CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES | Middle East Program

January 31, 2008

GULF ROUNDTABLE SUMMARY

The New Rules of the Game

Gulf wealth and the global economy

While the Arab Gulf is enjoying a huge windfall as oil revenues have skyrocketed, the region continues to face serious economic challenges, according to Ahmed Saeed of Cerberus Capital. Saeed, a former Deputy Assistant Secretary for Africa and the Middle East at the U.S. Department of the Treasury, analyzed the changing role of the Gulf in the global economy at a CSIS Gulf Roundtable held on January 31, 2008.

Oil export revenues in the Gulf Cooperation Council (GCC) states currently top $3 trillion; if the price of oil remains at $100 a barrel, revenues are expected to triple over the next 14 years. Saeed argued that these numbers, combined with news of multi-billion dollar Gulf investments in global firms, create the impression of an affluent region. Yet per capita Gross Domestic Product (GDP) in the GCC remains around $13,000, roughly a third of that of the United States. Even more striking is the fact that per capital GDP in the GCC is just over half what it was in 1980—and in Saudi Arabia, it is only a third of 1980's $30,000 figure. Relatively broad discrepancies in Saudi Arabia's distribution of wealth make that country an especially significant place to watch.

As highlighted in numerous international agency assessments, job creation is one of the region's most pressing economic challenges. Gulf populations are increasingly young and increasingly educated. Many locals are unwilling to undertake lower-level service jobs, but not yet fully competitive with foreign professionals and technical staff. The combination produces a large number of university graduates with inflated expectations, and a persistent dependence on foreign labor. The UAE poses a particularly interesting case, due to the high number of expatriate workers. In early 2007, the UAE population was 5.6 million, of which only 15 percent were nationals.

To meet the flood of new entrants to the workforce, Gulf economies will need to double the number of jobs for locals over the next decade—a feat that will require the job market to grow more than six percent per year for the next ten years. Thus, GCC economies are under special pressure not only to create new jobs, but to reduce dependence on foreign workers and further develop indigenous skills and productivity. There is at least a growing realization that the situation needs to improve noted Saeed, yet the slow pace of reform remains a challenge. Many see growth in small-to-medium (SME) enterprises as a key to

PARTICIPATING SCHOLAR

Ahmed M. Saeed joined Cerberus in 2008 and will serve as Managing Director and President of Cerberus Middle East, an entity the firm is in the process of establishing. Prior to joining the Cerberus Companies, Mr. Saeed was Deputy Assistant Secretary of the United States Treasury for the Middle East and Africa, responsible for U.S. financial and economic policy in these regions of the world. He also served as a 2004-2005 White House Fellow assigned to the Secretary of the Treasury. From 2000-2004 Mr. Saeed was Managing Director of NextCom Venture Partners, a venture capital fund. Before this, he was founder and President of a company that grew to be one of Japan's largest internet service providers (ISP), and Managing Director of the United Kingdom's third largest ISP. Mr. Saeed received a B.A. in Economics and Political Science from McGill University, and a J.D./M.B.A. from the University of Chicago. ■

THE GULF ROUNDTABLE SERIES

The CSIS Middle East Program launched the Gulf Roundtable in April 2007 to examine the strategic importance of a broad range of social, political, and economic trends in the Gulf region and to identify opportunities for constructive U.S. engagement. The roundtable defines the Gulf as the United Arab Emirates, Saudi Arabia, Oman, Qatar, Bahrain, Kuwait, Iraq, and Iran. The roundtable convenes monthly, assembling a diverse group of regional experts, policymakers, academics, and business leaders seeking to build a greater understanding of the complexities of the region. Topics for discussion include the role of Islamist movements in politics, the war on terror, democratization and the limits of civil society, the strategic importance of Gulf energy, media trends, trade liberalization, and prospects for greater regional integration. ■

success. Saudi Arabia and UAE have shown particular interest in SME promotion and training. Other key elements to job creation include structural reforms, such as cutting down on barriers to trade and investment, as well as a move away from a bloated public sector towards a private enterprise economy.

Overall, Gulf economies have evolved and become more sophisticated in their investment strategies since the 1970s, seeking to diversify their revenues and preserve their capital. Sovereign wealth funds (SWF) have emerged as key vehicles for doing so. Many in the Gulf now view the 1970s as a missed opportunity, and they have sought to avoid repeating past mistakes, when development funds were arguably wasted. Regional SWF strategies cover a range of approaches, from Oman's 'contingency fund' to those of Dubai and Qatar, marked by active investment vehicles employing multiple managers and strategies. In general, regional governments are pursuing diversification and liberalization of their economies as hedges against any future downturn. Overall, Saeed noted, SWF's have been relatively successful at meeting these objectives.

Gulf economies will need to double the number of jobs for locals over the next decade—a feat that will require the job market to grow more than six percent per year for the next ten years.

Despite controversy surrounding SWF's, Saeed said he viewed the region's funds as potentially constructive global actors, especially as the U.S. economy goes through a period of recapitalization and restructuring. While many in the Gulf are deeply dissatisfied with U.S. foreign policy, and while anti-Arab sentiment could erupt in the United States again (as it did over Dubai Ports World's efforts to purchase the a port operator with substantial U.S. assets), Saeed maintained that the United States will not only remain an attractive investment environment for Gulf investors, but a vital one. Given the sheer amount of investable funds, it will be difficult for SWFs to find sufficient investment-grade opportunities without including the United States.

Saeed added that Gulf states have an incentive to preserve the value of their U.S. investments by helping boost the dollar rather than weaken it. Despite the fact that Kuwait dropped its peg to the dollar in favor of a basket of currencies, and Saudi Arabia has also discussed the idea, Saeed pointed out that not only do Gulf U.S. holdings depend on the dollar retaining its value, but even many of their diversified investment are predominantly dollar-linked. He argued that the United States has an interest in helping these countries develop and should look for ways to deepen evolving partnerships and shared interests.

Gulf investors are increasingly interested in pursuing business opportunities in China, noted Saeed. He pointed out, however, that Gulf investors face precisely the same challenges as other outside investors in China. While some oil funds may find their way into Chinese investments—and certainly more Chinese currency is making its way to the Gulf as energy consumption continues to grow strongly—Saeed judged that the United States and Europe will remain by far the largest recipients of Gulf capital.

Gulf economies have evolved and become more sophisticated in their investment strategies since the 1970s, seeking to diversify their revenues and preserve their capital.

Saeed concluded by suggesting that the United States continue to encourage the free-flow of capital. He also urged Gulf states to more effectively address lingering transparency concerns by disclosing their intentions and strategies behind investments in certain sectors deemed of strategic importance to the United States. Perceptions influence policy, Saeed argued, and more dialogue on both sides would ease some of the misunderstandings and misperceptions between the United States and the Gulf. ■

The CSIS Middle East Program

Jon B. Alterman
Director

Haim Malka
Deputy Director

Ethan Chorin
Senior Fellow

Gregory Brosman
Program Coordinator/ Research Assistant

Omar Boukili
Kathryn Hannah
Daniel Hatch
Interns