Atlantic Council
RAFIK HARIRI CENTER FOR THE MIDDLE EAST

empowerME Monthly Newsletter

May 2022

Greetings from Washington,

Reflecting on my recent travels to several countries in the Middle East, the mood in the business community can best be described as cautiously optimistic. While most industry leaders are concerned about inflation and an expected slowdown in demand, they generally feel that the region is better positioned to withstand the volatility. Executives assert this applies to the GCC, where a historically high revenue surplus is replenishing government coffers. Non-oil based economies are also expected to benefit from the spillover effect of continued growth and investment by the oil-based countries in the region.

While this may be true in the near term, this argument may be misguided over the long term, as those with the capacity to invest, including Saudi Arabia and the UAE, are showing restraint and prudence in spending the unexpected surge in revenues. Harsh lessons were learned from previous oil surges where excessive spending did not boost economic diversification and resilience. A recent statement by Saudi Arabia's Minister of Finance, H.E. Mohammed Al-Jadaan, clarified that the surplus would be used to rebuild reserves and repay debts in order to withstand future economic volatility. It is important to remember that while revenues are up in most exporting countries, their global investments are not immune from the price volatility we have witnessed in the last several months. The capital allocation of all sovereign wealth funds in the Middle East has a strong US and Europe capital market bias. Take Mubadala, the $284 billion UAE sovereign wealth fund as an example: the United States and Europe account for 55% of their portfolio. They are certainly feeling the pain of declining asset prices like most Americans holding a 401K. While patient long-term regional investors will find opportunities in today's environment, their performance will continue to correlate with global markets. Therefore, they may be reluctant to invest in the near term. Local industries and neighboring economies banking on the largess of oil exporters may be disappointed.

Economic reforms that are based on free market dynamics are critical to maintain the positive momentum for entrepreneurship in the region. Reforms must continue unabated for Middle Eastern economies to navigate this challenging economic period. Opening regional economies will enhance market integration which helps create a larger and more attractive market for global investors. This will in turn increase funding opportunities to MENA startups. Laws and regulations that create more room for entrepreneurship and the private sector should be further developed and streamlined. Laying the seeds for future economic growth is essential during economic downturns. Some of the most successful companies created in the last two decades have risen during the aftermath of the 2000 dot-com bubble and the 2008 financial crisis.

The contracting liquidity for emerging markets sets the stage for intense competition for capital. There is little tolerance or room for economies perceived as challenged and lacking stable and progressive policies to receive funding, whether from private capital or DFIs, such as the IMF. In a world with shrinking risk-capital and a higher cost of money, the margin for error is slim.

Stay safe and well,

Amjad Ahmad
Chairman, empowerME
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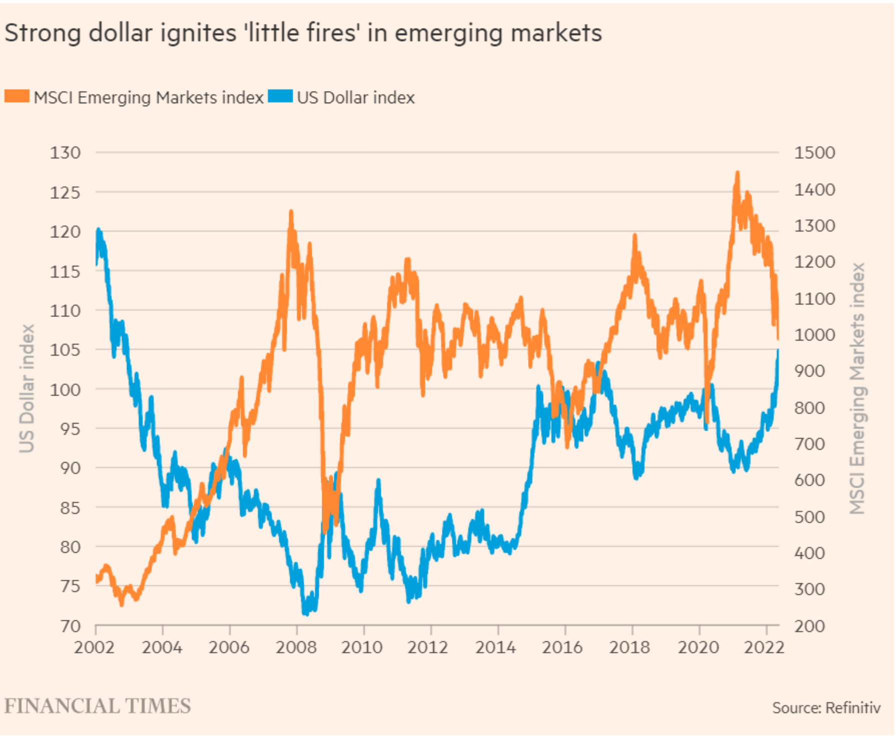
Meet our new empowerME Director: Dr. Racha Helwa

We are honored to welcome our new empowerME Director, Dr. Racha Helwa! Racha is a senior economist with twenty-two years of professional experience in economic and financial policy analysis and implementation. She has held roles in the private sector, government, and academia in the United States, United Kingdom, France, and Egypt. She specializes in public policy design and implementation, sustainable development, impact investing, and private-sector development.

Read press release

Big Data



Source: The Financial Times

Entrepreneur of the Month: Abdulaziz Al Loughani Floward - Kuwait

The flowers and gifts industry in the Middle East and United Kingdom is blooming thanks to Kuwaiti entrepreneur Abdulaziz Al Loughani's company Floward! Watch our short video to learn more.

Watch short video

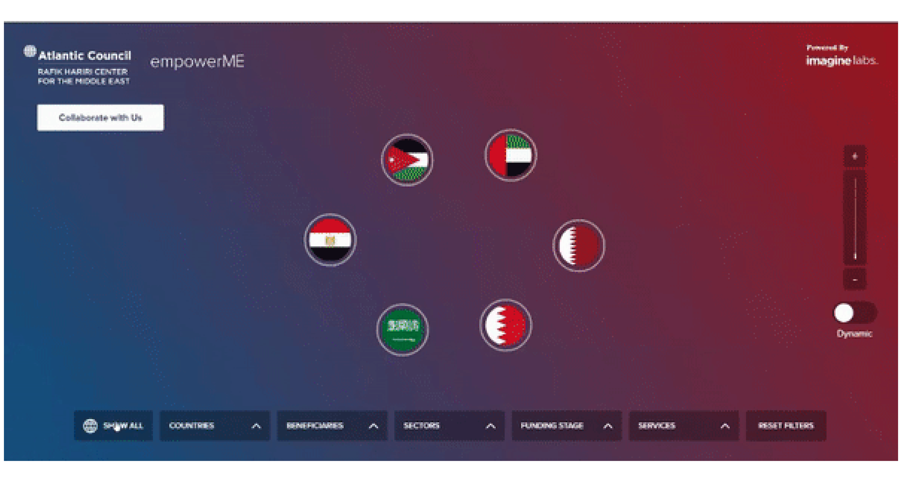
In Case You Missed It...

Emerging market investments are shrinking. How will MENA countries hit FDI targets?

By Amjad Ahmad

Read more

Middle East Entrepreneurship Program Tracker



The empowerME Initiative collaborated with Imagine Labs to bring you an interactive tracker that maps out networks nurturing innovation in Bahrain, Egypt, Jordan, Qatar, Saudi Arabia, and the United Arab Emirates. It features 312 programs and initiatives offered by 122 organizations that these six governments have founded, funded, or partnered with to support entrepreneurs, startups, and SMEs.

Explore tracker

Big Question

How will the expected global slowdown or recession impact the Middle East?

"Major oil and gas producing countries in the Middle East will likely weather any potential global economic slowdown comparatively well. Current high energy prices are filling their coffers, providing a buffer against any price drop. And OPEC+'s discipline in slowly increasing production means that any recession-driven drop in demand would only modestly lower energy prices compared to a scenario in which they had rapidly returned to pre-pandemic production levels."

"The impact will vary across the region. The global slowdown is in part due to higher energy, food, and input prices, which benefit smaller hydrocarbon-rich Gulf economies significantly, especially as the EU looks for alternatives to Russian oil and gas. However, higher energy and food prices will substantially increase the risk of food insecurity for tens of millions in MENA, particularly those in relatively poorer and larger countries such as Egypt, Yemen, and Syria. This will, in turn, lead to second-order negative migration and security spillover effects across the region."

"A global recession in which the price of oil stays above $70 per barrel would probably be weathered by most Gulf oil producers without their needing to make significant fiscal adjustments. However, a recession more acute or lasting longer than that of 2008, in which oil is pushed below $70, would probably undermine exporters' willingness to continue providing current levels of financial assistance to already struggling Arab states, such as Egypt. Moreover, it would further exacerbate humanitarian crises, including in Yemen."

"Global macro headwinds have ironically been both a curse and a blessing for MENA economies, bringing the tactical challenge of downward pressure on government revenues and all the resulting difficulties, but also the strategic benefit of refocusing policymakers towards undertaking needed fiscal reforms or diversifying away from energy dependency. The coming slowdown should not be dynamically different. The puzzle this time will be how to weather these storms while maintaining public spending programs that are so politically popular and central to economic aspirations for the future."

Big Reads

- Saudi Arabia to use oil windfall to bolster sovereign fund (Financial Times)
- The coming food catastrophe (The Economist)
- Saudi Arabia tucks away billions in oil money for next year (Bloomberg)
- Davos 2022: High-level representation from the Middle East (Gulf Business)

Learn about empowerME

empowerME is changing the conversation about the Middle East by focusing on economic prosperity. Watch this video to learn more about empowerME and its unique chairman, regional venture capital pioneer Amjad Ahmad.

WATCH VIDEO

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empowerME shapes solutions to empower entrepreneurs, women, and the private sector and builds influential coalitions to drive regional economic integration, prosperity, and job creation.

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