



FUTURE OF OIL SECTOR: MENA's ECONOMIC DIVERSIFICATION

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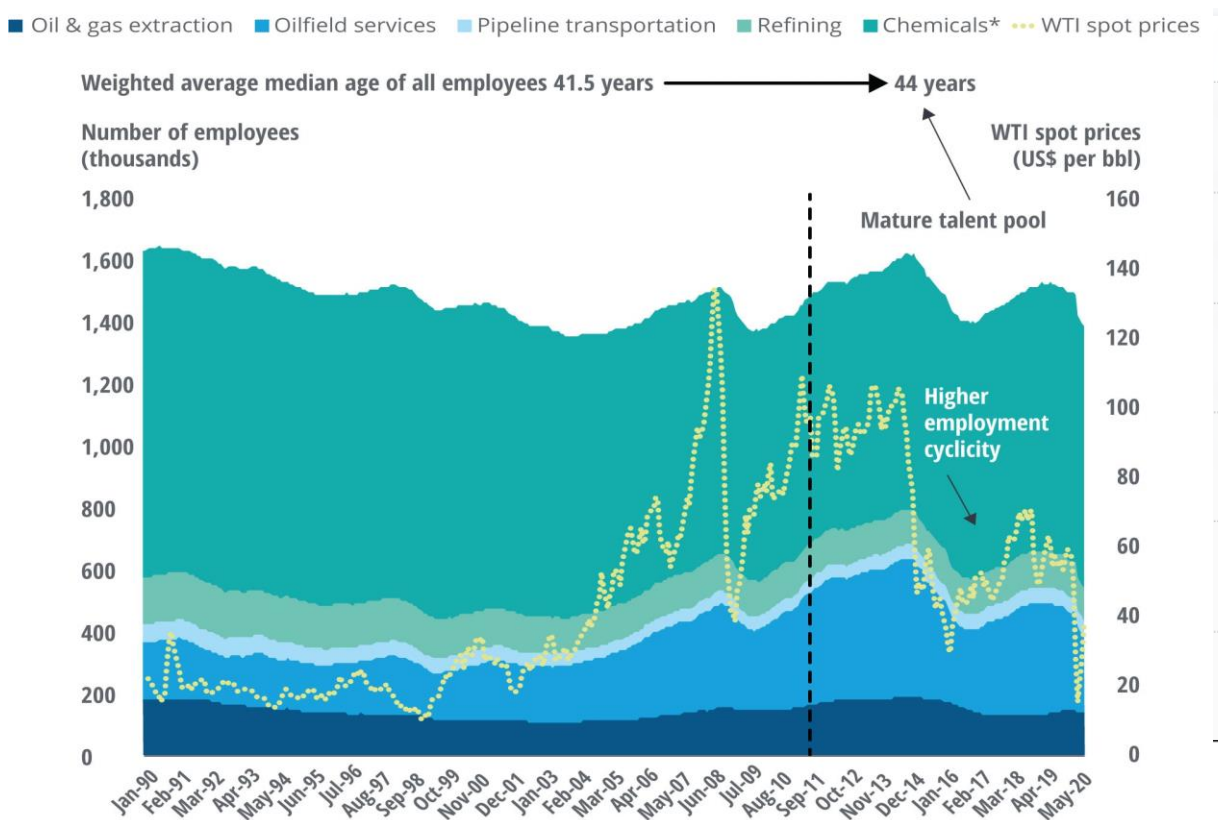


1. INTRODUCTION

Oil and gas led to a century of economic growth but also damaged the planet's climate in the process, due to which the oil and gas industry is in an existential panic. There are two, dominant yet contrasting, assumptions regarding the future of the oil sector: a) OPEC, the cartel of oil-exporting countries, believes that in the short term, demand is down because of the COVID-19 pandemic and once the pandemic is over, the economic recovery will bring the demand for oil back up. b) On the other hand, International Energy Agency said that maybe the world will take action on climate change, whereby oil demand could start going down and it might even have peaked already. The graph below shows the projected decline in annual global oil demand volume following impact of COVID-19 for 2020.

FIGURE 1

Employment trends: At the cusp of employment cyclicalality and fading



*Chemicals include basic chemical manufacturing, resin, synthetic rubber, and artificial synthetic fibers and filaments manufacturing; pesticide, fertilizer, and other agricultural chemical manufacturing; pharmaceutical and medicine manufacturing; paint, coating, and adhesive manufacturing; soap, cleaning compound, and toilet preparation manufacturing; other chemical product and preparation manufacturing.

Sources: US Energy Information Administration; Bureau of Labor Statistics; Deloitte analysis.

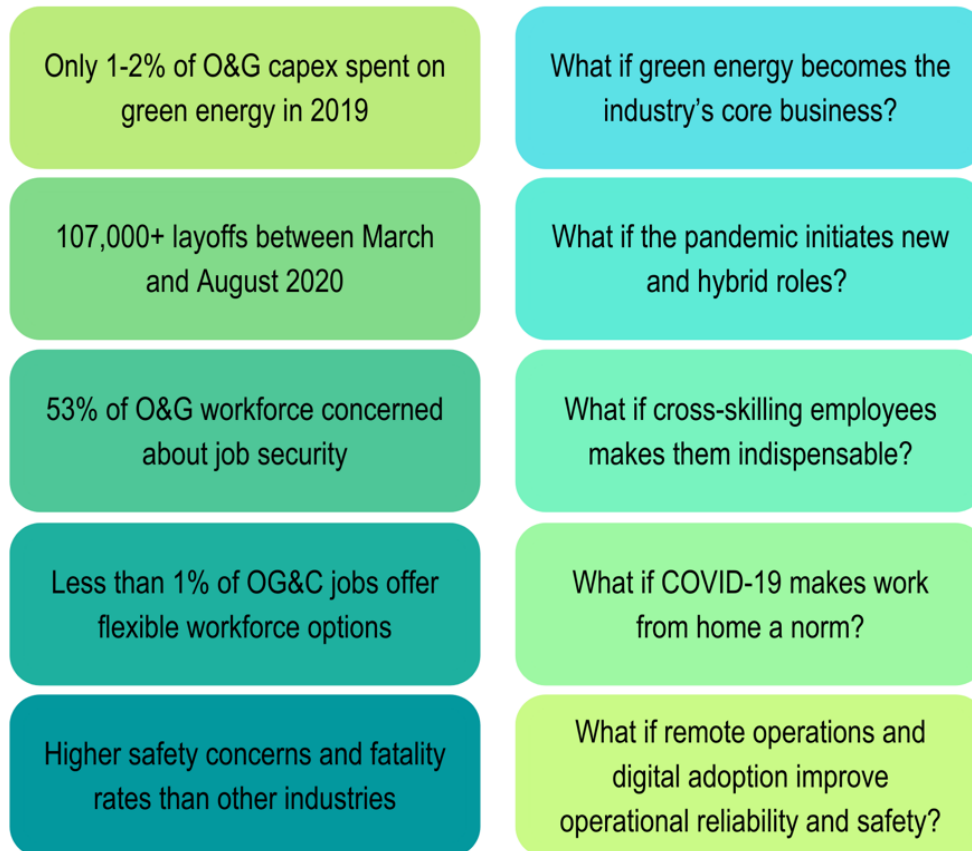
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Further, employment in the oil sector has also become very unstable. The US crude oil, natural gas, and chemicals (OG&C) industry employs close to 1.5 million people. The short-cycled nature of shales made hiring extremely cyclical. The employment situation worsened due to COVID-led slowdown of the economy and the oil price crash, led to the fastest layoffs in the industry—about 107,000 workers were laid off between Mar and Aug 2020, apart

from widespread furloughs and pay cuts. Such large-scale layoffs are challenging the industry's position as a reliable employer.

FUTURE OF WORK IN OIL, GAS AND CHEMICALS

The workforce predicament



With the future of the oil sector being uncertain, OPEC countries are attempting to diversify their economies by investing and expanding non-oil sectors that have the potential to grow and yield high returns. Two such arenas include: Nuclear and Tourism.

2. KEY SECTORS TO LOOK AT AS AN ALTERNATIVE TO OIL

I. NUCLEAR

With the world becoming more aware of climate change, the nuclear sector has become an important arena of investment. The world will need significantly increased cleanly-generated energy in the future. Almost all reports on future energy supply from major organisations suggest an increasing role for nuclear power as an environmentally suited way of producing reliable electricity on a large scale. Thus, several OPEC countries are focusing on expanding their nuclear sector. Over the next decade, new nuclear power plants are scheduled to be operational throughout the MENA region.

ADVANCEMENTS TOWARDS NUCLEAR ENERGY

Congo has been working with the IAEA to improve its legislative framework, and bring its national nuclear legal framework in line with the latest international safety and security standards to ensure that it is consistent with its plans and projects for the further development of nuclear applications, especially in the area of health and radiotherapy services and in agriculture.

Iraq had asked for U.N.'s assistance to develop a nuclear power reactor, for peaceful purposes. Since the very beginning, Iraq has tried to nurture and make full use of its nuclear potential. It had three nuclear reactors in Tuwaitha, its main nuclear research site, south of Baghdad, but they were destroyed in 1981 and 1991.

Currently, Nuclear power provides about 10% of the world's electricity and 18% of electricity in OECD countries.

Indonesia is planning to build a 10 MWe experimental nuclear power reactor is planned to be built at Serpong, near Jakarta.

Algeria's uranium reserves are around 26,000 tons. In 2019, the government started planning the establishment of four nuclear research centers for peaceful purposes, and also considered investing its 26,000 tons of uranium reserves in the health and pharmaceutical sectors.



"Nuclear energy is "the right choice for the UAE because it is a safe, clean and proven technology, it's commercially viable, and it delivers significant volumes of base-load electricity."

- Emirates Nuclear Energy Corporation



"Taking into account the social, health and environmental costs of fossil fuels relative to those same costs for nuclear, the economics of nuclear power are outstandingly attractive."

- Jordan Atomic Energy Commission

II. TOURISM

Tourism is becoming increasingly essential for the success of economies around the world, thus, attracting every country's attention. It is an important pillar of the economies of the Middle East and North Africa (MENA), accounting for about 5.3% of GDP growth and 6.7 million jobs across the region, that is further expected to generate \$350 billion by 2027, according to MENA Research Partners. The projected CAGR of tourism contribution to GDP is 5% for the (P)GCC, compared to 3.8% worldwide. Additionally, the leisure and business spending growth for the next 10 years are

expected to increase at an annual rate of 4.6% and 5.4% respectively, compared to worldwide averages of 4.1% and 3.2%. The graph shows the tourism contribution to gross domestic product in the Middle East and North Africa in 2020, along with some other countries in the world.

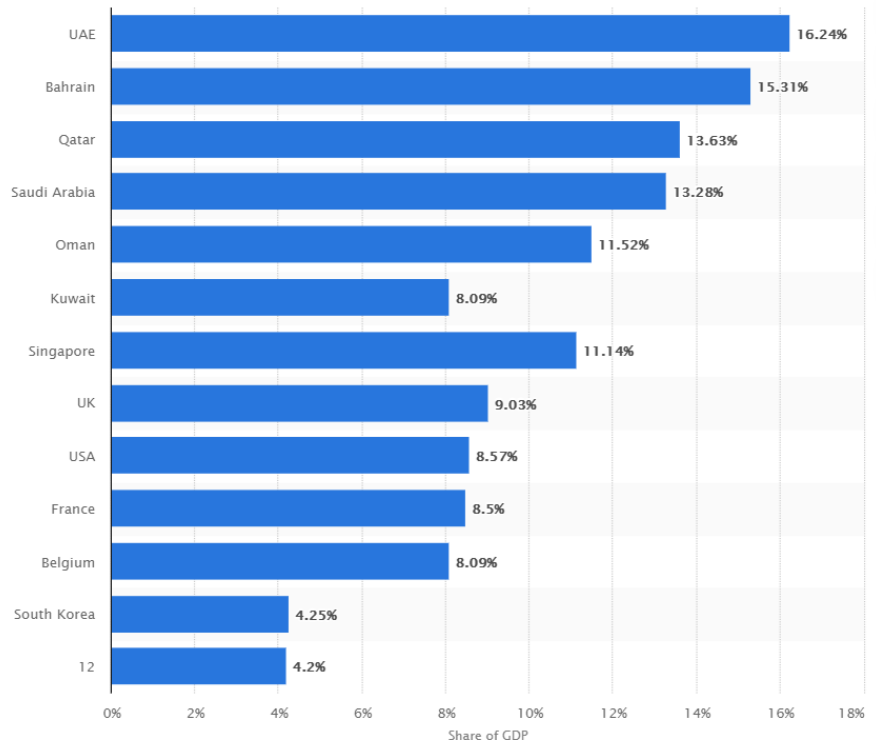


Figure 1 Share of GDP invested in Tourism

IMPORTANCE OF TOURISM (AS PER 2019 DATA)

GDP

Contributed 2.892 billion dollars to the GDP

890 billion dollars from top 10 countries contributing to tourism

Global Economy

Job Sector

Contributed 87.5 million jobs

Diversifies income, has social advantages and helps in the development of infrastructure

Miscellaneous

III. SPACE PROGRAM

The Islamic scholars and thinkers, since time immemorial, have shown interest in extra-celestial bodies. They translated Greek and Sanskrit work in astronomy to develop their own methods. These hundreds of years' worth rich culture of outer space studies culminated into UAE's Mars Mission that is, interestingly, projected as a Pan-Arab victory. The recent investment surge in space program in the Middle East comes with the ambition to diversify the economy. This is backed by a multi-trillion-dollar trove of oil resources. Countries like Saudi Arabia, UAE and Turkey have laid their eyes beyond earth to seek development and opportunities. The Mubadala Development Company in Abu Dhabi is a \$67Bn sovereign wealth fund that focuses primarily on four areas: aerospace, engineering, technology and industry.



Figure 2 Hope Mission.

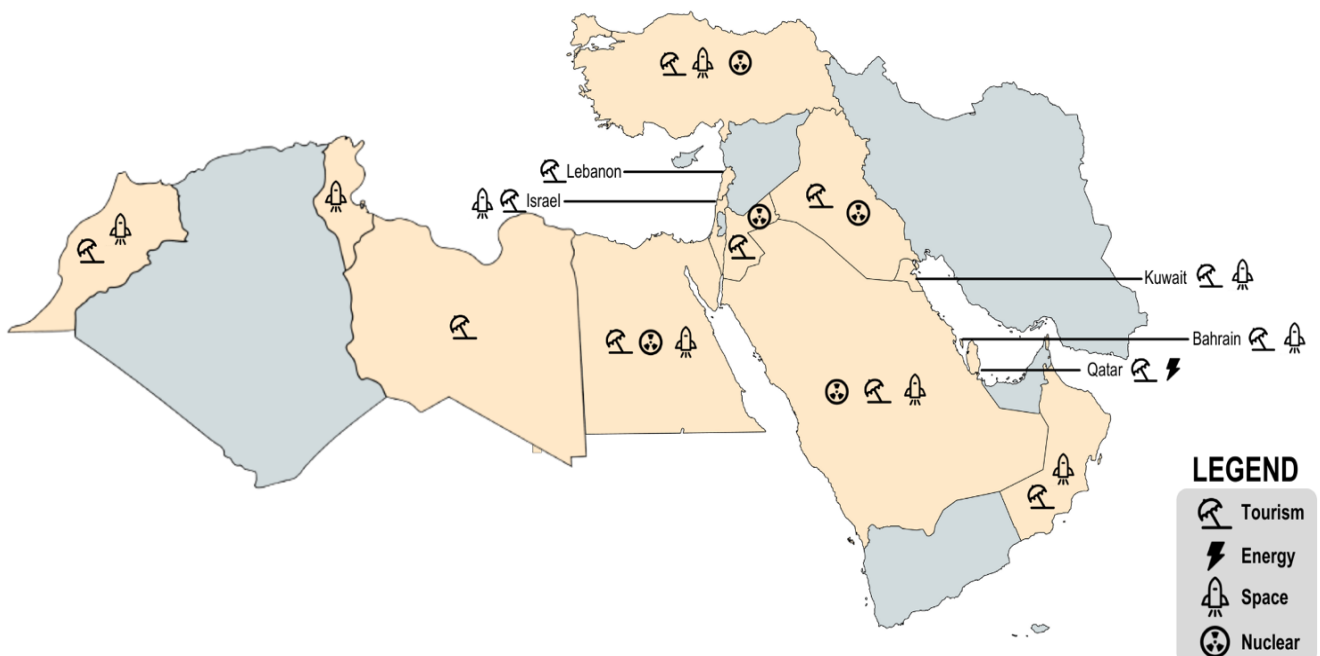


Figure 3: MENA Countries Investing in Different Sectors

3. MOVE FROM OIL AND THE DECLINING FUTURE

Oil is a finite resource. People are also becoming more aware about climate change and are thus looking for environment friendly alternatives to oil. Oil demand has been decimated by Covid-19, bottoming in Apr at 76 million barrels per day, down 25% from 102 million barrels per day in Dec 2019. As economies reopen and mobility increases, the shape of oil demand recovery remains uncertain. The International Energy Agency revised its

forecasts for global oil consumption downward, warning that the market outlook is "even more fragile" than expected and that "the path ahead is treacherous." The Organization of the Petroleum Exporting Countries expected global demand to rise by just 60,000 barrels per day (bpd) in 2020, a reduction of 920,000 bpd from its previous forecast. Producers around the world are already radically rethinking their production plans, shutting down drilling rigs and hitting pause on major projects. Many producers have gone bankrupt. Saudi Arabia has pushed the OPEC+ to slash output and drag prices up out of the doldrums. These disruptions come as a growing number of investors, regulators and even energy giants are predicting and planning bigger shifts in oil demand in the years to come. The rise of U.S. as a major oil exporter and acting as a stiff competitor; the dwindling relations between Saudi Arabia and U.S.A., are also important factors that are to be kept in mind. As companies move from survival mode to longer-term reinvention, Oil and gas executives need to take stock of the competencies that will define success post-energy transition, figure out the gaps and fill them. There is no one-size-fits-all approach, and the industry will not respond in unison. However, given the uncertainty, the Middle East, and OPEC countries are attempting to diversify their economy, and look beyond the oil sector, to sustain themselves in the long run. In this direction, all the GCC nations have built a vision document of this transformation journey. While the most celebrated vision document is of KSA called as Vision 2030, the rest of the Gulf oil nations have also their own vision roadmap.



4. COUNTRY PROFILES



Saudi Arabia

- In an economic diversification plan Saudi Arabia has planned to invest 2.1 billion dollars in its space programme by 2030.
- Saudi Arabia is a main founder and financier of the Arab Satellite Communications Organization (Arabsat), launched in 1976, with a 37% stake.
- In 2018, The Saudi Space Commission (SSC) was set up by a royal decree to promote space-related research and industrial activities.
- Minister of Tourism Ahmed AlKhateeb said that Saudi Arabia is aiming to attract new investments worth SR220 billion (\$58 billion) by 2023, and more than SAR500 billion until 2030.
- Saudi Arabia is also trying to venture in civil nuclear energy. It has already revealed plans to build smart cities and entertainment hubs.
- The country's leadership in focusing on reshaping its social sector with more women involvement along with developing stronger economic capacity.



Turkey

- A 10-year roadmap of its space program with first target being to reach the moon by 2023. Turkey also has also been cooperating with Azerbaijan in the space sector.
- On 30 Aug 2020, Turkey started the first space trials of domestically developed liquid-propellant rocket engine technology.
- Turkey's leading defense company Roketsan has developed high-capacity hydrogen fuel cell technology, a clean energy source with applications for the space sector, as well as aviation and transportation.
- Culture and Tourism Minister Mehmet Nuri Ersoy predicted a v-shaped recovery for the sector, saying the government hopes to increase visitor numbers to 31 million and earn 23.3 billion U.S. dollars in 2021.
- In the first five months of 2019, the number of international tourists in Turkey increased 11.3% year-on-year to reach 12.76 million people. This is the highest number for the last five years.
- Turkish tourism revenues hit \$34.5 billion in 2019, a new record high. The figure jumped 17%, up from \$29.5 billion in 2018. The average expenditure per capita stood at \$666 in 2019, up from \$647 a year ago



- Iran's Revolutionary Guard launched its first satellite into space 22 Apr, 2020. It was a secret space program that could advance Iran's ballistic missile development amid wider tensions between the Islamic Republic and the U.S.
- Iran's private sector has made some rials 250 trillion investment in space industry during President Hassan Rouhani's tenure (2019). Iran plans to put a telecommunications satellite into orbit by the end of the 2025 Vision Plan. Morteza Barrari, Head of the Iranian Space Agency, remarked that Iran is today one of the leading countries in the space industry.
- Iran, on 01 Feb, 2021, successfully tested a satellite launcher to help achieve its "most powerful rocket engine". It is capable of carrying a single 220 kg satellite or up to 10 smaller ones. Iran said it successfully launched the country's first military satellite into orbit.
- Over 240 tourism-related projects worth about \$7.3 billion were carried out by private investors in Iran's Khorasan Razavi Province, neighboring with Turkmenistan and Afghanistan, in Sep, 2020. The province has also attracted 82 million dollars of foreign investment since 2013 in the tourism sphere.
- The Islamic Republic of Iran has one operating nuclear power reactor, Bushehr Nuclear Power Plant (BNPP), Unit 1, where a total of 42 199 million kW.h electricity has been generated from Mar 2011 to Mar 2020. BNPP-1 provided 1.84% of national electricity production in 2019.
- The Islamic Republic of Iran also plans to expand its nuclear power programme over the long term. In this regard, construction of BNPP-2 with a capacity of 1 057 MW(e), was started in Sep 2019.



- The UAE has embarked upon a nuclear power programme in close consultation with the International Atomic Energy Agency, and with huge public support.
- It accepted a \$20 billion bid from a South Korean consortium to build four commercial nuclear power reactors, total 5.6 GWe, by 2020 at Barakah.
- Unit 1 of the country's first nuclear power plant was connected to the grid in Aug 2020.
- On space front, UAE has taken the audacious step to build a scratch space program in 2014 and scaling it up in 6 years to have a maiden Mars mission (named as Hope Probe) and reach Mars in Feb 2021.
- As an emerging space nation, the UAE space industry's investments have exceeded AED22 billion.
- The UAE Space sector has provided 1,500 jobs, at 57 space-related entities, five space research and development centres, and three universities offering space degrees.

5. ASSESSMENT

GEOPOLITICAL

The Middle East has always been in a constant power struggle over the years since the discovery of oil. Oil money led to multitude of changes in the socio-economic sector of the region. However, oil is a non-renewable commodity and will only last for a certain time. Hence, the middle eastern nations are diverting their resources on diversifying their economic sector. This has already sparked a race among nations and most notable one being the space race between UAE and Saudi Arabia. Saudi became the first nation to send its citizen to space whereas UAE became the first Arab nation to send a mission orbit around Mars. Moreover, the region is thinking ahead in the energy sector moving beyond oil generated electricity to nuclear; Iran is leading the race with UAE and Turkey following suit. Despite the political tension the region has witnessed an eagerness to develop Pan-Arab ambitions. For instance, the UAE successful mars mission was seen as victory of the Arab world. Similarly, the diversification in resources could be beneficial for the region at large for years to come.

BUSINESS IMPLICATION

Middle East as a region is resourceful given, they have the largest oil reserves; however, there are other sectors untapped and in shadow of the oil. In the journey to diversify the economy, nation-states could boost sectors like tourism, agriculture, civil nuclear energy or healthcare. The region could expect employment opportunities with new industries receiving investment. Countries have laid elaborate development plans incorporating new segments to invest. The economic development could also see a slew of political changes to facilitate such transformation for example Saudi Arabia investing in its social structure and involving more women in its socio-economic life. The past year has been testament to how the healthcare should be a priority as the pandemic economies across the globe. The Middle East has played second fiddle in vaccine development, however, aiming for the future; bio-pharma should be a sector to consider for the Arab nations. All-in -all the middle east has emerging business prospects, and their future lies beyond oil.

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