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THE DIFFICULT PROMISE OF ECONOMIC REFORM IN THE GULF

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Overview[1]

The six states of the Gulf Cooperation Council (GCC)—Saudi Arabia, Qatar, Kuwait, Bahrain, the United Arab Emirates (UAE), and Oman—are in a period of profound change, both economic and social. The economic changes are a long overdue reaction to natural resource revenue dependency in their fiscal policies, while the social changes are a reaction to compounded migration and demographic shifts. The resilience of Gulf political economies will be defined by the ability to change both fiscal governance and policies of inclusion. Inclusion, in the context of Gulf political economies, means social protection for vulnerable groups, but it also means access to compete in a rule-based economy.

The promise of economic reform, therefore, is a promise to reconfigure relations between citizen and state, and to renegotiate the provision of benefits to citizens in the form of subsidies of fuel, electricity, and water, as well as generous health and education services. And there will be taxes and new fees on everything from toll roads to sugary drinks to tobacco, and employment fees for foreigners. In exchange, citizens are promised—in some way—a retreat of the state from its predatory control over economies, though not its control over the political space and activism.

Nonetheless, for many political economies of the GCC, the opening of opportunities in private ownership and investment in the sale of state assets—such as power and water plants, ports, and airports, as well as schools and hospitals—poses a challenge to the state's track record in the provision of services. These privatizations also pose a risk to a constituency unaccustomed to fees-based service and corporate liability. Will citizens accept services from private entities at cost? Will citizens jump at the opportunity to own new companies that meet the needs of their compatriots for profit? And, perhaps most importantly, who will be left behind?

The concept of resilience is often used in the literature on economic development to describe how governments can protect both citizens and their economies from external shocks, whether in the form of natural disasters, black swan events, or dramatic policy shifts.[2] The regulatory environment and the capacity of the state to react and respond to different needs of its population, especially vulnerable groups, are key.[3] For Gulf states, the current reform agenda is not so much a shock as a delayed reaction to a problem identified long ago. Diversification from oil-based revenue is necessary, and population growth has created an oversupply of candidates for public-sector employment that is not very productive. Generating growth has to shift, in its source and its deployment among a larger

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[1] This paper draws upon previously published blog pieces from the Arab Gulf States Institute "Market Watch" by Karen E. Young. http://www.agsiw.org/category/market-watch/. The author retains all copyright for her published work.
[2] Briguglio, Lino, Gordon Cordina, Nadia Farrugia, and Stephanie Vella. 2009. "Economic Vulnerability and Resilience: Concepts and Measurements." *Oxford Development Studies* 37 (3):229–47. https://doi.org/10.1080/13600810903089893.
[3] Duval, Romain, Lukas Vogel, and Jørgen Elmeskov. 2007. "Structural Policies and Economic Resilience to Shocks." OECD Economics Department Working Papers 567. https://doi.org/10.1787/140152385131.

and more diverse population. The Gulf states have created their own middle-income development trap.

This paper offers a wide-ranging analysis of some aspects of the reform agenda underway across the GCC. It explores specific case analyses of challenges facing individual countries (Saudi Arabia and Oman), and the organization of the GCC as a whole. It also addresses subsidy reform, the introduction of taxes and fees, and some experimental policies related to regulating labor markets and encouraging citizens to move out of public-sector employment.

The Reform (R)evolution

The resilience of the economic reform agenda—which includes the reduction or termination of subsidies on public goods like water, electricity, and fuel, along with public sector hiring freezes, salary and benefit reductions, and the implementation of new taxes and fees—all depends on societal acceptance of a renegotiation of Gulf citizenship, and also of labor.

Figure 1. Summary of major fiscal reforms across the GCC

	UAE	Saudi Arabia	Bahrain	Oman	Qatar	Kuwait
Value-added tax of 5%	✓	✓				
Excise tax - tobacco, energy & soft drinks	✓	✓	✓			
Electricity & water tariffs	✓	✓	✓	✓	✓	✓
Transportation fuel prices	✓	✓	✓	✓	✓	✓

Sources: Moody's Investors Service, Government policy statements

State-led capitalism in the GCC has left little room for private enterprise, except as service providers (like contractors) for state infrastructure projects and in the retail and hospitality sectors. Real estate markets and financial sectors are often linked to state interests, as is most industrial production of petrochemicals and metallurgy. Labor markets are dominated by low-wage foreign workers who are often male, making women less visible across the spectrum of service sector and professional services employment.

The reform agenda is both a natural evolution away from carbon resource dependency, but also an ideological revolution in rejecting the patriarchal tenet that the state should be the primary source of employment and of social welfare. The shifts in domestic politics are, however, not a revolution in political institutions or in the structure of leadership in the

Gulf states. Youthful citizen populations and large migrant labor communities now compete for limited private sector employment and stress state-provided services. To reform the economies of the GCC, there will have to be a careful rebalancing of the workforce, and the creation of new workplaces—namely, companies and entities that do not depend on the state. This reform will displace some migrants and discomfort some citizens, who will have to come to terms with a lifestyle that has fewer guarantees of state financial support and social safety nets.

The difficulty of reforming Gulf labor markets is clear. Saudi Arabia is making efforts to limit employment in certain sectors to nationals only, and there is a range of new fees imposed on expatriate employees, which both the employer and the individual must pay.[4] The result has been an exodus of expatriate workers, especially in the construction sector, where projects are unraveling due to limited government contracting. Oman has made similar efforts to restrict employment in certain sectors to nationals only, though with more experimental time limits on hiring freezes for foreigners.[5] In Kuwait, the politicization of employment has sparked anti-foreigner sentiment and protectionist legislation proposals within the country's National Assembly.[6]

Economic resilience is threatened by the institutional weaknesses of the GCC political economies. Formal institutional weaknesses include bank sectors that are prone to cyclical risk, connected lending, and state pressure for favorable lending to government initiatives.[7] For example, during periods when oil and gas prices are high, domestic banks are flooded with government deposits, which then fund construction and real estate booms. When oil and gas prices decline, lending decreases and bank deposits are low, as nonperforming loans mount on their balance sheets. Adding to these cyclical pressures are bank ownership structures that are often closely connected to ruling families, further exposing banks to the nonperforming loans of owners and their related business interests. In leaner times, governments have encouraged banks to extend loan repayment options for construction and infrastructure firms (many that are in arrears because they have not been paid for government contract work). While the resilience of private sector economies in relation to the boom-and-bust cycle of oil export-fueled government spending has improved since the 1970s, there remain significant connections.[8]

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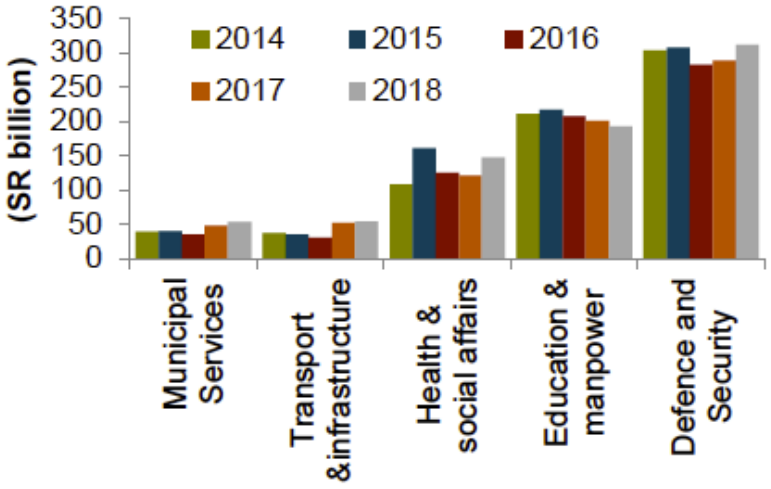
[4] "Minister of Labor and Social Development Issues Decision Limiting Work in 12 Activities to Saudis." *Saudi Press Agency*. January 28, 2018.
[5] Taylor, Eddie. "Oman Issues Temporary Ban on Visas for Expats from 10 Sectors." *Arabian Business*, January 29, 2018, sec. Politics & Economics.
[6] "Public Authority for Manpower Deadlines End to Expatriate Hiring of 'under-30' College Grads." *Arab Times-Kuwait*. January 22, 2018.
[7] Young, Karen. (2015) "Markets Serving States: The Institutional Bases of Financial Governance in the GCC," Kuwait Programme on Development, Governance and Globalisation in the Gulf States, 38. The London School of Economics and Political Science, London, UK.
[8] Hodson, Nate. (2013) "Breaking Loose: Reduced Private Sector Dependence on Governments in GCC Economies," in Steffen Hertog, Giacomo Luciani and Marc Valeri, eds. *Business Politics in the Middle East.* London: Hurst.

In informal institutions, there are weaknesses in civil society and associational life, or what scholars define as "social capital." Because labor cannot organize or form unions in most of the GCC states and business associations or policy advocacy groups are largely repressed, there are limited entry points for the concerns of private sector workers and investors into policymaking.[9] Furthermore, there is an absence of a policy feedback loop, in which advocacy groups might petition the state for changes to regulatory regimes on a host of issues, from environmental protection to identity-based discrimination.

Economic resilience—in terms of fiscal policy in the Gulf states—will entail difficult choices about prioritizing social spending over military expenditure. Even in the most fiscally constrained states of Oman and Bahrain, military expenditure continued to represent a significant portion of the budgets for 2016 and 2017. Saudi Arabia initially made some reductions in defense expenditure, but by 2018, the bulk of spending remains concentrated in this area, according to research by Jadwa.

Figure 2. Budgeted allocations by sector

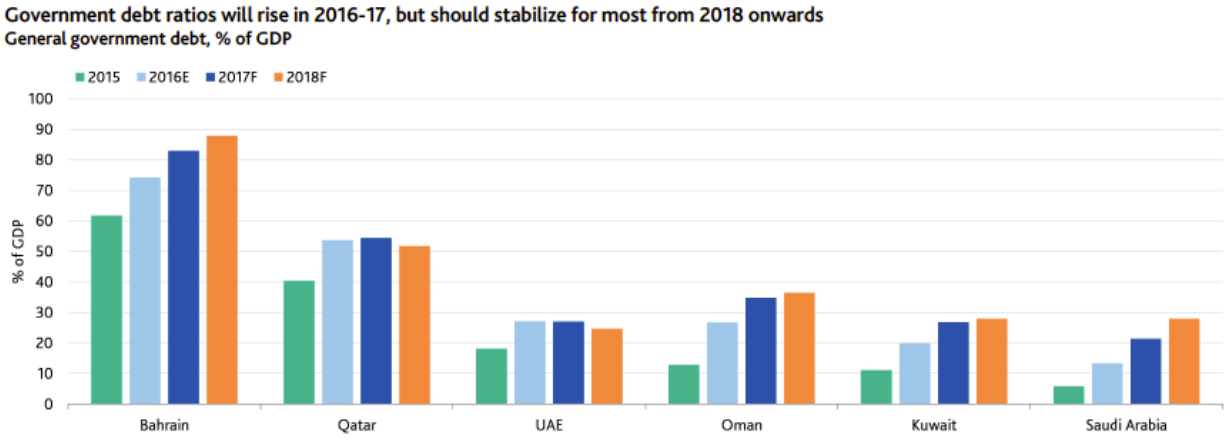


Source: Saudi Arabia's 2018 fiscal budget; Jadwa Investments, Dec. 2017

The authoritarian state's ability to coerce and repress is directly linked to its fiscal health. Prolonged fiscal crises that hollow out military capacity and the security state often lead to the failure of such regimes; hence, governments tend to protect the "coercive apparatus" even in times of austerity. For GCC states facing rising and persistent (if stabilizing) debt in relation to GDP levels, the competing priorities on fiscal policy in domestic spending will create some difficult choices.

[9] Naufal, George and Ismail Genc (2012) *Expats and the Labor Force: The Story of the Gulf Cooperation Council Countries.* London: Palgrave Macmillan.

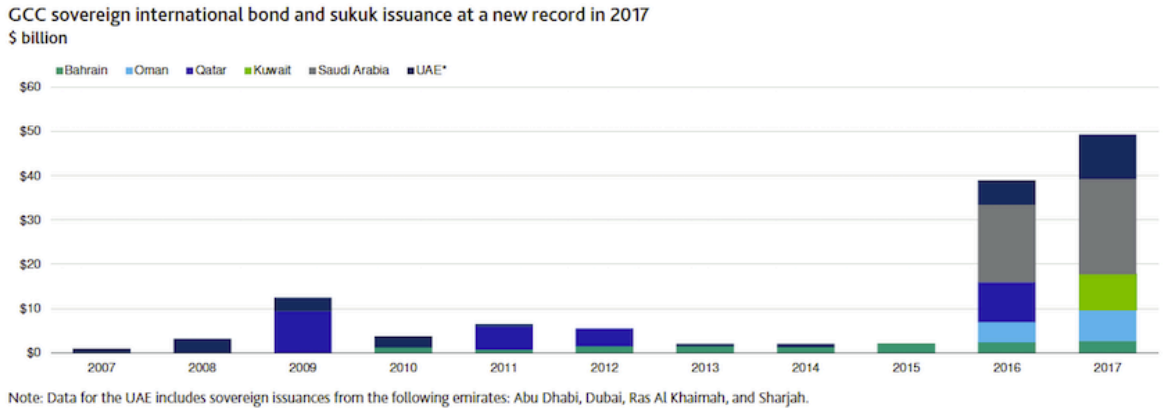
Figure 3. GCC Government Debt to GDP Ratios



Source: National authorities and Moody's Investors Service

Sovereign debt is increasingly a source of weakness, though for some Gulf states more than others. While the GCC states have accumulated issues related to debt over the past two years (since the decline of oil prices in late 2014), repayment will depend on the ability to generate government revenue apart from expected revenues from oil and gas. For a state like Saudi Arabia, government revenue from non-oil sources accounts for less than 20 percent of its total expenditure, meaning that most of the money the state spends comes from the export of oil.

Figure 4. GCC Sovereign International Bond and Sukuk Issuance



Source: Bloomberg, FactSet, national authorities, Moody's Investors Service

Regional Order at Stake, Not Just a GCC Crisis

At the same time that the Middle East as a region is looking inward for aid and investment, the providers of this new source of finance are in a profound period of economic transformation. So, while Gulf aid and investment is vital to the political and financial health of the entire region, a cohesive vision of good governance in an economy and a political system remains somewhat undefined, or at least, a work in progress. In the Gulf, we can see how questions of economic reform and competing models of governance are intertwined in issues like the embargo of Qatar[10] and the financial backing of Egypt.[11] These questions are about how best to devise systems of governance that will allow growth while preserving (or reinventing) political authority.

For Saudi Arabia and the UAE, the preservation of the state requires some comfort with a period of economic reinvention. This shared effort at building (and exporting) a cohesive vision of the right policy mix is as experimental as it is ambitious. The accommodation of new entrants and competitors to state interests within Gulf economies may be the first test of the resilience of this emerging order.

The simultaneous forces of economic change bearing down on the region are both endogenous and external in nature. Demographic pressures of a youthful and socially active population situated alongside a migrant worker class have reached a critical juncture.[12] Researchers at the World Bank have found the rising demographic pressures of youth unemployment are clearly linked to societal levels of dissatisfaction or "unhappy development," in which mobility and inclusion are key motivators of discontent and political upheaval. In the Gulf states, while financial instability and political protest are less evident than in oil importers within the MENA region, the shared fiscal pressure of a public wage bill and preference for public sector employment are weighing heavily on state finances.[13] The state is no longer able to provide sufficient employment while also spurring productivity in the economy. Low-priced oil, driven by new supply sources in the West and diminishing demand in the East, has necessitated the activation of long-overdue

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[10] Young, Karen E. "Enter Erdogan: Turkey's Economic Stake in the GCC Dispute." *Market Watch (Arab Gulf States Institute in Washington)* (blog), July 19, 2017.
———. "Isolating Qatar Reveals Economic Vulnerabilities of the GCC." *Market Watch (Arab Gulf States Institute in Washington)* (blog), June 6, 2017.
———. "Qatar Crisis Heightens Obstacles to the Economic Reform Agenda." *Market Watch (Arab Gulf States Institute in Washington)* (blog), June 20, 2017.
———. "Self-Imposed Barriers to Economic Integration in the GCC." *Market Watch (Arab Gulf States Institute in Washington)* (blog), August 4, 2017.
[11] ———. "A New Politics of GCC Economic Statecraft: The Case of UAE Aid and Financial Intervention in Egypt." *Journal of Arabian Studies* 7, no. 1 (January 2, 2017): 113–36. DOI: 10.1080/21534764.2017.1316051.
[12] Arampatzi, Efstratia, Martijn Burger, Elena Ianchovichina, Tina Röhricht, and Ruut Veenhoven. *Unhappy Development: Dissatisfaction with Life in the Wake of the Arab Spring*. Policy Research Working Papers. The World Bank, 2015. DOI: 10.1596/1813-9450-7488.
[13] "Rethinking Arab Employment: A Systemic Approach for Resource-Endowed Economies." New Vision for Arab Employment Initiative. Geneva, Switzerland: World Economic Forum, October 2014.

diversification plans. Without both growth and mobility, an entire region risks continued unrest and the rise of alternative authorities—those that often use religion to mask predatory[14] Mafioso economic policies, such as those deployed in the war economies in Syria[15] and Yemen.[16]

The changes underway might be easier to implement as a shock, much like some of the more drastic economic liberalizations in Eastern Europe in the early 1990s. The reason why shock therapy is less likely in the Gulf is because of the persistence of state links in national economies—that is, the persistent intransigence of the state and its interests within the economy. In the post-socialist experiments with economic liberalization in Eastern Europe, shock therapy was possible because the state acknowledged the old system of political governance had failed. For post-socialist Europe, both new ideologies and new ways of governing were possible. In the Gulf, states are attempting to transform while also holding onto existing authority.

Sources of Resilience: Strengths and Potential

There are many sources of strength for the Gulf states, including a young and well-educated citizen population, especially young women. Citizen populations also tend to have a strong sense of nationalism,[17] which Gulf states strive to increase particularly through new conscription programs for military service.[18] Gulf states, with some variation, have good infrastructure, with recent investments in airports, ports, and roads over the last decade. The linking of the Gulf states through competing financial centers and free zones has increased the availability of financial services and access to international capital. Internet service and social media are widely used by Gulf populations. In effect, Gulf states have created a strong architecture for growth, investing in higher education, general welfare provisions, and infrastructure for their citizens. Creating the space to let citizens and residents set the pace of economic growth will be the challenge.

Despite the spike in debt issuance, Gulf governments are still in fairly liquid financial positions. In contrast to southern European countries currently dealing with the recent debt crisis, most Gulf states (with the exceptions of Bahrain and Oman) are investment grade debt issuers. Access to international capital is plentiful, and recent loan and bond issues have found eager investors. For governments like Kuwait, Qatar, the UAE, and Saudi Arabia, sovereign wealth funds also provide an important reserve asset.

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[14] Felbab-Brown, Vanda. "Tackling Crime and Illicit Economies Isn't Just a Technical Exercise—it's an Intensely Political One." *Order From Chaos: Foreign Policy in a Troubled World (*Brookings) (blog), April 20, 2017.
[15] Bindner, Laurence, and Gabriel Poirot. "ISIS Financing in 2015." Paris, France: Center for the Analysis of Terrorism, May 2016.
[16] Salisbury, Peter. "Yemen and the Business of War." *The World Today*, 2017.
[17] Smith Diwan, Kristin. "Soldiers and the Nation." *The Bridge.* Arab Gulf States Institute in Washington (blog), September 18, 2015.
[18] "Gulf Societies in Transition: National Identity and National Projects in the Arab Gulf States." Workshop Report. Washington, D.C.: Arab Gulf States Institute in Washington, June 10, 2016.

Regional partners from the U.S. and Russia to China and the EU are faced with a changing Middle East, in which the Gulf states play an increasingly important part, as they are more interventionist in their foreign policies and military engagements in the region.

Since 2011, the Gulf states have played an important role in providing in-kind aid ofin oil and gas, as well as cash injections to struggling central banks (e.g., Egypt) and favorable investment and loan commitments.[19] With their own financial crises, these aid and loan commitments may be less forthcoming. The role of post-conflict reconstruction in Yemen and Syria will depend on Gulf state involvement and finance. Directing policy choices and the implementation of reconstruction efforts will require multilateral coordination. Furthermore, the impact of low-growth Gulf economies will have important implications for migrant communities and remittances in the wider Middle East and South Asia regions. Aid policies from the EU to communities as far as Pakistan, Egypt, Bangladesh and Afghanistan will need to adjust to changed labor markets and growth trajectories in the Gulf.

One opportunity is very clear: the transformations taking place in Gulf political economies now is unprecedented in terms of their revision of fiscal policy and the state's concentration on the expansion of the private sector. The liberalization of Gulf state-related entities goes along with state commitments to expand delivery of public services, such that large infrastructure development must continue at a rapid pace, while the financing of that growth is now open to private investment.

Likewise, the interest of Gulf sovereign wealth funds in generating investment revenue from outside the GCC continues to grow as a national economic priority. The placement of outward foreign direct investment (FDI) from Gulf sovereign funds seems to concentrate in developed economies and major equity markets, though there is certainly interest in real estate holdings and opportunities within the Middle East.[20] This economic integration of global financial markets as places generating wealth and revenue for Gulf states leaves the GCC increasingly vulnerable to external shock, from a slowdown in China's economic expansion to a hike in interest rates in the U.S. economy. Moreover, the ripple effects of Gulf economic activity are increasingly felt across the MENA region in the form of remittance flows, foreign aid, and investment flows to neighboring states. In areas of political conflict and civil war, the importance of both Gulf capital and political intervention is rising. A continued downturn in Gulf economic growth and any disruption to Gulf political economies could have wide-reaching consequences.

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[19] Young, Karen E. "A New Politics of GCC Economic Statecraft: The Case of UAE Aid and Financial Intervention in Egypt." *Journal of Arabian Studies* 7, no. 1 (January 2, 2017): 113–36. DOI: 10.1080/21534764.2017.1316051.

[20] Ziemba, Rachel and Anton Malkin. (2011) "The GCC's International Investment Dynamics: The Role of Sovereign Wealth Funds," in Besma Momani and Matteo Legrenzi, eds. *Shifting Geo-Economic Power of the Gulf.* London: Ashgate.

Case Analysis: Challenges in the Saudi Reform Agenda

The news in September 2017 that Saudi Arabia would revise its National Transformation Plan in order to make it more consistent with the larger "Saudi Vision 2030" plan has been presented by the government as an administrative procedure to align policy documents.[21] However, the acknowledgment that the reform agenda needs retooling is also an indication of the difficulty of implementing, sequencing, and strategically communicating to markets how reforms will proceed.[22] A reported delay in the Aramco initial public offering is likewise a reflection of the deep discomfort with the need to expose the state to the scrutiny of open markets.[23]

While it is fair to say that Saudi Arabia never intended to implement change overnight (hence the stated 2030 target), the very nature of its proposed reforms promise a rupture with the status quo that might more easily be accomplished by shock policy implementation. The reason why the aims of Vision 2030 are unlikely to be achieved in their entirety and will continue to be revised over the next decade is because the state will consistently find ways to re-insert itself into the economy and refuse to relinquish its hold.

To shock the Saudi economy, private firms would need the ability to compete across industries the state currently dominates. It is no small act of dissent to challenge the monopoly of state-linked contractors in bidding for major infrastructure projects. To own and operate the "commanding heights" of the Saudi economy, from a stake in Aramco[24] to a public-private partnership of a railway, power, or water utility,[25] an investor will need to at least know the state's intentions in the market, and how investor rights measure up to citizen demands.

Mixed Messages on Economic Reforms in Saudi Arabia

Saudi economic liberalization, at the moment, is a little confusing. The state's intentions in the market seem to be: to preserve domestic stability and reserve access to the upside of privatization for the state, while at the same time lessening the state's responsibility or liability for service delivery.

The economic cost of stability has been high. As research from HSBC shows, the drawdown on Saudi reserve assets has helped maintain spending in key areas. The June reversal of a decision from late 2016 to cut public sector salaries and benefits cost the state

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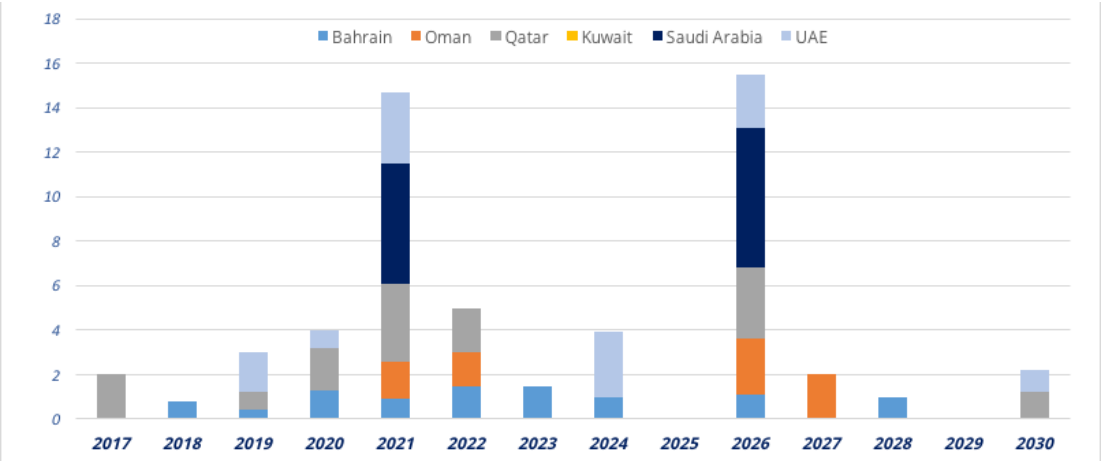
[21] Kerr, Simeon. "Saudi Arabia Redrafts Crown Prince's Transformation Plan." *Financial Times*. September 7, 2017.
[22] Nereim, Vivian. "Saudi Arabia Is Redoing Reform Plan It Rushed Last Year." *Bloomberg*, September 7, 2017, sec. Politics.
[23] Blas, Javier. "Saudis Prepare for Possible Aramco IPO Delay to 2019." *Bloomberg*, September 13, 2017, sec. Markets.
[24] Krane, Jim. "Saudi Aramco IPO Pits Foreign Investors against Saudi Citizens." *The Washington Post*, August 9, 2017, sec. Wonkblog.
[25] "Privatization Move in Railway, Sewage Sectors." *Saudi Gazette*. July 12, 2017, sec. Saudi Arabia.

SAR 5 to 6 billion in reinstatement and back pay. According to research by J.P. Morgan, a deficit of SAR 46.5 billion in the second quarter of 2017 was financed from reserves (SAR 15 billion) and an international Islamic bond sale (SAR 33.75 billion), Saudi Arabia's first of this kind. The preference for debt finance—both in international debt issuance and in the use of domestic Islamic bonds[26] (*sukuk)*—has helped cushion the impact of reduced subsidies; new taxes on schools, unused land, and properties in economic zones; and the introduction of a value-added tax in January 2018.[27]

Before 2030 arrives, there will be moments of reckoning, especially in debt management. There will be mounting pressure to deliver results (measured specifically in terms of nonoil GDP growth and increased foreign investment that creates jobs for nationals) in the Saudi economy within the next three years, as the first major bonds reach maturity. This is not to suggest that Saudi Arabia is in imminent risk of a debt crisis, but rather that its strategy of debt management to meet government expenditure on a quarterly basis will require the quick generation of alternative sources of revenue and/or diminished spending. In the case of increasing taxes and fees and lower spending on public services like health and education, there will be less room for accommodative funding, such as the reversal in public sector salary cuts of the summer 2017.[28]

Figure 5. GCC Repayment Schedule Until 2030 (in billion dollars)



Sources: Bloomberg, FactSet, Moody's

The introduction of taxes and fees in Saudi Arabia—and across the GCC—sets an institutional precedent. Once accomplished, governments will be wary of dismantling these

[26] Kassem, Mahmoud. "Saudi Arabia's 13b Riyal Sukuk Nearly Three Times Oversubscribed." *The National*, August 23, 2017, sec. Business.
[27] Al Rifai, Nada. "Saudi Economic Cities to Charge Real Estate Fees from next February." *Zawya Middle East*, September 6, 2017, sec. Business > Real Estate.
[28] Young, Karen E. "As Reform Agenda Waffles, Citizens Take Life to the Streets." *Market Watch.* Arab Gulf States Institute in Washington (blog. April 27, 2017.

revenue streams. However, governments will also be under increasing scrutiny from citizens to deliver public goods. This is where the pace and sequencing of reform execution become challenging.

Figure 5. Introduction of Taxes and Fees, GCC

Country	VAT	Excise	Others	*Caveats
Bahrain	5 percent (2018)	Plans to introduce excise tax (2017)	• Increase EWA administration fees, sand mining fees, hotel service fees, cost recovery on municipalities, and fee on sand extraction (2016). •Fees on alcohol and tobacco (2016).	
Kuwait	5 percent (2018)	Bill drafted for excise on tobacco, energy and soft drinks (2017)	• Business profits tax: 10% on annual profits of companies; and the profits of entitities other than companies in excess of KD50,000/USD164,650 (2016) • Corporate Tax Rate: flat rate of 15% (2009). From 2006-2008, 55%, • Zakat is imposed on all publicly traded and closed Kuwaiti shareholding companies at a rate of 1% of the companies' net profits. (2007)	
Oman	5 percent (2018)	Plans to introduce excise tax (2017)	• Increase civil aviation fees and other fees (2015) • Training tax and municipal tax on rents (2016) • Increase in corporate income tax from 12 to 15 percent and remove the threshold (2017)	
Qatar	5 percent (2018)	Excise ("Sin tax") on tobacco, energy and soft drinks (2017)	• Increase water and electricity tariffs (2015) • Increase gasoline price (2016) • Introduction of pricing mechanism to revise fuel prices regularly (2016)	
Saudi Arabia	5 percent (2018)	Excise ("Sin tax") on tobacco, energy and soft drinks (2017)	• Increase visa fees except for Hajj and Umrah (effective October 2, 2016). • Introduction of white land taxes (March 2017). • Expats to pay "family tax" upfront when leaving KSA (June 2017). • Monthly employment tax on foreign laborers and dependents (July 2017) • Reduction of Aramco tax rate from 85% to 50% to attract investors for IPO (March 2017) • Introduction of real estate taxes: 1% sales fee, plus transaction fee, and mortgage registration fee. (February 2018).	*• Private schools to be taxed VAT*
UAE	5 percent (2018)	Excise ("Sin tax") on tobacco, energy and soft drinks (2017)	• Introduction of a 3 percent municipal fee on expat property rental in Abu Dhabi (2016) • Increase government fees for intellectual property rights registration, including trademarks, patents, copyrights and designs (2015) • Fees on alcohol and tobacco (2015)	*• Schools exempt from VAT*

Sources: IMF Country Teams, PWC Taxation Reports, Country Laws

While Saudi Arabia is eager to sell off state assets in order to increase short-term government revenue, it is also intent on capitalizing on the success of its privatizations. For example, in a recent article in the *Saudi Gazette*, Abdul Rahman Al-Rashid, chairman of the Economic and Energy Committee at the Shura Council, explained the government's circular vision of privatization: "The new privatization law allows the government to participate in the ownership of some assets like other investors through its financial institutions. It has actually started purchasing shares of institutions that have been targeted for privatization." [29]

Saudi Arabia recently allowed full foreign ownership of engineering firms,[30] as well as firms providing services[31] in education (including K-12 schools) and health care. The state is

[29] "Government to Invest in Privatized Sectors." *Saudi Gazette*. August 23, 2017, sec. Saudi Arabia.
[30] "Saudi Arabia to Allow Full Foreign Ownership of Engineering Firms." *Reuters*. August 8, 2017, sec. Deals.

reserving the right to invest in these firms and to encourage them to seek private investment through listing on the local stock exchange. This raises some important questions on the priorities of the state. Is the state interested in companies that provide health care and education most efficiently and profitably, or only those with the highest standards of care for citizens? Does the investor then define and enforce the regulations of care? *Who guards the guardians?*

There has been some precedent for this investor-state dual identity in early state investments in technology and transportation ventures in Saudi Arabia. For instance, women face significant barriers to employment, including the ability to drive to work (although this will change by summer 2018).[32] To address this issue, the government has encouraged ride-sharing companies to provide services to citizens on the open market and has invested in these firms ostensibly profiting from the exclusion of transportation rights to some citizens.[33]

Reform Timeline is Critical, with Competing Demands on Governance

By very publicly acknowledging the need for economic reform, Gulf states are taking a step into the unknown. The reconfiguration of state ownership and the management of public goods like education, energy, and healthcare is a statement of confidence in citizens and markets. But the more the state hovers over new opportunities, the more difficult it will be for organic growth to begin.

New models of economic governance in the Gulf states will center on provisions that protect citizens. This is the institutional legacy of rentier capitalism. To transform those traditions, citizens and their firms will need to demand to compete in markets where the state acts as regulator, not competitor or deep-pocketed investor. The state will need to ask what its core role in the economy should be. What services should it provide, and at what cost?

If a shock realignment is not in the works, then the trajectory of reforms should be as speedy and transparent as possible, and not subject to reversals that will erode investor confidence and public support. What is at stake is the transition of the Gulf economies to a post-oil dependent era. Perhaps more important, however, is the transformation of the Gulf states into arbiters and exporters of new models of economic governance to the wider Middle East. The failure of the Gulf states to redefine or curb the state's role in the economy will only serve to strengthen inefficient and predatory governance practices across the region. Moreover, without a concerted move to diversify and open markets to competition, the Gulf states could risk weakening their own financial means of regional intervention.

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[31] Paul, Katie, and Reem Shamseddine. "Saudi to Allow Full Foreign Ownership in Health, Education Sectors." *Reuters*. August 24, 2017, sec. Business News.
[32] Hubbard, Ben. "The Keys to the Kingdom: Saudi Women Learn to Drive." *The New York Times*. March 5, 2018, sec. Middle East.
[33] "Taken for a Ride: Saudi Women Are a Captive Market for Uber and Careem." *The Economist*, May 4, 2017.

Saudi Labor Market Constraints

Saudization, or the reservation of certain jobs and sectors for Saudi nationals, is part of the government's effort to reduce the public wage bill and transform its private sector. In January 2018, the government announced it would expand its growing list of Saudi-only jobs to include the sale of watches, eyewear, medical equipment and devices, electrical and electronic appliances, auto parts, building materials, carpets, cars and motorcycles, home and office furniture, children's clothing and men's accessories, home kitchenware, and confectioneries.[34] The experimental nature of Saudization begs many questions related to which sectors are targeted and why, and how smaller businesses will be able to assume the higher wage costs of hiring nationals. This policy should create opportunities for all Saudis, but especially for Saudi women.

In addition to Saudization, there are a range of reforms dealing with rationalizing fuel and electricity costs in addition to a new value-added tax, as well as targeted cash support for lower-income families through the Citizen's Accounts program, all of which are disrupting the economy as families try to establish a monthly baseline for expenses.

Energy prices have increased two- to three-fold, and there was an 80–120 percent increase in gasoline prices in 2017, according to research by EFG Hermes.[35] Consumer sentiment in Saudi Arabia—among both Saudis and foreigners—is apprehensive. Just as the image of a Saudi female soldier is testing the limits of popular culture, there is an unsettled sense of "What next?" in consumer confidence.

The Reuters Ipsos consumer sentiment index from late 2017 demonstrated consistent negative expectations regarding jobs, investment, and growth.[36] Indexes by IHS Markit and Emirates NBD showed a sharp drop in the Purchasing Managers' Index, which declined from 57.3 in December 2017 to 53.0 in January 2018, the lowest reading in the survey's history.[37] This malaise is all the more troubling as it has been met with the largest fiscal outlays in recent Saudi history. The Saudi budget for 2018 has expanded and, combined with additional investment spending from the Public Investment Fund, 340 billion Saudi riyals (about $90.66 billion) in investment spending is planned for 2018. For good measure, the government has delayed its commitment to a balanced budget until 2023. But spending its way out of the current slump could include inherent risk.

One key factor driving consumer sentiment, and the general malaise especially within the private sector, is the unwitting victim of Saudi Arabia's reforms: its expatriate population. For the expats who stay in Saudi Arabia, the rise in cost of living has been substantial. And

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[34] "Labor Ministry Designates 12 Job Types as Saudi-Only." *Arab News*. January 30, 2018, sec. Saudi Arabia.
[35] Abu Basha, Mohamed. "2018 Is An Inflection Point in Growth Dynamics; Pace of Recovery Is Still Uncertain." Saudi Arabia: Economic Note. EFG Hermes, February 26, 2018.
[36] Young, Clifford. "Global Consumer Confidence At A Glance." Ipsos. October 2017.
[37] Haque, Khatija. "Saudi PMI: Activity Slows on VAT Implementation." Economics. Emirates NBD, February 5, 2018.

for those who leave, their absence is compounding weak economic activity. And many are leaving. Expatriates—who make up a third of the population in Saudi Arabia—are facing price increases without the cushion of the Citizens Accounts, or the reinstatement of public sector allowances (issued by decree for 2018 only).[38] And foreign workers are subject to a range of additional fees for dependents and levies that citizens do not have to pay.[39]

The rationale for increased fees and taxes is to create an alternate stream of government revenue to offset losses in oil revenue still compounding since late 2014. Even though Saudi Arabia's 2018 budget is its largest ever, there are cost savings at work.[40] Price rationalization in energy and attempts to cut the public wage bill are combined with new taxes on tobacco and sugary drinks, consideration of road tolls, the implementation of a VAT on January 1, new efforts to retroactively collect zakat (Islamic tax) on financial institutions,[41] and, notably, a drive to seize assets through an anticorruption campaign.

But these efforts are not necessarily garnering the return some promised. The corruption purge has not come close to its $100 billion promise (government estimates of the yield to date are closer to $13 billion),[42] and the VAT revenue for 2018 will be about $6 billion. Notably, the VAT is adding less in terms of government revenue to the 2018 budget than the increase in fees on expatriates (28 billion Saudi riyals, or $7.47 billion) for visas and family sponsorship.

Figure 6. Fiscal Savings vs. Expenditure (selected, in billion Saudi riyals)

Expenditure	
Allowances	50
Citizen's Accounts	32
Revenue	
VAT	23
Fuel and Electricity Price Increases	28
Excise Tax	9
Expat Levy	28

Sources: Ministry of Finance, EFG Hermes estimates

[38] "Saudi Arabia Makes 2 Billion Riyal Payment in Citizens Account Program." *Reuters*. December 21, 2017, sec. Business News.
[39] "Saudi Arabia Restores Perks to State Employees, Boosting Markets." *Reuters*. April 22, 2017, sec. World News.
[40] "Saudi Arabia's 2018 Fiscal Budget." Jadwa Investments, December 19, 2017.
[41] Rashad, Marwa, Tom Arnold, and Saeed Azhar. "Jump in Islamic Tax Liabilities Worries Saudi Banks." *Reuters*. February 22, 2018, sec. Business News.
[42] Kerr, Simeon. "Saudi Arabia Hopes to Raise $13bn by Year End from Graft Purge." *Financial Times*. February 11, 2018, sec. Saudi Arabia.

The burden of alternate sources of government revenue seems to be placed predominantly on foreign workers. While some foreign workers are choosing to leave, many others are being laid off or fired as companies also adjust to higher energy prices and lower business activity, resulting in a sharp increase in expatriate departures. According to the General Authority of Statistics in Saudi Arabia, more than 300,000 blue-collar workers (mostly in construction) lost jobs in Saudi Arabia in the first nine months of 2017, with nearly 100,000 of those in the third quarter alone.[43] And Saudis are not filling those jobs.

White-collar job loss has not declined at the same pace, and demand for domestic workers remains level. In essence, the labor market restructuring that needs to take place to put Saudis working in more productive and knowledge-based positions will require more time; this interim period will create some disruptions, especially in the construction and service sectors. The hope is that service and construction wages will go up, which could be good for Saudis in the longer term; in the shorter term, however, adds to pressures of inflation from the energy normalization and tax implementation—all at the same time that government spending will drive any new growth. This could be a recipe for inflated contracts and poor delivery, which has plagued Saudi Arabia for years and which was the purported impetus for the corruption purge in late 2017.

It will take a decade or more (hence, Vision 2030) to shift the Saudi labor force to take on higher-paying, white-collar roles and create a working class of Saudis willing to perform service, retail, and construction jobs. On the upside, the inclusion of women in the workforce is a very simple way to incentivize employment, increase household income, and push toward greater productivity in the workforce. Saudization and the expat exodus may help ease the way forward for women's labor force participation at least in some service sectors and retail. For the sectors that are heavily dependent on foreign (particularly male) labor, the outlook is less promising.

Case Analysis: Oman's Looming Fiscal Crisis

Omani foreign policy is deft; its fiscal policy, however, is in crisis. Oman has managed to maintain favorable trade and political relations with both Iran and its GCC neighbors in a time of increasing tension.[44] In fact, much of Oman's economic development plans now consist of increasing trade and investment ties with Iran, as it is increasingly reliant on ties with Iran to build its infrastructure needs and to stimulate its non-oil sector.[45] It is also reliant on the GCC for financial support, most notably in terms of commitments to aid since 2011.[46] To maintain good relations with its GCC partners, especially Saudi Arabia,

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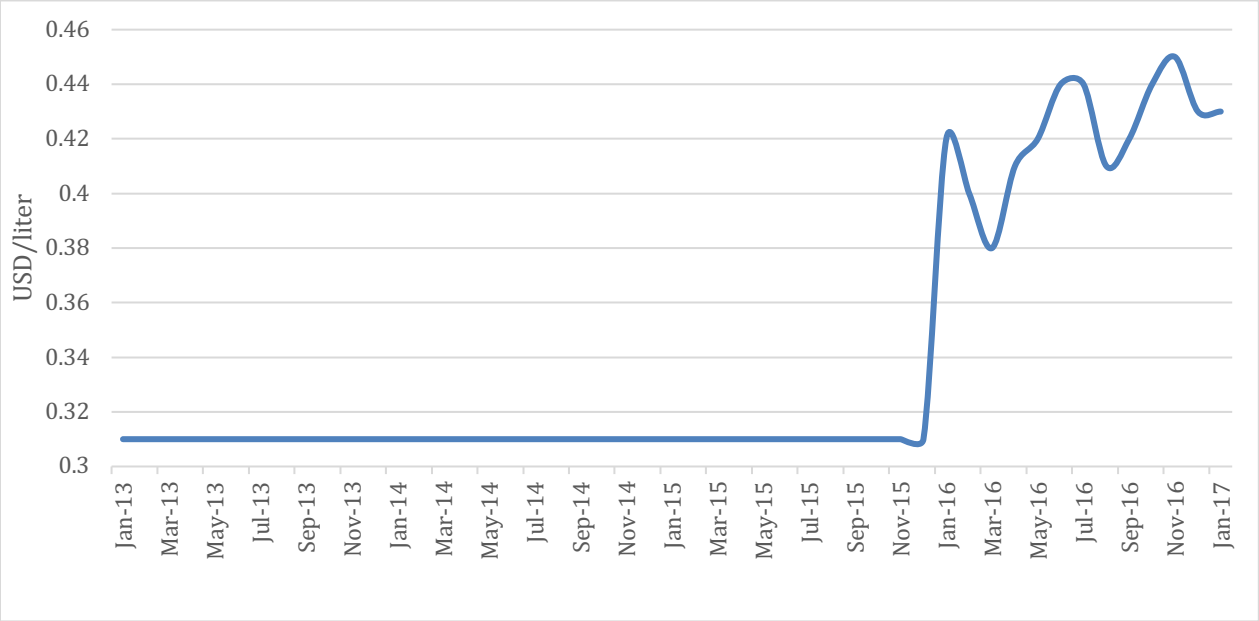
[43] "Labor Force Statistics." General Authority for Statistics, Kingdom of Saudi Arabia, n.d.
[44] Neubauer, Sigurd, and Alex Vatanka. "Central Sultanate: Oman Balances Between Iran and Saudi Arabia." *Foreign Affairs* (blog), May 5, 2015.
[45] "Oman, Iran Sign MoU for Trade, Investment." *Trade Arabia*. October 12, 2016, sec. Industry, Logistics, & Shipping.
"Oman Signs MoU with Iran's Khodro Car Firm." *Muscat Daily*. January 28, 2016.
[46] Laessing, Ulf, and Cynthia Johnston. "Gulf States Launch $20 Billion Fund for Oman and Bahrain." *Reuters*. March 10, 2011, sec. World News.

Oman recently made a (nonspecific) commitment to join the Saudi military alliance to combat terrorist networks.[47] Oman spends heavily on defense and arms purchases—having ramped up this spending considerably after 2011—yet demonstrates little ability or visible intent to use them, particularly in military operations abroad.[48] There has been some slow-down in military spending since 2016, yet for its size and defensive posture in the region, the continued outlays are increasingly difficult to justify. Most notably, Oman refuses to be militarily involved in the Saudi-led operations just over its southern border in Yemen, though Oman has hosted peace talk initiatives.[49] These foreign policy choices have been skillfully and carefully made, yet the looming challenge Oman faces is domestic.

On February 2, 2017, protests erupted over the rising price of petrol.[50] Petrol prices had been subsidized by the government for years, but some subsidy reduction began due to the mounting pressure on government revenue from declining oil prices by 2015. Prices have fluctuated, though they are still managed and at subsidized cost by the government.

Figure 7. Oman Gasoline Prices



Source: www.tradingeconomics.com, Ministry of Oil

[47] "Oman Joins Saudi-Led Islamic Alliance: Gulf Sources." *Reuters*. December 28, 2016, sec. World News.
[48] Parasie, Nicolas. "IHS Jane's: Mideast Military Spending Among the World's Fastest Growing." *Wall Street Journal Blogs*. February 4, 2014.
[49] "Kerry Arrives in Oman for Yemen Peace Talks." *The New Arab*, November 14, 2016, sec. News.
[50] Shaibany, Saleh al. "Omanis Call for Government Cap on Fuel Prices in First Protest since 2011." *The National*. February 2, 2017, sec. World.

By February 8, 2017, the government bowed to protest pressure and capped petrol prices at 186 Omani baisa per liter, essentially making a commitment not to raise prices again, but not necessarily to go back to pre-2015 prices.[51] The subsidization of petrol is just one link in a long chain of spending commitments (and possible areas of savings) the Omani government must evaluate as it faces the reality of diminished state oil revenues. As with all fiscal policy, some prioritization is taking place in terms of where to make cuts and where to maintain promises. The problem is that there seems to be some significant discrepancies in the government's estimation of its 2017 budget gap, and in its sources of foreign reserves. A recent report by Standard Chartered analysts estimates that official foreign reserves were USD 18.7 billion at the end of November 2016, up USD 1.2 billion from the end of 2015.

The question is in the source of these additional reserves, which are not explained by export receipts, debt issuance, or the use of sovereign wealth fund assets. In order to meet its projected spending needs, Oman is increasingly reliant on debt (via both international and domestic bonds and borrowing through loans), yet its spending needs will continue to face a shortfall with oil prices at less than $80 per barrel. Analysts at Commerzbank have predicted that Oman has about two years of foreign reserves to meet its spending needs if oil prices continue to be in the range of $40 per barrel.[52] A continued debt cycle will eventually become very burdensome.

There is a looming gap in Oman's fiscal planning beyond 2017. Projected spending cuts for the 2017 budget are likely insufficient to contain the 2017 deficit, which Standard Chartered projects at $7.8 billion (OMR 3 bn) or 12 percent of GDP.[53] One of the reasons why the deficit has grown considerably between 2015 and 2017 is that Oman's official oil selling price was both discounted from the Brent average and also lower than the government's own budget target of $45 per barrel. If the government cannot move forward with cost-saving measures, and if it cannot secure alternate sources of revenue through loans and debt issuance, Oman will have to concentrate on boosting revenue through privatizations and new non-hydrocarbon revenue.[54] Increases in taxes and fees[55] are also expected, including the implementation of the GCC-wide VAT[56] (delayed from early 2018 to perhaps 2019). New debt could account for as much as 70 percent of Oman's deficit financing needs

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[51] Shaibany, Saleh al. "Oman Caps Fuel Price after Protests." *The National*. February 8, 2017, sec. World.
[52] Johnson, Steve. "Gulf Nations Left to Raid Reserves." *Financial Times*, April 3, 2016, sec. FTfm Currencies.
[53] "Oman's 2017 Budget Tackles Cheap Oil with Austerity Measures, Privatization." *Al Bawaba*. January 2, 2017, sec. Business.
[54] "Oman's Sovereign Foreign Assets Forecast to Slump by 2018." *Arabian Business*, January 6, 2017, sec. Politics & Economics.
[55] James, A E. "Oman Government Raises Telecom Royalty to 12 per Cent." *Times of Oman*. December 31, 2016, sec. Government.
[56] "An Introduction to Value Added Tax in the GCC." Price Waterhouse Coopers, January 2017.

in 2017.[57] Oman exemplifies the challenges of generating investment and infrastructure growth with diminishing fiscal resources.[58]

The Omani strategy has been twofold: to borrow its way out of a fiscal deficit and to approach structural reforms with caution, especially given their impact on cost of living and job growth. There is a palpable anxiety among policy advisors about the impact of austerity, and rather than reversing austerity measures (as Saudi Arabia has done[59] twice in the course of 2017[60]), Oman has tried to concentrate on strategic communications[61] with citizens about the nature of reforms and their immediate impact. In the case of reductions in fuel subsidies, the government created a direct transfer scheme to help low-income citizens pay for rising fuel costs.[62] And with mounting pressure to create more public sector employment for nationals, prioritizing stability is understandable.[63]

As a policy experiment of sorts, Oman has created hiring freezes of non-nationals in certain protected sectors on a six-month basis, in an effort to secure job opportunities for citizens. Some employers may simply wait for the freeze to end to hire new employees. In a lower growth environment, the incentive for firms to hire nationals has to compete with other demands for profit growth and lowering operating costs.

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[57] Khan, Gulam Ali. "Oman to Cover 70% of Budget Shortfall with External Debt." *Zawya Middle East*. October 26, 2016, sec. Economy > GCC.
[58] Young, Karen E. "Oman's Fiscal Management Problem." *Market Watch.* Arab Gulf States Institute in Washington (blog). February 10, 2017.
[59] Young, Karen E. "As Reform Agenda Waffles, Citizens Take Life to the Streets." *Market Watch*. Arab Gulf States Institute in Washington (blog). April 27, 2017.
[60] Paul, Katie. "Saudi King Approves $19 Billion of Economic Stimulus Steps." *Reuters*. December 14, 2017, sec. Business News.
[61] "Fuel Cards for Poor in Test Phase in Oman, Says Ministry of Oil and Gas." *Times of Oman*. August 15, 2017.
[62] Al Mukrashi, Fahad. "75,000 Omanis Apply for Fuel Subsidy Scheme." *Gulf News*. December 22, 2017, sec. Gulf > Oman.
[63] Shaibany, Saleh al. "Oman Protest: Hundreds Demand Jobs." *The National*, January 22, 2018, sec. World > GCC.

Figure 8. Oman: Hiring Freezes for Expatriates in Certain Protected Sectors

87 PROFESSION CATEGORIES

16 in information systems include information security and protection specialist, maintenance of computers, computer engineer and computer programmer etc.

16 in media profession include media specialist, paper dyeing machine operator, paper folding machine operator and colour printing machine operator.

15 in technical areas include electronics technician, building supervisor, construction technician, chemical technician and electrical technician.

8 in airline sector such as flight attendant, ground host, ticket inspector and air traffic control.

7 in accounting and finance such as cost accountant, accounting auditing technician, and securities technician.

7 in engineering professions such as civil engineer, electrical engineer, electronics engineer, and mechanical engineer.

6 in insurance professions such as general insurance broker and vehicle insurance broker.

5 in sales and marketing such as sales specialist, commercial agent and commercial manager.

4 in management and human resources professions such as business administration specialist, public relations specialist, human resources specialist and administrative manager.

3 in medical professions such as pharmacist assistant, medical dresser and medical coordinator.

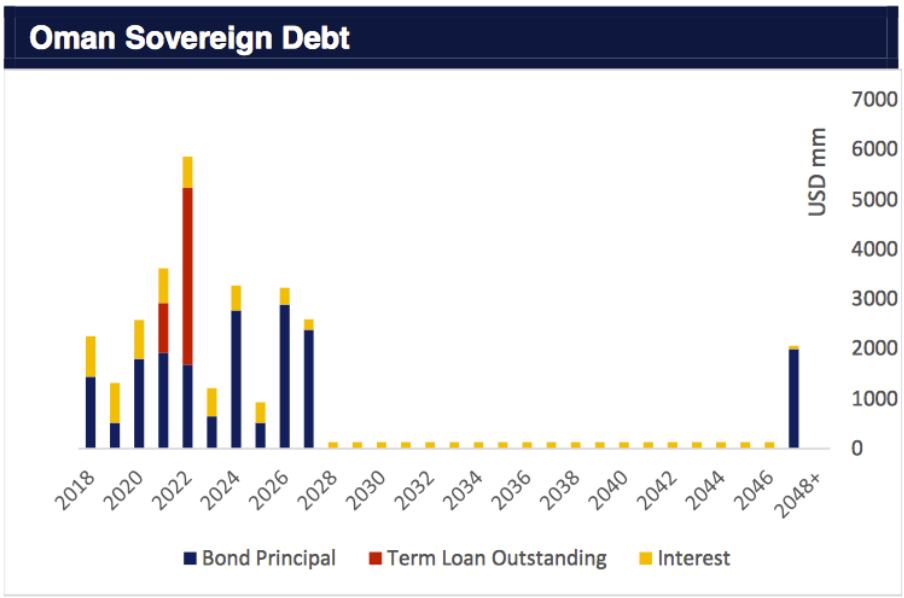
Source: Khaleej Times, January 2018.

In the interim, the government is borrowing to meet its fiscal deficit, hoping to continue government expenditure on major infrastructure projects, to continue to boost both employment and growth. Since early 2017, Oman has issued large amounts of debt and borrowed heavily in international bank loans. In March 2017, Oman issued $5 billion in international bonds,[64] followed by a $2 billion sukuk in June.[65] In August 2017, the country borrowed $3.55 billion from Chinese banks.[66] In January 2018, Oman went to bond markets again to issue $6.5 billion in dollar-denominated debt.[67] The government announced plans to finance a new infrastructure fund through bank loans of as much as $1 billion.[68] And on January 23, 2018, Oman again announced plans to issue more international bonds for as much as $2 billion in 2018.[69] The repayment of these loans and

[64] Barbuscia, Davide. "MIDEAST DEBT-Oman Gains Breathing Space with Jumbo $5 Billion Bond Sale." *Reuters*. March 2, 2017, sec. Intel.
[65] "Oman's $2bn International Sukuk Oversubscribed More than Three Times." *Muscat Daily*. June 5, 2017, sec. Business.
[66] "UPDATE 1-Oman Signs $3.55 Billion Loan with Chinese Banks." *Reuters*. August 3, 2017, sec. Intel.
[67] Yadav, Anita. "Update on the Sultanate of Oman." Credit Note. Emirates NBD, January 10, 2018.
[68] Carvalho, Stanley. "Oman's SWF Gets Approval for $1bln Infrastructure Fund- Official." *Zawya Middle East*. January 18, 2018, sec. Financial Services.
[69] Narayanan, Archana, and Matthew Martin. "Oman Weighs $2 Billion Loan After Multi-Billion-Dollar Bond." *Bloomberg*, January 23, 2018, sec. News.

bonds, however, begins just around the corner, increasing pressure on an already tightened fiscal budget.[70]

Figure 9. Oman Sovereign Debt



Source: Bloomberg, Emirates NBD Research

For now, these funds allow the government to move forward with development plans that predate the decline in oil revenue, as well as regional tensions among Gulf Cooperation Council neighbors.[71] While Oman has seen an increase in port traffic and trade flows since June 2017,[72] its airport expansion[73] and strategic ports projects like Sohar[74] and Duqm[75] were well underway before the United Arab Emirates, Saudi Arabia, and Bahrain severed trade ties with Qatar. These investments will take years to generate the wealth the country hopes to find in new logistics, manufacturing, and energy projects; a short-term proof of concept in the uptick of Omani ports volume (due to the restrictions against Qatar) has served to justify some of the ongoing expense of capital-raising in a time of shortfall. The port of Sohar is an important case in point, as it has been designed as a free zone to attract foreign direct investment, as well as a logistics hub. It serves long-term development needs for Oman, including job creation via automobile assembly plants, smelters and oil refineries, and agricultural depots for food security (for Oman, but potentially for regional

[70] Yadav, Anita. "Update on the Sultanate of Oman." Credit Note. Emirates NBD, January 10, 2018.
[71] Young, Karen E. "Self-Imposed Barriers to Economic Integration in the GCC." *Market Watch.* Arab Gulf States Institute in Washington (blog). August 4, 2017.
[72] "Oman Is Benefiting from the Standoff over Qatar, for Now." *The Economist*, September 2, 2017.
[73] "Muscat Airport, Oman: New Terminal Complex." Bechtel Corporation, n.d.
[74] "About: Overview Page." Sohar Port and Free Zone, n.d.
[75] "Sleepy No More: Oman's New Port." *The Economist*, April 6, 2013.

neighbors like India as well).[76] And Sohar is a small project compared with the ambitious new industrial city underway at Duqm.[77]

In Duqm, financing has been heavily reliant on China, with smaller investments from GCC neighbors.[78] The China-Oman Industrial Park in Duqm[79] is a custom-made city within a special economic zone, expected to cost $10.7 billion and to be financed through Chinese companies and bank loans. The park will produce cars (a "high-mobility SUV"), solar panels, petrochemicals, and oil field supplies and have its own electricity and desalination plants. Recently, Saudi Arabia has made an effort to support the project, with a small $200 million part grant/part loan financing to fund road construction and a fishing harbor.[80] A 30:70 joint investment between the Oman Investment fund (a sovereign wealth fund of Oman) and the Qatar Transport fund (signed in 2016) will establish a bus assembly plant at Duqm worth 160 million Omani riyals ($416 million).[81] Oil and gas projects, railways and new power plants are also part of the economic development strategy, spreading out from Duqm, including to the south in Dhofar.[82]

While the ports and industrial zone projects are heavily reliant on foreign bonds and bank loans, there is also an effort to streamline the government's investment portfolio. Oman is a country in which the government plays the most significant role in capital expenditure and investment in the domestic economy. The government, through its various investment funds like Tanmia, as well as through individual ministries, mandates most of the development opportunities in the country.[83] A prime example is its Ministry of Defense Pension Fund,[84] which is a major property owners and developer, with assets like high-end hotels in the sultanate.[85]

The government is following a five-year development strategy and has been engaged in its own "national transformation"[86] for economic diversification, with changes to managerial practices within ministries, including meeting key performance indicator targets within the

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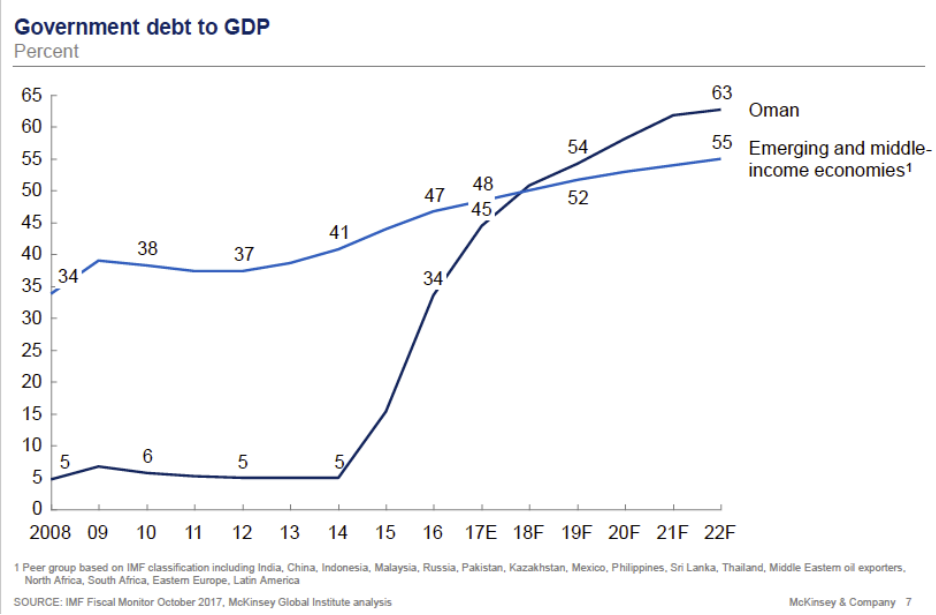
[76] "H E Sunaidy Woos Indian Firms to Store Food Grains in Oman." *Muscat Daily*. January 24, 2018, sec. Oman..
[77] "Overview: Port of Duqm." Port Duqm, n.d.
[78] Jabarkhyl, Nawied. "Oman Counts on Chinese Billions to Build Desert Boomtown." *Reuters*. September 5, 2017, sec. Business News.
[79] "$3.2b Invested on China-Oman Industrial Park in Duqm." *Oman Daily Observer*, August 13, 2017.
[80] "Oman Gets Funding from Saudi Arabia to Develop Duqm Port." *World Maritime News* (blog), January 5, 2018.
[81] "Duqm in Driver's Seat with Oman-Qatar Project." *Oman Daily Observer*, December 13, 2017. "Foundation Stone to Be Laid for Bus Manufacturing Plant in Duqm on Thursday." *Muscat Daily*. November 28, 2017, sec. Business.
[82] "Sultanate of Oman Prepares to Build the First Large-Scale Wind Farm in the GCC Region." Masdar, August 19, 2017.
[83] "Profile: Tanmia." TANMIA: Oman National Investments Development Company, n.d.
[84] "Ministry of Defence Pension Fund: Company Details." Zawya Middle East, December 23, 2016.
[85] Oman News Agency. "Oman Tourism: Anantara Jabal Akhdar Opens Officially." *Times of Oman*. December 5, 2016, sec. Tourism.
[86] "Tanfeedh: National Program for Enhancing Economic Diversification." Tanfeedh, n.d.

Tanfeedh program for enhancing economic diversification.[87] Combining government investment funds and streamlining the multiple ministerial stakeholders in local development projects has meant disrupting inefficient management and integrating parallel investment silos across ministries.

There are new efforts to streamline these various funds,[88] particularly in tourism investments, so that outside partners might help shoulder some of the cost (and reap the benefits) of domestic economic development plans, as with the Omran fund.[89] A new infrastructure fund is an important initiative, though currently less than a quarter of infrastructure investment is privately financed, according to consultant estimates.[90] Public-private partnerships are another potential avenue of financing that is largely untapped in Oman. Long-term growth will require short- to medium-term repayment, and it is in this near term that Oman may need to consider alternative financing partners, particularly with its rising debt to gross domestic product levels.

Figure 9. Oman: Rising Debt to GDP Levels



[87] "The National Program for Enhancing Economic Diversification-TANFEEDH." U.S. Embassy, Muscat, Oman, December 20, 2016.
[88] Nair, Dinesh, and Archana Narayanan. "Oman to Follow Abu Dhabi With Sovereign Fund Merger Plans." *Bloomberg*, April 24, 2017, sec. News.
[89] "About Omran." Omran, n.d.
[90] Nair, Dinesh, and Archana Narayanan. "Oman Seeks $1 Billion to Start Infrastructure Fund." *Bloomberg Business Week*, January 16, 2018, sec. Middle East.

Conclusions

Despite the pressures of fiscal deficits and labor market imbalances, the outlook for the member states of the Gulf Cooperation Council is actually very promising. This is a moment of change and renewal. It is a moment that governments can choose to be experimental and innovative in policy. Populations are generally supportive, or at least patient, for governments to impose restrictions on previous spending patterns. This could be a very unique opportunity for reform.

Inclusion is the key political and economic risk. As Gulf societies are larger and more diverse in terms of their citizen and non-citizen populations, there will be some necessary stratification. Citizenship, and its entitlements, will be contested. This may not come in immediate protests over energy price hikes, but it could be more nuanced, in the way that inequality of income and opportunity will spread in the process of creating more open markets and competition between firms. Defining basic income, and the state's duty of care to vulnerable and poor people (citizen and non-citizen) will become a more pressing concern. Citizenship will have to mean something other than equal access to (state) wealth. And respect for non-citizens, and their contribution to national economies, will require some sharing of government resources.

If changes in the wider Middle East and North Africa are of any useful comparison, there is a lot to be learned from the grievances that motivated the uprisings of 2011. New research by Elena Ianchovichina and colleagues at the World Bank[91], based on opinion surveys and innovative data collection on income inequality and consumption, show that popular anger has been motivated by frustration at corruption, at delivery of basic government services, and by a desire for opportunity. Young people in the Gulf are likely not very different. It is up to governments—not to provide all opportunity, but to encourage innovation and to know when to get out of the way.

[91] Ianchovichina, Elena. 2017. *Eruptions of popular anger: the economics of the Arab spring and its aftermath* (English). MENA Development Report Series. Washington, D.C. : World Bank Group. http://documents.worldbank.org/curated/en/251971512654536291/Eruptions-of-popular-anger-the-economics-of-the-Arab-spring-and-its-aftermath.