

A photograph of a desert landscape with sand dunes and a trail of footprints leading up a dune. The footprints are arranged in a line that curves across the dunes, starting from the top center and moving towards the bottom right. The sand is a warm, golden-brown color, and the lighting creates soft shadows that emphasize the texture of the dunes.

THE GULF COOPERATION COUNCIL

A SHORT AND LONG TERM ECONOMIC OUTLOOK

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Current Economic Outlook

2010 was a year of relative economic recovery for the Gulf Cooperation Council (GCC) countries. The GCC consists of seven different member states: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and The United Arab Emirates. As a whole the region is considered “oil-rich” and holds some of the world’s highest per capital GDP figures. Growth in 2011 for the GCC region will be driven by hydrocarbons, infrastructure investments, and private sector activities. Thanks to the global economic recovery, the oil price has been peaking up since 2009. Recent turmoil in Egypt and Libya has pushed oil prices over \$100 per barrel. Given that oil revenues are the primary source of income for the GCC, the region will benefit from this price rise as increasing government revenues will enable funding of long term spending programs, including many multi-billion dollar infrastructure investments. The long term growth of the GCC region will be driven by global demand for hydrocarbons, economic diversification, population growth, technological advancement, and globalization. We are positive about the overall economy of the region. According to Economist Intelligence Unit (EIU) research, current \$1 trillion economy will double to \$2 trillion by 2020.¹

Challenges

Financial

Many GCC companies have enjoyed high, double-digit growth over the past five to seven years. However, there are doubts on how sustainable such high growth rates are as local and global economies are slowly adjusting to the recent global economic meltdown. As such, GCC companies are anticipated to be characterized by low, single digit growth. This will apply to the majority of the banks in

particular, where most of the profits came from making loans to speculators in real-estate and equities. Many banks are still suffering from the 2009 credit crunch while they restructure their balance sheets. This usually involves extending loan maturities, in the hopes that asset prices recover allowing borrowers to sell off their bad assets to pay back their loans. Given the positive global macroeconomic environment, credit conditions should start to improve moderately in late 2011.

Political

It is no secret that in the past few months the Middle East and North Africa (MENA) has witnessed tremendous political upheaval. The protests and unrest that started from Tunisia and spread to Egypt, Libya, Bahrain, and many other MENA countries cast serious doubts on the political stability of the GCC region. These events have underscored the long term volatility of non-democratic regimes and how the economic stratification of the classes within many of the MENA states can lead to sudden and unanticipated eruptions of public anger and massive violent protests. In light of the regional political upheaval, the most oil rich out of all the GCC states, Saudi Arabia, was quick to use its massive wealth to appease its citizens and to ensure its population that their government is serious about making fundamental shifts in how wealth is distributed within its borders. Others states followed suit and in a matter of a few weeks from Oman to Bahrain to Egypt, governments were reshuffling cabinets, directly paying their citizens and conveying the message of change as strongly as they could. What lies next is uncertain and a sudden transfer of power in one or more major oil producing states to a fundamentalist regime, while unlikely, could cause major long term disruptions in the global flow of petroleum. Such risks are certainly reflected in the recent spike in oil prices.

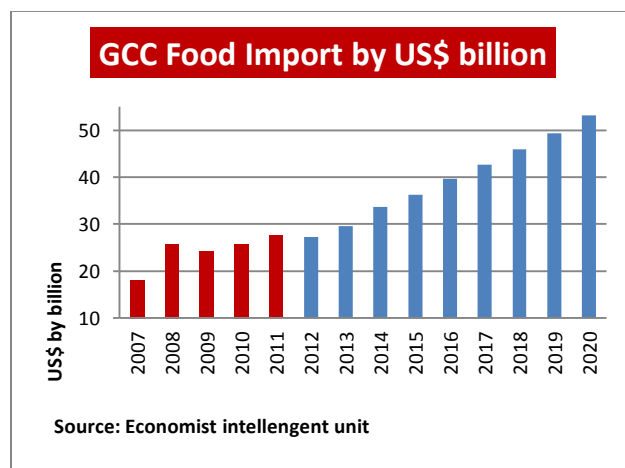
The GCC population is forecast to grow by about 33% to about 53 million and the majority

¹Kinninmont, Jane. [The GCC in 2020: Resources for the future](#). Research Report. London: Economist Intelligence Unit, 2010.

of the people will be under 25 years old.² The high population growth and low productivity is a potential risk factor that could push the youth towards extremist ideologies. Creating employment and providing a strong educational infrastructure is the key to countering these challenges.

Food and Water

The GCC spent over \$24 billion on food imports in 2008. Due to rapid population growth, the food imports are anticipated to more than double to \$49 billion by 2020.¹ This high growth in imports is primarily due to water scarcity, which causes domestic agricultural production to be very costly. Some of the GCC member states have been considering plans to explore a wide-range of agricultural land for purchase in regions such as Africa, Central Asia and South-east Asia, in order to strengthen food security. The next ten years will prove if such strategies will be implemented on mass scale and whether or not they will be successful in securing a solid source of food.



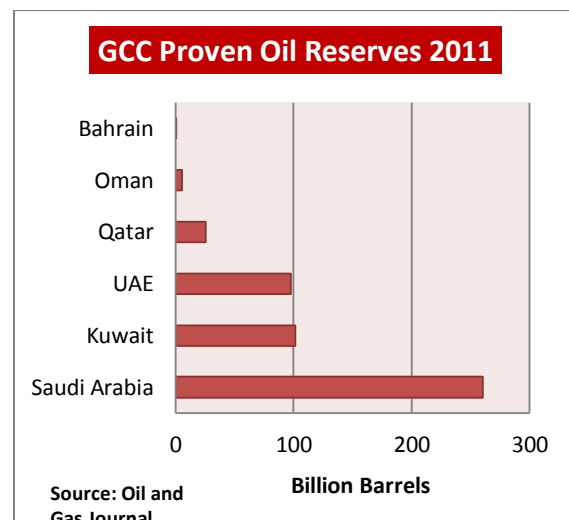
Dependency on oil

The GCC economies rely very heavily on oil. Oil and gas production is a major contributor of the

²Sambidge, Andy. *GCC population seen growing to 53m by 2020*. <<http://www.arabianbusiness.com/gcc-population-seen-growing-53m-by-2020-10831.html>>.

growth of the GCC. For some countries, such as Saudi Arabia and Kuwait, oil export revenues account for more than half of their GDP. The oil boom has created enormous wealth for the GCC in the past decades, but an oil-driven economy is not sustainable. For countries like Qatar and Oman, the proven oil reserves will be significantly depleted by 2020.³ Furthermore, the electricity in the GCC is usually generated by domestic gas, but demand for electricity is already outstripping supply in the GCC. Fast population growth will create shortages unless something is done. What's more, using fossil fuels to generate electricity has very high opportunity costs because it means there are less available for export.

The need for diversification is becoming an urgent topic for many of the GCC members. Diversification opportunities exist in sectors such as downstream oil, renewable energy and construction. Large scale economic reforms are very challenging, but some member states, such as the UAE, have set a good example for successfully reducing the percentage contribution of hydrocarbon production to their GDP to about 30 percent.⁴



³U.S. & FOREIGN COMMERCIAL SERVICE Department. "Doing Business In Oman." 2005. [Export.Gov.<http://www.export.gov/middleeast/country_information/oman/Oman%20FY05%20CCG.pdf>](http://www.export.gov/middleeast/country_information/oman/Oman%20FY05%20CCG.pdf).

⁴Vogl, Emily. *GCC Economic Report*. Washington DC: Institute of International Finance, 2008.

Opportunities

Technology

Information and communication technology (ICT) in the GCC has a high growth potential. The demand for the ICT products is very strong. The large young population will further drive the growth of the Internet, mobile broadband and new gadgets. There will also be strong growth opportunities in development of Arabic content as 3G mobile data services advance. Governments have actively supported this sector with an eye on developing a strong private sector around the field. Countries such as Bahrain have broken some of their state monopolies into competing small companies, creating a competitive environment that instills innovate on. The Bahraini government has also benefits, such as tax breaks and free trade zones, for companies that want to enter the ICT sector within their country. As a result, investments in ICT related infrastructure, such as fiber-optic backbones and data centers, are flourishing.

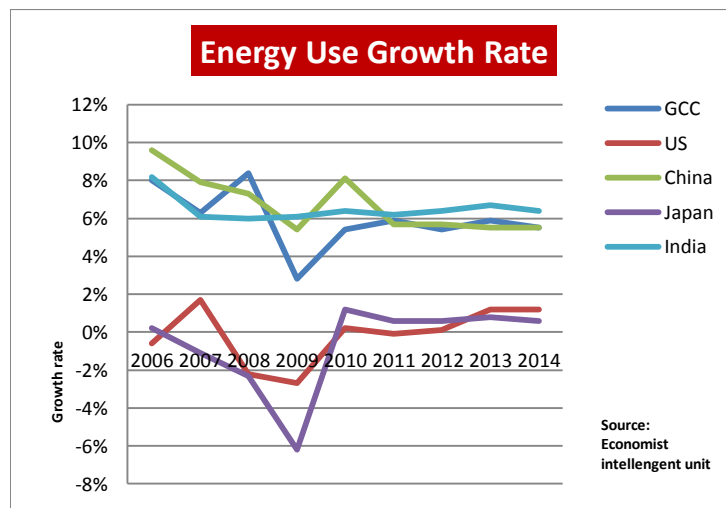
Use of Natural Resources (Gas/Oil)

The GCC region is forecasted to seek ways to export smaller portion of its oil as low-margin crude because pure crude oil export only provides very limited employment opportunities. The GCC will leverage its natural energy resources as feedstock for the aluminum and steel manufacturing industries that add more value and offer more employment opportunities within the region. Moreover, the GCC is anticipated to focus on downstream petroleum development, such as crude oil refining, petrochemicals and the selling and distribution of natural gas and products derived from crude oil. Qatar, for example, began to invest and export liquefied natural gas (LNG) in 1997, quickly becoming the world's leading LNG exporter with one of the largest production capacity.⁵

⁵ CIA World Fact Book. 2011. 15 March 2011 <<https://www.cia.gov/library/publications/the-world-factbook/geos/qa.html>>.

Rise in Renewable Energy

The decision to develop renewable energy is mostly driven by its necessity. As global fossil fuel supplies drop and the demand for power in the world rises, embracing necessary alternative energy sources has become increasingly important. There is little doubt about the adverse effects that burning ever increasing fossil fuels has on the environment. The globe is facing serious problems with rapid population growth, an enormous rising middle class requiring exponentially more amounts of energy, and a climate at the verge of irreversible change. Global trends seen in the previous 10 years have all indicated strong evidence of the severity of these problems. Such trends have resulted in massive transfers of wealth to oil-rich countries in the GCC. The price of oil has been on a steady hike reflecting the increased demand and the limited supplies.



Higher oil prices not only create large income surpluses for the oil producers, they also increase the opportunity cost of using such resources internally. As such GCC countries, especially the UAE with the Masdar project, have been diligently examining their options for harnessing power from renewable sources. Consequently, GCC states can not only reduce their carbon footprint but also enjoy more

revenues from sale of the region's fossil fuel reserves instead of consuming them.

Another factor in GCC's determination to develop renewable energy generation facilities is the regions lack of sufficient power generation infrastructure. In many areas, diesel power generation is still the norm and diesel generators are both very environmentally unfriendly and expensive. While natural gas is still the major resource for power generation in the GCC, we project that the region will be spending significant resources on using solar power options in the next 10 years, reducing its reliance on gas and diesel generation in the face of its rising population.

Abu Dhabi has made the most progress in the renewable energy sector by developing a carbon-neutral city called Masdar. This is partially because power consumption in the country has risen the fastest and access to additional gas supplies is very limited. Even Qatar, one of world's largest gas producers, is actively looking for investing in renewable energy to power the nation. The construction of a 3,500MW solar power complex is a great example of Qatar's efforts towards this process. The remaining GCC countries will quickly follow suit, which will offer tremendous opportunities within the renewable energy sector.

Bahrain***Economic Outlook***

Bahrain's economy is not as heavily reliant on natural resources as the rest of the countries within the GCC, and it is the first oil-state to diversify its economy. The kingdom has positioned itself as a regional financial and business hub. The hydrocarbon sectors makes up approximately 13% of the economy while the financial sector makes up about 25%⁶. That said, the government has put improving oil exploration methods on top of the list for the next few years by making large-scale investments in the country's oil fields. Furthermore, the government allows foreign companies to share production agreements, for the first time, with the state-owned oil company. Bahrain is targeting an increase in oil production in the Awali field from the current 35 thousand barrels per day (kbd) to 75 kbd by 2015 and 100 kbd after another five years. Natural gas capacity is expected to expand from 500 million to 2 billion cubic feet per day. Both oil and gas output will be important growth drivers of Bahrain's economy. Improved gas supply will facilitate the expansion of other industries that rely on gas as an energy source, including downstream petrochemicals and manufacturing facilities. In addition, oil revenues should increase in the short to medium term given the oil prices are currently up at above \$100 per barrel. Although oil is not the main driver of the economy, oil revenues are still the government's main source of income, providing around 80% of total revenues. The expected increase in government revenues from the hydrocarbon sectors should also help Bahrain to deal with its budget deficit problem, which is expected to be \$998 million in 2011 and 2012.⁷

⁶ Hasan, Faisal. Qatar Economic & Strategic Outlook. Kuwait: Goba Investment Research, 2009.

⁷ Derhally, Massoud A. Bloomberg. 6 Jan 2011. <<http://www.bloomberg.com/news/2011-01-06/bahrain-expects-budget-deficit-of-988-million-this-year.html>>.

Challenges

Bahrain has a lower social stability among other GCC members and is the most vulnerable to the unrest. The uprising wave in the Middle East has spread to Bahrain as thousands of people turned out to protest in the Central Pearl Square in Bahrain recently. This is likely to have a regional and financial impact in the short term. On one hand, as one of the most important financial hubs in GCC, the unrest in Bahrain certainly hurts investor confidence. On the other hand, the government will spend more money on the social problems as it is said a few weeks ago that it would spend an extra \$417 Million on social item⁸. This means the government has less money left to reduce the deficit. However, the GCC also has strong interest in getting the unrest resolved as fast as possible. Saudi Arabia has already stepped up and sent troops to assist Bahrain calm down the uprising. We believe the unrest is relatively short term and less severe than it was in countries like Egypt. In the long term, we are worried about the productivity as output per worker dropped in Bahrain from 2003 to 2008⁶. If this trend were to continue, standard of living would eventually decline.

Another concern in Bahrain is its demographic trends. The current trend suggests that Bahrain will experience a rapid growth in the workforce over the coming decade than previously expected. Although, an increasing Bahraini workforce may contribute to a higher rate of output growth, it is still a challenge to maintain the increase in Bahraini job opportunities.

Project opportunities

Project opportunities exist in many sectors. In the energy sector, according to National Oil & Gas Authority (NOGA) of Bahrain, the average daily extraction of Oil in Bahrain field will start to decline significantly after 2015. It has been

⁸Stevenson, Reed. Reuters. 16 Feb 2011.

<<http://www.reuters.com/article/2011/02/16/us-bahrain-analysis-idUSTRE71F3E220110216?pageNumber=2>>.

widely believed that Bahrain would need to build alternative sources of prosperity more urgently than any other member state in the GCC because it has the smallest oil and gas reserves. Bahrain is beginning a major renovation of its oil and gas industry. Projections for recoverable oil and gas from improved techniques in indigenous fields have been raised. There is also increasing evidence of renovation and renewal in manufacturing industries and oil refining, which will stimulate the output and the productivity of the oil refining industry in Bahrain. Another notable sector is Information and Communication Technology (ICT). Due to rapidly evolving information and communication technologies and high regional consumer demand in the Middle East, Bahrain has a huge potential for growth within the ITC industry in the next decade.

Kuwait

Economic Outlook

Kuwait is OPEC's fourth largest crude oil producer making its economy heavily reliant on the oil industry. Kuwait contains an estimated 101.5 billion barrels (bbl) of proven oil reserves, which is approximately 8 percent of the world total. Petroleum accounts for more than half of Kuwait's GDP, 90% of export revenues and around 94% of the government revenue⁹. Crude oil prices have seen a period of price stability since 2009 due to the global economic recovery. The recent unrest in the Middle East has pushed oil prices over \$100, which will bring extra cash flow to Kuwait. In addition, the Kuwaiti government aims to develop Kuwait into a trade and financial hub in the next 25 years, according to "Kuwait Vision 2035" program. Kuwait's four-year development plan and recent approval of a \$104 billion development plan are positive reflections that the Kuwait government is actively implementing steps toward this vision.

⁹ Kuwait Economic Brief. Kuwait: National Bank of Kuwait SAK, 2010.

Challenges

Although development plans are encouraging, there are still a lot of challenges and risks associated with the "Kuwait Vision 2035" program. For instance, when Standard Chartered Bank conducted their research into Kuwait they were concerned with the long-term execution of this vision because there is a possibility that projects will face delays or be scrapped as decision-makers dispute the optimal path to reform.¹⁰ In addition, Oil revenues make up 94% of Kuwait's total revenues. This provides a comfortable cushion for the economy and gives little incentive to the government to call for any major reforms. As many other countries in GCC move fast to diversify their economies, Kuwait sees little urgency in economic reform or in developing a petroleum-independent economy.

Project opportunities

The Kuwaiti government has taken monumental steps towards building the infrastructure needed to fulfill their vision in developing Kuwait into a trade and financial hub within the next 25 years. The government recently approved a 5-year \$104 billion investment plan towards this vision. Some of the major projects in the investment plan include \$75 billion investment in Silk City, \$12 billion investment in New Al Zour refinery, and \$3 billion each for Subiya Causeway, New Kuwait University Campus, Development of Failaka Island, and New Bubiyan Port.

Oman

Economic Outlook

Oman is one of the fastest growing countries in the Middle East. Oman is also an oil-based economy, which means its economic growth is directly correlated to the price of oil. Oman's oil and gas production is expected to rise slightly in

¹⁰Fahim, Nancy. Global Focus 2011- Kuwait. UAE: Standard Chartered Bank, 2010.

2011. Since oil and gas makes up 65% of Oman's exports, the rise in oil and gas production has also contributed to healthy trade balances. The Omani government's debt is about 5.7% of GDP, which is also at a healthy level.

The private sector contributes to 53% of Oman's GDP, making it a significant part of Oman's economy. Growth in the private-sector credit is a good indicator of the overall performance of the private-sector. In 2010 Oman's private-sector credit growth picked up and we expect this trend to continue in 2011¹¹.

Oman's government recently released its 8th five-year development plan (2011-2015) focusing on development of basic industries and small and medium industries with an intention to increase the contributions of the industry to the GDP and boost the rate of annual growth of exports.

Challenges

Oman's oil reserves are modest compared with some other countries in the GCC and they will be significantly depleted by the year 2020. As Oman's economy is highly dependent on oil, the need to diversify has become increasingly urgent but lack of a sufficiently sophisticated legal framework and the relatively low productivity of the human resources are the two main barriers to diversification. Oman's education system is relatively undeveloped with low expectations and low performances, and an educational reform is needed to improve the productivity of the labor forces in Oman.

Furthermore, the political and economic conflict of interest at the top level is another obstacle to Oman's economic diversification. For example, many cabinet members are still directly or indirectly involved in business activities. This means the policy makers often fail to promote the nation's general interests

when they act like a businessman¹². This conflict also reflects a fundamental problem existing in Oman's political and economic structure, which may hamper Oman's economic growth and social stability in the long term.

Project opportunities

Oman needs to and intends to reduce its reliance on petroleum revenues. Hence "Vision 2020", an economic diversification plan, was set up to reshape the economic future of Oman. The key objective is to reduce the contribution of the hydrocarbon sector from 41.5 percent of GDP in 2007 to 9 percent of GDP in 2020. There will be continued expansion of the downstream oil production, manufacturing and tourism sectors. Project opportunities also exist in the renewable energy sectors.

Ahmed bin Abdulnabi Macki, Minister of National Economy, speaking to the Observer remarked that it had been a national objective of the Sultanate to focus on developing renewable resources rather than resources such as oil¹³.

Qatar

Economic Outlook

Qatar has the highest GDP per capita in the world according to the CIA World Factbook, which makes it the wealthiest country in the GCC. The oil and gas sector has been the major contributor to Qatar's growth, which accounted for more than half the country's real GDP in 2010. Qatar is a major player in global energy market. Qatar is a member of the Organization of Petroleum Exporting Countries (OPEC). Qatar is also a significant natural gas producer in the world. Its proven natural gas reserves rank the third largest in the world, which accounts for

¹¹ Fahim, Nancy. Global Focus 2011- Oman. UAE: Standard Chartered Bank, 2010.

¹²Bertelsmann Stiftung, BTI 2010 — Oman Country Report. Gütersloh: Bertelsmann Stiftung, 2009.

¹³Gent, Maurice. Oman Observer. 18 Aug 2010. <<http://main.omanobserver.om/node/20017>>.

over 5% of the world's total¹⁴. The government has invested heavily in liquefied natural gas (LNG) production capacity in the past decade. Qatar began to export LNG in 1997. By 2009 it exported nearly 1,800 billion cubic feet (Bcf) of LNG, which makes it the world's leading LNG exporter with the largest production capacity¹⁴. Qatar has achieved 77 million tons per annum (Mta) of LNG production capacity in 2010 and will complete its monumental cycle of LNG infrastructure expansion in early 2011. As such, we believe that LNG spending will no longer be the main driver of the growth. However, Qatar's economy is likely to benefit from heavy infrastructure spending as Qatar has won the bid for holding FIFA World Cup in 2022. We are positive on Qatar's economy and believe that it will benefit from a sustained and steady growth in the next few years.

Challenges

Oil has contributed significantly to Qatar's growth story in the past decade. However, Qatar's oil is estimated to be depleting in the next 23 years. In the long-term it is becoming increasingly important for Qatar to diversify its economy, as it is for almost all GCC states. In the short term, the heavy infrastructure spending will fuel growth, but policies promoting economic diversification will be key for Qatar to maintain a sustainable long-term growth.

Qatar's property prices declined about 15% in 2010¹⁵. The private sector is too small to absorb the huge excess supply in the Qatari real estate market. Many expect that real estate prices will continue to decline in the commercial property market in 2011.

¹⁴CIA World Fact Book. 2011. 15 March 2011 <<https://www.cia.gov/library/publications/the-world-factbook/geos/qa.html>>.

¹⁵Augustine, Babu Das. *Gulf News*. 13 January 2011. <<http://gulfnews.com/mobile/business/economy/qatar-on-robust-growth-path-1.745310>>.

Project opportunities

The 2020 FIFA World Cup is expected to have a significant impact on Qatar's economy. As a part of the country's ambitious "National Vision 2030", Qatar had already been on schedule to spend around \$100 billion prior to FIFA's announcement to modernize the country. Broadly speaking, the main sectors that will benefit from the World Cup are construction, infrastructure, hospitality and banking. The World Cup may further accelerate the infrastructure spending program.

The government plans to spend approximately \$20 billion on new roads and transport infrastructure and a \$20 billion metro system is in the pipeline in the longer term. Qatar is also constructing an \$11 billion airport (New Doha International Airport) and a \$5.5 billion deep-water seaport.

In addition, according to the Qatar World Cup bid outlines, Qatar will build nine new stadiums and expand three existing ones by 2020¹⁶. Qatar also plans to build about 90,000 additional hotel rooms.

Saudi Arabia

Economic Outlook

Saudi Arabia's economy is based on the oil industry, and it's centrally planned. Saudi Arabia possess around a quarter of the world's oil production, ranking as the largest oil exporter in the world with a GDP growth rate of 3.0% in 2010. Oil export revenues account for almost half of the GDP and 90% of exports. The inflation rate in 2010 was 5.5%. The heavy government investment program will also add to the inflationary pressures in the coming year¹⁷. We expect 2011 fiscal spending to be slightly higher than the previous year's fiscal

¹⁶(2020 FIFA World Cup Bid Evaluation Report: Qatar) 2020 FIFA World Cup Bid Evaluation Report: Qatar. Zurich, Switzerland: FIFA, 2010.

¹⁷CIA World Fact Book. 2011. 15 March 2011 <<https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html>>.

budget (\$125.3billion)¹⁷. The country's growth in the coming year will be driven by the massive investment in infrastructure and key strategic sectors. The recent disruption of oil shipments from Libya has instigated Saudi to ramp up its oil production in order to meet the demand. In the long term, the Saudi government plans to spend \$385 billion during 2011 to 2014 on a variety of investments and infrastructure projects¹⁸.

They include investments in transportation (rail, air and sea ports), property construction, and water and power generation. High oil prices will continue to finance these spending plans. The Saudi government recently introduced a \$37 billion social benefits plan to alleviate the effects of inflation and unemployment¹⁹. However, those social pressures may not subside easily as growing social concerns continue. Increasing disconnect between the ordinary Saudi people and the policy makers is a major obstacle to the social stability in the future²⁰. We anticipate this infusion of money to the Saudi people to increase, as the Saudi government increases spending efforts to alleviate the possibility of political and social unrest.

King Abdulla actively advocated spending capital on expanding higher education. As a result, Saudi Arabia has invested heavily in higher education from 2003 to 2010. About 25% of each yearly budget goes toward education. The development plan calls for nearly doubling the number of university students, from 860,000 to 1.7 million by 2014²¹. King Abdullah also implemented a government scholarship

program, named the King Abdullah Scholarship Program, to send young Saudi men and women to Western universities for undergraduate and postgraduate studies. The investments in higher education may enhance the quality of the labor force in Saudi in the future. However, the massive capital spending must go hands in hands with the industry development to create relevant positions for the young Saudis. This will be challenging since 70% of Saudis are less than 30 years old with the medium age of 19¹⁷.

Challenges

The Saudi government had launched ambitious plans for economic diversification back in 2005, but the success has been very limited. The development of an oil-independent economy has a slow progress, and the conflicting interests with the royal family, which dominates the economy, have impeded attempts to invest in Saudi's private sector in the past decade.

Saudi Arabia's domestic oil consumption has grown at an annual rate of 5.9% over the past five years¹⁷. This presents the potential for the country's crude oil exports to decline in the future. As the government subsidizes most of the country's energy needs, it needs to move faster to diversify its economy to hedge itself against the possible declining hydrocarbon revenues in the event of a decline in the price of oil, which will be a key challenge for Saudi Arabia.

Project opportunities

A \$385 billion spending program for 2011 to 2014 was approved in 2010²⁰. The primary goal of the program is to create jobs and to build housing for the growing population, which grew at a rate of 10.5% in 2010²². A growing population also means increasing demand for power, which is believed to be more than 3,000

¹⁸Bitzan, John. EDC Economics- Saudi Arabia. Ottawa, Canada: Export Development Canada, 2011.

¹⁹Sajor, Stephanie. [Saudi Arabia Reveals \\$37 Billion Social Benefits Plan](http://www.thirdage.com/news/saudi-arabia-reveals-37-billion-social-benefits-plan_3-1-2011). 1 March 2011. <http://www.thirdage.com/news/saudi-arabia-reveals-37-billion-social-benefits-plan_3-1-2011>.

²⁰TheEconomist. [The royal house is rattled too](http://www.economist.com/node/18291511). 3 March 2011. <<http://www.economist.com/node/18291511>>.

²¹Lindsey, Ursula. [Saudi Arabia's Education Reforms Emphasize Training for Jobs](http://chronicle.com/article/Saudi-Arabias-Education/124771). 3 October 2010. <<http://chronicle.com/article/Saudi-Arabias-Education/124771>>.

²²Alsharif, Asma. UPDATE 3-Saudis aim to slash unemployment with \$385 bln plan. 10 Aug 2010. <<http://www.reuters.com/article/2010/08/10/saudi-spending-idUSLDE6790I020100810>>.

MW a year of new power capacity required for the next 10 years.

Saudi Arabia's economy is also moving away from hydrocarbon-driven toward infrastructure-driven spending. Saudi Arabia has launched ambitious rail and airport plans to improve transportation links. It also plans to build three new world-scale refineries and the world's largest crude increment plant. Furthermore, there will be some project opportunities for foreign investors as the Saudi Arabian General Investment Authority (SAGIA) has announced that it plans to open \$500 billion worth of opportunities to foreign investors in the energy, transport and industrial sectors. It aims to attract investors by offering tax breaks and subsidizing part of the construction costs²³.

United Arab Emirates (UAE)

Economic Outlook

The UAE has a developed economy with a high per capita income and a sound annual trade surplus. It has the second largest economy in the GCC, right behind Saudi Arabia. Economic diversification has been relatively successful and has reduced the portion of GDP based on oil and gas output to 30%²². Abu Dhabi and Dubai together provide around 80 percent of the UAE's revenues²⁴. The rest of the emirates are relatively undeveloped. The largest and richest emirate is Abu Dhabi. It is the financier of the federation and the principal petroleum producer. Its economy is heavily dependent on the hydrocarbon sector. We expect Abu Dhabi's growth rate to rise moderately in 2011 as the hydrocarbon production and government spending on new projects are expected to rise in 2011. Dubai is the second largest emirate. Unlike Abu Dhabi, Dubai's economy is services-driven (tourism, construction, telecommunications, media, real estate, and financial services).

²³Fahim, Nancy. *Global Focus 2011- Saudi Arabia*. UAE: Standard Chartered Bank, 2010.

²⁴Vine, Paula. *UAE 2010 Year Book*. London: Trident Press Ltd, 2010.

Dubai is also the world's third largest re-export center. Trade makes up about 40 percent of the emirate's GDP²². 2009 and 2010 were challenging for Dubai, however, given the significant rebound in global trade, we expect the growth rate of Dubai to increase in 2011. The overall long term economic trend of the UAE is positive but the country should continue making efforts to diversify its economy.

Challenges

Economic diversification is one the challenges UAE faces. The hydrocarbon sector contributes significantly to UAE's GDP (29.2%)²². However, the hydrocarbon sector only creates about 1.8% of the jobs in the UAE. There is an increasing need for economic diversification, especially for Abu Dhabi, where the hydrocarbon sector contributes to 60% of the emirate's GDP²². According to the government's plan "Abu Dhabi 2030", Abu Dhabi targets to increase the GDP contribution of its non-oil sector to 64% by the year 2030²².

Another challenge relates to credit markets. UAE's credit growth was weak during 2010, mainly due to bank loans being above bank deposits as well as the deeply distressed real-estate market²⁵. We expect the credit condition to improve in 2011 and beyond as the economy is clearly on the path to recovery and the low global interest rates could make it easy for Dubai's debt restructuring plans.

Project opportunities

The UAE has approved a three-year budget plan of \$122 billion for 2011 to 2013²³. This is only a part of the total government spending. The individual emirates have their own budget that is significantly larger than the federal spending. Abu Dhabi's budget is the largest in the UAE. Some of the notable projects include a \$25 billion investment in Chemaweya Petrochemicals Complex, a \$20 to \$40 billion budget in construction for the four nuclear

²⁵Fahim, Nancy. *Global Focus 2011- The United Arab Emirates*. UAE: Standard Chartered Bank, 2010.

power plants, a \$20 billion investment in Shah Sour Gas Project, a new refinery at Ruwais, and a \$5 billion budget for the Abu Dhabi Metro. In addition, the Abu Dhabi government announced in January 2009 that it would seek to generate 7 percent of its electricity from renewable energy sources by 2020. Masdar City, a renewable energy project of Abu Dhabi, led most of the significant renewable energy projects in the UAE. Solar is the country's key renewable energy resource. Masdar already has a 10MW photovoltaic solar facility in operation. In addition, Abu Dhabi Future Energy Company (Masdar) is expected to invite bids to build the solar project (Noor 1) by early-May 2011, and Masdar also launched a 100MW scheme, Shams 1, which will be the world's largest concentrated solar power plant and the first of its kind in Middle East²⁶. Besides solar energy, Masdar city is also investing in other renewable energy technologies such as wind and geothermal power. We believe the government is on the right track to meet their target of generating 7 percent of its electricity from renewable energy sources by 2020 and there will be a vast amount of project opportunities within the renewable energy sector in the UAE.

²⁶Ratcliffe, Verity. Masdar to invite bids for solar project by early-May. 17 March 2011. <<http://www.meed.com/sectors/power/renewable-energy/masdar-to-invite-bids-for-solar-project-by-early-may/3089590.article>>.

Conclusion

The GCC's short term economic outlook is heavily reliant on oil production. The revenues recognized from GCC's oil production would allow the member countries to allocate funds toward government spending programs aimed at diversifying local economies. These massive government spending programs are projected to boost the regional growth across the GCC. Nevertheless, such government spending is heavily reliant on oil and gas. With recent revolutionary uprisings within the MENA region in countries such as Egypt and Libya, the GCC governments have increased efforts toward reform and fiscal stimulation.

There is also a fear that the unrest and the anti-government protests will spread from Bahrain and, Oman to other GCC countries, creating much unwelcome anxiety in the market for oil and gas. A 14% drop in Saudi Arabia's main index in March 2nd, is a good reflection of public anxiety over potential political instability. Whether or not such concerns are well founded, can only be proved in time. Many GCC states, such as UAE and Qatar, have small populations, a large amount of foreign reserves, and traditions of openness and relative tolerance. It is possible that unrest will not reach the doorsteps of the more open member states.

We predict a steady increase in the price of oil in 2011 as the global economy gradually gains momentum. While the rising oil price brings additional income to the GCC, the global economy may not bare such high prices in the long term. As such more investments shall be made in alternative energy sources as a cost effective substitute for petroleum. Although it will take some time for the global economy to transition toward these alternative energy sources, the GCC must prepare for this inevitable outcome. Thus, economic diversification, especially investments in renewable energy, is key to achieving long term sustainable growth in the GCC.

Growing population poses both challenges and opportunities to the region. Aside from securing enough food for the population, creating sufficient jobs at the entry level is crucial over the long run as the demographic trend indicates a very young population in the region. History in the Middle East suggests that high unemployment will greatly increase the risk of social unrest.

Given that the oil industry provides limited job opportunities, local governments are actively looking for alternative opportunities to create new jobs. Developing the downstream oil production chain, which creates more jobs than the upstream, is an option for the GCC. However, investing in traditional oil production sector is not a sustainable strategy. The oil supply will no longer meet the rapid-growing demand in the energy sector, not to mention the oil reserves in some of the countries in the GCC, such as Bahrain, will be significantly depleting in next 15 to 20 years. Furthermore, a sharp rising internal energy demand in past few years provides urgency to find alternative sources of energy. In this case, developing a renewable energy industry is an irreversible trend and will be increasingly important both strategically and economically in the GCC.

We believe renewable energy sources such as utility scale solar and wind farms will bring significant amounts of wealth and technological advancements to the GCC in the future. In addition, the educational programs and transparent job opportunities that countries such as Saudi Arabia are developing will help resolve demographic challenges and tighten gaps between social classes.