



ECONOMIC INCLUSION AND SUSTAINABLE GROWTH: NEW PERSPECTIVES FROM THE GULF

WORKSHOP REPORT

Kristian Coates Ulrichsen, Ph.D.

Fellow, Center for the Middle East, Rice University's Baker Institute

Co-Principal Investigator, "Building Pluralistic and Inclusive States Post-Arab Spring"

July 2018

© 2018 by the James A. Baker III Institute for Public Policy of Rice University

This material may be quoted or reproduced without prior permission, provided appropriate credit is given to the author and the James A. Baker III Institute for Public Policy.

Wherever feasible, papers are reviewed by outside experts before they are released. However, the research and views expressed in this paper are those of the individual researcher(s) and do not necessarily represent the views of the James A. Baker III Institute for Public Policy.

Kristian Coates Ulrichsen, Ph.D.

“Workshop Report: Economic Inclusion and Sustainable Growth: New Perspectives from the Gulf”

As part of a two-year project funded by the Carnegie Corporation titled “Building Pluralistic and Inclusive States Post-Arab Spring,” the Baker Institute and Chatham House organized a half-day workshop in London on April 9, 2018, that showcased emerging scholarship from the Gulf on economic and sustainable development in the region. Scholars from Bahrain, Oman, and Saudi Arabia presented local perspectives and fresh insight on climate change policies in Oman and the United Arab Emirates (UAE), entrepreneurship and innovation in Bahrain, and state-business relations in the “new” Saudi Arabia. Participants in the workshop—which was on the record—included students from Gulf Cooperation Council (GCC) states, analysts from British-based think tanks and research institutes, and officials from United Kingdom government departments.

The opening panel focused on economic diversification and climate change in the Gulf. Economic diversification projects traditionally have built on the region’s comparative advantage in cheap fossil fuels, for instance in the development of petrochemicals and plastics. As concerns about the environmental and economic impact of climate change mount, there is a growing need to develop more sustainable development models for Gulf economies. Climate models suggest also that rising temperatures in the Arabian Peninsula may materially impact patterns of social and urban development by mid-century, and constitute new sources of long-range vulnerability and insecurity in Gulf societies.

Aisha al-Sarihi presented research from her doctoral work at Imperial College London and her experience at the Ministry of Environment in the Sultanate of Oman. Al-Sarihi noted that the oil-price drop that began in 2014 generated a window of opportunity for domestic economic reforms in GCC states as well as an opportunity to rethink how to address climate change mitigation uncertainties within economic diversification efforts. Drawing on interviews conducted in Oman and the UAE with stakeholders from government and the private sector, nongovernmental organizations, and academia, al-Sarihi examined the level of awareness of climate policy integration into economic diversification measures in each country.

Whereas climate and economic discussions continue to be treated largely as separate issues in Oman, in the UAE (and especially in Dubai) there has been sustained top-down political support for the mainstreaming of climate change issues into economic policy considerations. Two examples of UAE leadership were the 2012 launch of the Green Economy for Sustainable Development and the re-designation in 2016 of the Ministry of Environment and Water as the Ministry of Climate Change and Environment. The UAE also has become the first Gulf state to prepare its Intended Nationally Determined Contribution (to reduce greenhouse gas emissions under the United Nations Framework Convention on Climate Change) in line with its Vision 2021 for national economic development. While Oman has not aligned its climate and economic policies in the same way, it has become the only Gulf country to indicate its intent to cut greenhouse gas emissions by 2 percent (from a “business as usual” level) between 2020 and 2030.

Discussants picked up on al-Sarihi’s recommendation that the Gulf states take advantage of the acceleration of economic reforms to deepen the integration of climate and economic policy. It was argued that while Gulf countries have become more willing to acknowledge the problem of climate change in recent years, they have yet to embrace the positive opportunities for developing green business as part of their diversification efforts.

A Bahraini participant who had served in Bahrain’s delegation to the 2015 United Nations Climate Change Conference (COP 21) observed that successful measures to raise public and political awareness of climate change had to be bottom-up as well as top-down, and that positive

framing of the issues were key. While “climate change” is somewhat abstract as an issue for many, pitching discussion of climate change in terms of environmental security, clean water, or clean energy could reach people more directly. An Emirati participant emphasized the importance of involving citizens and residents in climate awareness and mitigation measures as part of the state-led reform projects currently unfolding in the Gulf states. Another discussant drew on experience living in Saudi Arabia to comment that states needed to involve citizens more proactively in reforms to strengthen bottom-up approaches and link them more visibly to national-level measures.

Other participants in the discussion focused on the need for a comprehensive ecosystem encompassing legal and regulatory clarity to support policy implementation. Large planned investments in renewable energy in Saudi Arabia in 2013, for example, failed to materialize, but the recent Public Investment Fund partnership with SoftBank may facilitate follow-through on more recent initiatives. Another discussant raised the planned NEOM city in Saudi Arabia and compared it with the Masdar City initiative launched in Abu Dhabi in 2006. It was argued that Masdar had an important signaling effect internationally but ultimately little read-across to local business practices in the UAE. A third participant made the point that projects in GCC states typically are large in scope (“mega-projects”) and struggle to move beyond pilot initiatives, in contrast with many projects in Africa, which often start small and then scale up as they develop. In the Gulf context, making large tenders more accessible to small and medium-sized enterprises (SMEs) can be an important pathway to widening the groups of stakeholders in the renewable energy and other economic sectors.

The second panel focused on entrepreneurship and state-business relations in Gulf states and featured two presentations from Sumaya Almajdoub of Young Professionals in Foreign Policy and Faris al-Sulayman of the King Faisal Center for Research and Islamic Studies in Saudi Arabia. State-business relations in Gulf economies have been shaped by the decades-long dominance of oil and public spending but may evolve significantly in coming years as GCC states seek to diversify away from their dependence on oil. Government policy documents call for a greater and more active role for the private sector, envisaged as the future driver of growth and provider of employment. There is also a stated policy focus on supporting SMEs, since in many economies they are the main provider of jobs, and in particular on empowering youth entrepreneurs. However, entrepreneurs continue to face a variety of obstacles in gaining legal approval, accessing credit, developing competitive business models, and coping with failure. In addition, questions remain over the impact of fiscal austerity and labor market reforms on private sector business models.

Drawing on her native Bahrain as a case study, Almajdoub juxtaposed the creation in Bahrain of a set of institutional frameworks designed to support a robust entrepreneurial ecosystem over the past decade against persistent structural constraints that have held back the full development of that ecosystem. The Bahraini economy faces significant fiscal pressure, has relied on regional financial support from Saudi Arabia, Kuwait, and the UAE, and been buffeted by internal and external stresses since the Arab Spring in 2011. Entrepreneurship has been identified as a key pillar of economic diversification by Crown Prince Salman bin Hamad Al Khalifa and the Economic Development Board he established in 2006, in part a recognition that Bahrain’s labor market has struggled to absorb the many young people entering working age.

Almajdoub described the layers of governmental, semi-governmental, private, and international organizations and institutions that have been established in Bahrain over the past decade to better connect government agencies with investors, entrepreneurs, and students. These entities

aim to support SMEs in all stages of growth by facilitating access to incubator programs, capital and funding schemes, and co-working spaces that offer space, training, and advisory services.

Since its launch in 2006, Tamkeen—a semi-governmental agency tasked with supporting private sector growth—has provided training to more than 140,000 individuals and businesses, no mean feat in a country with a population of 1.5 million. Bahraini officials seek to build upon this ecosystem to expand the Fintech sector and become a regional hub for cloud technology and digital financial services, evidenced by Amazon Web Services' decision to locate its first Middle East cloud technology data center in Bahrain in 2017.

It was noted that most younger-generation GCC entrepreneurs are focused on the service sector—for instance in setting up e-commerce businesses or small retail outlets with a local identity. By contrast, it was said that in many other sectors, the regulatory barriers, such as licensing requirements, were too onerous for new businesses.

Faris al-Sulayman addressed the changing dynamics of state-business relations in Saudi Arabia as the new leadership of Crown Prince Mohammed bin Salman Al Saud undertakes a series of transformational economic reforms through Vision 2030 and the more granular National Transformation Program. Al-Sulayman identified two drivers of economic pressure in Saudi Arabia—the first global (the decline in oil prices) and the second local (demographic trends and the large number of young labor market entrants)—and argued that their confluence has triggered two seemingly inconsistent economic agendas in response: a neoliberal economic agenda designed to attract international investment on the one hand, but a more statist and nationalist response to address the unemployment pressures on the other.

These two sets of policy agendas stem from different pressures and competing ideological camps within the Saudi state-business spectrum, but have caused a degree of confusion and lack of clarity in the institutional landscape facing international investors and small businesses alike. Al-Sulayman outlined three areas where competing interests have clashed: the skills mismatch between young Saudis entering the labor market from the public education system and companies under pressure to hire Saudis to meet labor nationalization quotas; the growth of state-owned enterprises and the perception among many in Saudi Arabia that they have crowded out investment from the local private sector and from SMEs; and the state's attempt to encourage the growth of private sector employment while maintaining high levels of public sector pay, benefits, and bonuses, which continue to have profoundly distortive effects on the labor market in Saudi Arabia.

Discussants addressed the need to develop strong institutions in GCC states, capable of balancing competing interests in clear and predictable ways, communicating the reasoning behind policy agendas and choices, and combining both structural and procedural reforms to regional political economies. A Bahraini participant recalled that much of Bahrain's domestic politics in the years prior to the Arab Spring revolved around labor market reforms that the government was trying to push through against business opposition, and that the initiatives were derailed after the unrest of 2011. A discussant who travels regularly to Saudi Arabia noted that the Fiscal Balance Program, which seeks to balance the Saudi budget by 2020, is not necessarily aligned with Vision 2030 or the National Transformation Program, and that the three state-led initiatives have caused a lack of clarity among public and investor opinion as to where precisely things stand at any given time.

There have certainly been successes in the efforts to foster more inclusive economic development in the Gulf, and participants noted examples of these in Bahrain and Saudi Arabia as well as comparative examples further afield, such as Egypt (feed-in tariffs to support solar development), Morocco (large-scale investment in renewable technologies), and Iran (targeted subsidy reform). All six Gulf states have large populations of technologically savvy young people who exhibit a keen interest in becoming budding entrepreneurs and “doing things differently” from their parents’ and their grandparents’ generation. There is, however, a need to more closely coordinate policy not only within domestic economies but also across national boundaries. For instance, one participant made the point that the growth of a Saudi entertainment sector could greatly impact Bahrain’s tourism economy; for three decades Saudis have driven across the causeway to Bahrain to go to the cinema, but now they can do so in their own country. Policy coordination and “lessons learned” across borders have hitherto been selective at best, although it was noted that Saudi officials had looked at regional and international examples—including from Iran—while devising the Citizen Account Program to assist low- and middle-income families in coping with subsidy reduction and higher prices.

Overall, as the Gulf countries place more and more emphasis on economic diversification, there should be a window of opportunity to foster a more supportive environment for young entrepreneurs to develop. The growing awareness of climate change is also a positive step, and young entrepreneurs could play a role in identifying opportunities for more sustainable business models. However, young entrepreneurs still often feel that the cards are stacked against them in economies that tend to be dominated by a few well-known business families. Nonetheless, this may change in the years to come—assuming that the imperative for economic diversification continues. Several participants mentioned the possibility that the oil price would rise again, and that this could have the unfortunate effect of slowing down economic reforms that they would favor.

Organizing Partners

Founded in 1993, **Rice University’s Baker Institute for Public Policy** has established itself as one of the premier nonpartisan public policy think tanks in the country. The institute is ranked No. 3 among the top university-affiliated think tanks in the world, according to a 2017 study by the University of Pennsylvania’s Think Tanks and Civil Societies Program.

Chatham House, the Royal Institute of International Affairs, is an independent policy institute based in London. Its mission is to help build a sustainably secure, prosperous, and just world. Chatham House does not express opinions of its own. The opinions expressed in this publication are the responsibility of the author(s).

The Carnegie Corporation of New York is one of the oldest and most influential of American grantmaking foundations. It was established in 1911 “to promote the advancement and diffusion of knowledge and understanding.”