

Sustainable Economic Recovery Post COVID-19 in the GCC Region

Member states of the Gulf Cooperation Council (GCC) are facing three different but interconnected shocks: the COVID-19 pandemic, a significant drop in oil prices, and climate change. First, COVID-19 has undercut economic growth and stability in the entire world as well as in GCC countries; the International Monetary Fund (IMF) projects a 7.3% economic contraction for oil exporters in the Middle East region,¹ and S&P Global expects GCC government debt to rise to USD 100 billion in 2020.² Second, oil prices have fallen from US\$ 64 per barrel in 2019 to US\$ 40 in early June 2020, which is alarming since this is well below the fiscal breakeven point for oil.³ While GCC countries have been trying to diversify their economies, most of them are still heavily dependent on oil exports. More than 60% of Saudi Arabia, Bahrain, Oman, and Kuwait's government revenues come from hydrocarbon. This figure drops to 54% for the UAE, and 38% for Qatar.⁴ Third, climate change could potentially render the MENA region uninhabitable by 2100 if no action is taken to decrease global carbon emissions.⁵ By 2050, temperatures in the MENA region are expected to increase by 4°C, and could reach as high as 50°C during daytime by 2100.⁶ Mitribah, Kuwait has already registered temperatures of 54°C in 2016, and Sweihan, Abu Dhabi has reached 50.4°C in

¹ Augustine, B. (2020). *GCC to lose \$270 billion in oil revenues in 2020, says IMF*. Gulf News. <https://gulfnews.com/business/gcc-to-lose-270-billion-in-oil-revenues-in-2020-says-imf-1.1594640168553>

² Jones, M. (2020). *Gulf government debt to see record \$100 bn surge in 2020*. Reuters. <https://www.nasdaq.com/articles/gulf-government-debt-to-see-record-%24100-bln-surge-in-2020-sp-global-2020-07-20>

³ Kabbani, N. (2020). *How GCC Countries Can Address Looming Fiscal Challenges*. Brookings Institute. <https://www.brookings.edu/opinions/how-gcc-countries-can-address-looming-fiscal-challenges/>

⁴ Kandil, M. and Mahmah, A. (2020). *Economic Challenges for the GCC Countries after Covid-19*. Economic Research Forum. <https://theforum.eref.org.eg/2020/05/20/economic-challenges-gcc-countries-covid-19/>

⁵ Pal, J. and Eltahir, E. (2016). *Future temperature in southeast Asia projected to exceed a threshold for human adaptability*. Nature Climate Change. <https://www.nature.com/articles/nclimate2833>

⁶ Hergersberg, P. (2016). Max Planck Gesellschaft. https://www.mpg.de/10856695/W004_Environment_climate_062-069.pdf

2017.⁷ Moreover, by 2050, the climate impact on water resources in MENA is expected to invoke losses up to 14% of GDP.⁸

Sometimes the world needs a crisis, and this certainly does apply to GCC countries. While these governments have largely focused on public health amid the pandemic, priorities are being gradually redirected to long-term economic recovery. GCC countries have announced economic stimulus packages totaling US\$ 97 billion, however, investment in green economic recovery and innovation is crucial to building back their countries better. Unfortunately, and according to Bloomberg, out of the total US\$ 12 trillion global stimulus packages, less than 0.2% has been allocated towards climate concerns.

Shaping a Green Recovery for GCC Countries:

1. **Investing in clean hydrocarbon energy.** Green stimulus packages build resilience against the threat of climate change but also deliver more jobs and higher and equitable growth. A report by the International Renewable Energy Agency (IRENA) estimates economic returns in renewable energy at US\$ 3-8 for every US\$ 1 invested, in addition to quadrupling the number of jobs in the sector over the coming three decades. It also projects an additional US\$ 100 trillion to be added to global GDP by 2050 if investment in this sector is accelerated.⁹
2. **Building greener infrastructure.** GCC countries will also need to invest in innovative technologies for greener cities such as seawater desalination projects, green buildings, and clean mobility, as well as developing and greening public transportation systems.

⁷ Broom, D. (2019). *How the Middle East is Suffering on the Front Lines of Climate Change*. World Economic Forum. <https://www.weforum.org/agenda/2019/04/middle-east-front-lines-climate-change-mena/>

⁸ World Bank. (2018). *Beyond Scarcity : Water Security in the Middle East and North Africa. MENA Development Report*; Washington, DC: World Bank. <https://openknowledge.worldbank.org/handle/10986/27659>

⁹ Oxford Business Group. (2020). *Can emerging economies afford green recovery from Covid-19?*. Oxford Business Group. <https://oxfordbusinessgroup.com/news/can-emerging-economies-afford-green-recovery-covid-19>

3. **Investing in the blue economy.** The MENA region is considered the world's most water-scarce region holding around 1% of the Earth's total renewable freshwater resources.¹⁰ Additionally, the Indian Ocean is one of the world's busiest trade routes and accounts for the passage of 80% of the world's maritime oil trade. GCC countries will need to invest in developing a sustainable maritime industry and ensure the sustainable use of marine ecosystems.¹¹
4. **Enforcing environmental, social, and governance (ESG) disclosure.** Governments and regulators will need to improve the measurement, assessment, and disclosure of companies' ESG performance. The financial returns on ESG practices and guidelines are economically sound; a performance analysis, conducted by Morgan Stanley, of more than 10,000 mutual funds, has showed that sustainability funds met or exceeded median returns of traditional funds 64% of the time.¹²
5. **Building a real data economy.** Any true reform to transform GCC countries into more resilient, greener, and growing economies will need to start with data. It may be worthwhile to follow the EU's example. The new Recovery and Resilience Facility of EUR 560 billion by the Next Generation EU offers financial support for digital and green reforms and has prioritized the building of a real data economy. This entails compiling data from the different key sectors and

¹⁰ Kandeel, A. (2019). *Freshwater resources in the MENA region: risks and opportunities*. Middle East Institute. <https://www.mei.edu/publications/freshwater-resources-mena-region-risks-and-opportunities>

¹¹ Ahmed, M. (2020). *The blue economy- riding a wave of optimism?* The National. <https://www.thenational.ae/business/comment/the-blue-economy-riding-a-wave-of-optimism-1.1002524>

¹² Morgan Stanley. (2015). *The Business Case for Sustainable Investing*. <https://www.morganstanley.com/ideas/business-case-for-sustainable-investing>

industries in all European countries to support the implementation of the European Green Deal.¹³

¹³ European Commission. (2020). *Europe's Moment: Repair and Prepare for the Next Generation*.
https://ec.europa.eu/commission/presscorner/detail/en/ip_20_940