</b>	<b>15,208</b>	<b>17,400</b>
Current expenditure/Total Expenditure	92%	88%	89%	89%	90%
Vehicles & equipment (E)	122	227	153	147	200
Projects, maintenance & land purchases (F)	1,358	1,081	1,688	1,652	1,700
<b>Capital expenditure (E+F) = (G)</b>	<b>1,480</b>	<b>1,308</b>	<b>1,841</b>	<b>1,799</b>	<b>1,900</b>
Capital expenditure/Total Expenditure	8%	12%	11%	11%	10%
<b>Total (D+G)</b>	<b>18,262</b>	<b>11,251</b>	<b>16,221</b>	<b>17,007</b>	<b>19,300</b>

Big Disparity

Source: NBK and Ministry of Finance (Kuwait)



# SOEs will have to serve as vehicles of innovation and competitiveness

## How can SOEs help break the logjam of competitive innovation in the GCC?

### Research Capacity Indicators in GCC

Indicators (Ranking among 148 countries)	Kuwait	KSA	UAE	Qatar	Bahrain	Oman
Capacity for innovation	136	43	39	17	82	61
Quality of scientific research Institutions	110	39	34	12	114	71
Company spending on R&D	126	27	24	9	99	47
University-Industry collaboration in R&D	120	31	24	7	121	45
Availability of Scientists & Engineers	79	31	13	2	69	72
Patents applications filed (per million population)	0.2	3.3	4.2	1.6	1.9	1.3
FDI & technology transfer	144	8	2	4	10	48
Venture capital availability	71	25	10	2	15	14
Quality of educational system	106	39	15	4	48	53
Availability of research & training services	98	55	19	17	52	73

Source: Global Competitiveness Report, 2013-2014



# Reforms need to be quickened; rapid changes in global oil market

## Oil windfalls can come under pressure due to global developments

**Fiscal Oil Breakeven Prices, GCC, 2007-2013, USD**

Countries	2007	2008	2009	2010	2011	2012	2013	CAGR
Bahrain	67	80	83	104	118	127	125	11%
KSA	53	47	73	71	85	81	91	9%
Kuwait	33	42	47	46	47	54	68	13%
Qatar	42	49	27	62	80	63	60	6%
UAE	25	45	106	86	95	78	72	19%
Oman	99	96	70	80	112	113	80	-3%

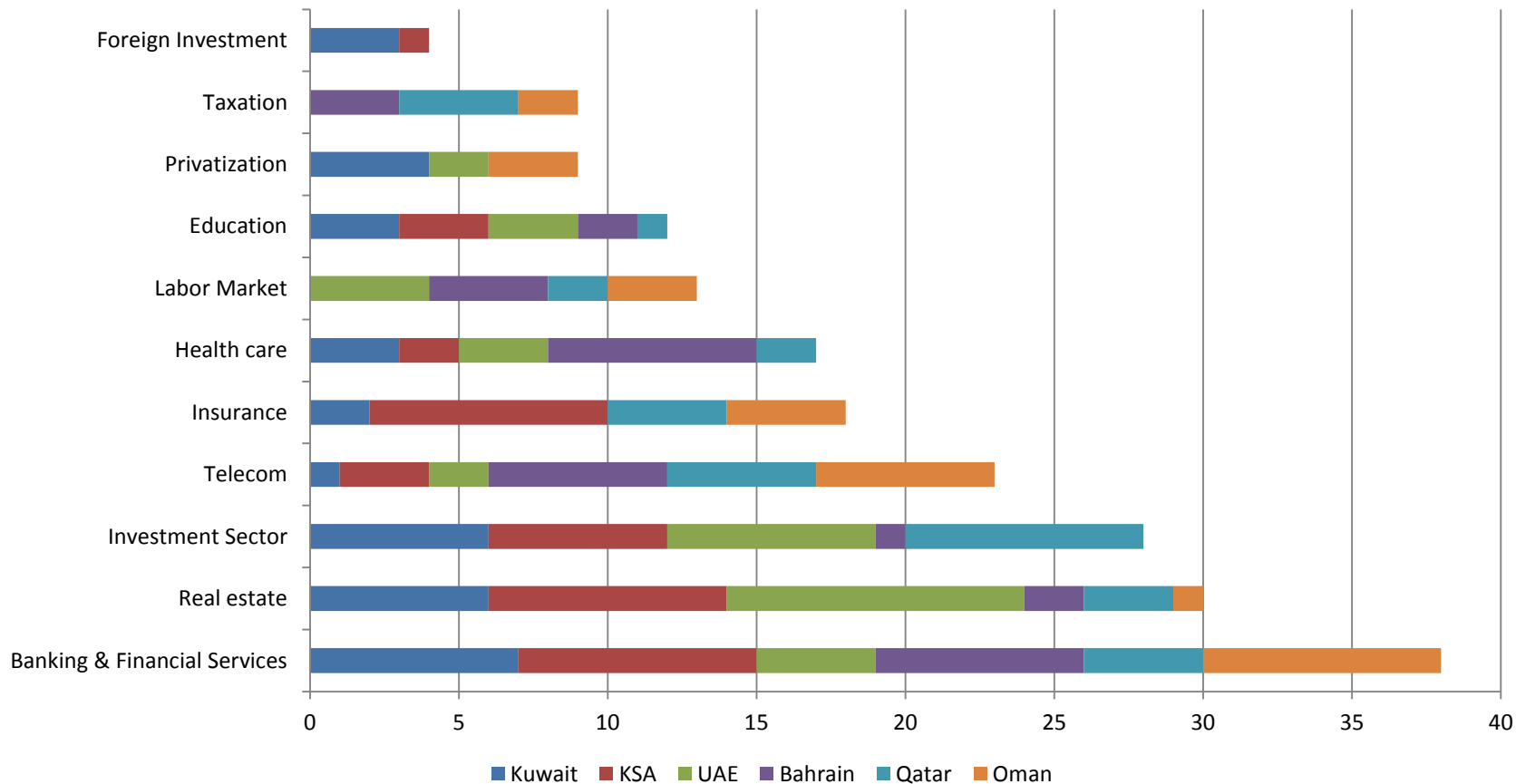
Source: Zawya

- The political turmoil in the wider MENA region has brought to the fore the popular demand for better governance, in terms of ensuring security and prosperity for the people
- Worldwide, there is a rising tide against issues such as corruption, governmental mismanagement, economic opacity and lack of opportunities for the youth

# Sector Reforms across the GCC

Banking & Financial Services has witnessed the maximum number of reforms

Indicative number of reforms in GCC (2008-2013)



Source: Markaz Research



# Various reforms have picked low hanging fruits

Time to tackle the difficult transformative choices is now

## Examples of reforms that were easier to accomplish

**KSA**

In 2012, the KSA's Capital Markets Authority amended corporate governance requirements in terms of emphasising enhanced transparency and continuous disclosure practices

**Qatar**

In 2012, the Qatari financial regulatory authority became a signatory to the International Association of Insurance Supervisors' Multilateral Memorandum of Understanding (MMoU). The regulatory authority will have a formal framework for the secure exchange of supervisory information with insurance supervisors, worldwide

**Kuwait**

The country is currently deliberating on amendments to the BoT Law number 7/2008, since the law is thought to have impacted Kuwait's infrastructure sector negatively and for leading to a transfer of investment from Kuwait to other locations in the GCC





# An indicative list of key reforms

Industry	Country	Reforms
Banking & Financials	Qatar	In 2013, new regulations by the Qatar Central Bank (QCB) was released aiming to curb local banks' investment options, potentially making sovereign bonds more appealing at the expense of some private sector options.
	KSA	In 2012, the Saudi Arabian Monetary Agency (SAMA) introduced new rules laying out minimum requirements for assessing the fitness and propriety of incumbents for senior positions in financial institutions.
	Bahrain	In 2013, acceptance of GCC identity card in all transactions in governmental and non-governmental organizations in the Kingdom of Bahrain was introduced
Education	Bahrain	The Quality Assurance Authority for Education and Training (QAA) was launched in February 2009
Healthcare	Kuwait	In 2010, an independent health authority was established
Insurance	Qatar	In 2012, the Qatari financial regulatory authority became a signatory to the International Association of Insurance Supervisors' Multilateral Memorandum of Understanding (MMoU). The regulatory authority will have a formal framework for the secure exchange of supervisory information with insurance supervisors, worldwide.
	Oman	In 2011, Omanisation stipulations required that all insurance companies should have at least 65% nationals in the workforce by the end of 2012
	KSA	In 2008, SAMA introduced a code of conduct regulation for insurance companies that required more transparency, integrity, and due diligence.
Capital Markets	KSA	In 2012, The capital market Authority introduced new mechanisms to list and trade rights issue as securities of companies listed on stock exchange.
	Kuwait	Establishment of an independent regulator - Capital Market Authority (CMA) in 2010.
Labor market	UAE	In 2008, the UAE abolished the requirement for severance payments making it easier for employers.
Privatization & PPP	Kuwait	Law No 7 of 2008 relating to the Build-Operate-Transfer model of operations was released.
Real Estate	Oman	In 2012, digitization of applications for real estate projects was introduced
	KSA	In 2012, the Saudi Government introduced a set of 5 laws collectively known as Real Estate and Financing Laws – Mortgage Law, The Real Estate law, The Finance Lease law, The Finance Companies Law and The Execution law.
Telecom	UAE	The Telecom Regulation Authority waived off the need for its approval for operators to set prepaid packages and tariffs paving way for enhanced competition.

Source: Markaz Research



# Reform efforts in the GCC region will have to be multipronged (1/2)

A series of imperatives are necessary

1

**Science, Technology & Innovation (STI) for accelerating knowledge economy**

2

**National HR capacity-building**

3

**Leadership Development**

4

**Creating islands of efficiency (IoE)**

5

**Closing the gap between private and public sector reforms**

6

**Reducing the cost of doing business**

7

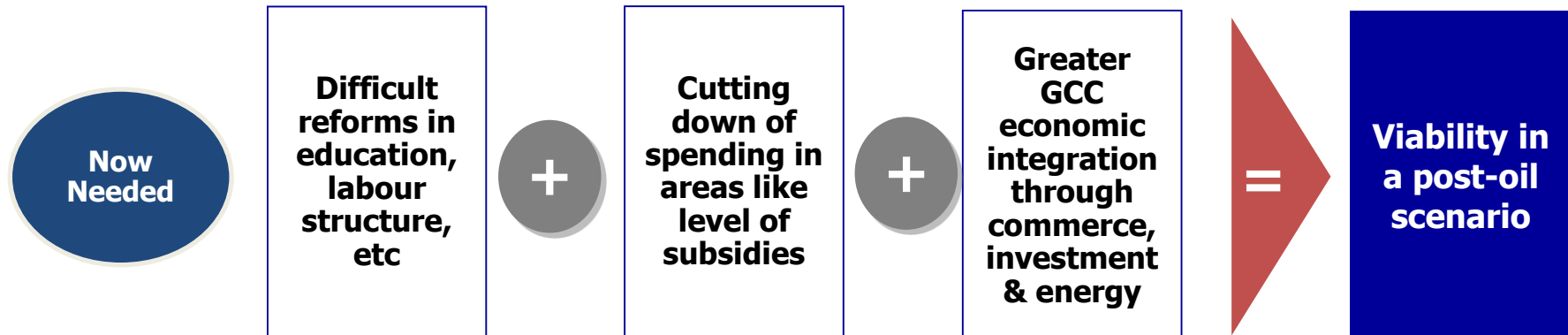
**Improving the performance of the public sector companies**

8

**Fostering GCC integration, particularly in energy**

# Policy agenda

## Facilitating the post-oil economic scenario



**Thank You**