

A Blessing in Disguise: UAE's Possible Scenarios for a Post-COVID-19 World

Written by Reem Saeed

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The United Arab Emirates (UAE) is further positioning to better take the advantage of globalisation, including the increasingly globalised capital, labour and technology, the interconnectivity and dependence of globalisation also means the country will shared in the impact of global COVID-19 pandemic. While the UAE, as with other countries, is yet to fully assess the human and economic costs of the new COVID-19 pandemic, the emerging consensus is that public health measures to contain the novel virus will have a significant impact on the global economy. For example, the updated International Monetary Fund's (IMF) World Economic Outlook (June 2020), predicts a deeper recession in global economic activities larger than the 2008/2009 global financial crisis (IMF, 2020).

On the mechanism through which the pandemic will affect the global economy, early assessment, particularly on globalisation metrics, suggests up to 40% hit to foreign direct investment (FDI) in 2020-21, up to 32% drop in international trade in 2020, and up to 63% drop on International passenger traffic (UNCTAD, 2020; WTO, 2020; ICAO, 2020). Therefore, with regards to the UAE's economy, which depends heavily on both the flow of international trade and migration, there is a need to postulate on how the country can respond to, and move beyond, this global pandemic. This is because the UAE, with its oil-based economy and migrant-based labour force, is particularly exposed to the emerging economic impact of this pandemic. Therefore, this article provides possible scenarios that the UAE may consider if it chooses to explore the changes to the structure of the economy in a post-COVID-19 pandemic world.

The COVID-19 Pandemic and the Global Economy

The COVID-19 pandemic models, produced by national public health agencies and other infectious disease experts, painted a stack picture of dreadful infection and death rates of the novel coronavirus will have on human population across the world, and formed the basis for governments around the world to adopt strict lockdown measures, leading to extensive shutdown of economic activities (Azman and Luquero, 2020; Chang et al., 2020; Chowdhury et al., 2020 Giordano et al., 2020; Weitz et al., 2020; Chintalapudi et al., 2020; Ray et al., 2020).

Early analysis points to significant contraction in the global economy, with international trade plummeting, business investments withheld as consumer confidence plummeted, and stock market in a meltdown as investors assess the extent of damage the pandemic will have to business profitability (Zhang et al., 2020; Baker et al., 2020).

The latest IMF's World Economic Outlook, June 2020, concludes that the global economy will experience "worst recession since the Great Depression, surpassing that seen during the global financial crisis a decade ago" (IMF, 2020). The central forecast of the impact of COVID-19 pandemic is that the decline in global economic activities will result in a negative growth rate of global GDP of 4.9%, which is a sharp increase from its April 2020 forecast of a negative 3.0%. The OECD's forecast is even more stack; predicting global economic growth will contract by 6% in 2020, even in a scenario where pandemic is short-lived in a single wave.

Public health measures introduced by most countries and termed the "Great Lockdown" by the IMF, is expected to cause unprecedented economic crises, with an uncertain recovery in both developed and developing countries. The

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G7 countries, for example, are expected to experience contraction in real GDP between - 7.8% to -12.8% (Canada by -8.4%, France by -12.5, Germany by -7.8%, Italy by -12.8%, Japan by -5.8%, the United Kingdom by -10.2, and the United States by -8.0%) (IMF, 2020).

The trajectory of the COVID-19 pandemic in the emerging and oil-based economies, such as UAE, is yet to be fully assessed, but the current forecast suggests a sharp decline in economic activities. The UAE's economy is projected to suffer a sharp decline in economic activities but performs relatively better than most Gulf Cooperation Council (GCC) countries. Measured by real GDP, the UAE's economy is expected to contract by -3.5% in 2020. Comparatively, Saudi Arabia real GDP is expected to fall by -6.8%, Bahrain -3.6%, Kuwait -1.1%, Oman -2.8%, Qatar -4.3% (IMF, 2020).

Potential Scenarios Facing the UAE

Having highlighted the effects of the COVID-19 pandemic on the global economy and the UAE, there is a need to postulate on potential scenarios facing the UAE during (without vaccine) and even post-COVID-19 world (if the world is lucky with an effective vaccine).

This article explores four possible scenarios as future structure and growth pathways for UAE in post-COVID-19 pandemic. In the first scenario, the UAE attempts to tackle this economic crisis using similar tools as it did for the 2008/2009 crisis, effectively keeping the current model intact. The other three scenarios assume the impact of the pandemic will be stronger, with the global economy struggling to recover to pre-COVID-19 levels and the current UAE economic model exposes it to higher risks from shocks to oil prices, decline in global production capacity, and international migration. These scenarios, therefore, explore the possibility of changes to economic structure of the UAE.

Scenario One: Wither the Storm

The current consensus is that the COVID-19 pandemic will have a devastating impact on the global economy, especially on global oil prices, international trade, FDI, and international migration. The impact is expected to hit the UAE economy, given the structure of its economy that relies on strong oil price and demand as well as migrant labour to sustain its economic activities.

Both Abu Dhabi and Dubai, the two economically dominant Emirates, are particularly at risk, albeit at different degree and with different capacity to deal with any financial fallout of the pandemic. A review of Dubai's 2009 debt crisis, when it could not meet repayments of its debt, means that the Emirate is in an even much worse situation to deal with any future financial crises that may be induced by the COVID-19 pandemic. This is because Dubai's sovereign debt — separate from its SOEs debt, which is a huge burden on its own — is equivalent to 110% of GDP in 2019, according to the IMF, placing it among the highest debt-to-GDP ratios in the world (IMF, 2020c). On the other hand, while Abu Dhabi faces its own fiscal pressures from falling oil prices and demand, but its massive sovereign wealth fund (SWF), estimated at over \$800 billion (Parasie, 2020), suggests that the Abu Dhabi is in a better position to withstand moderate to severe economic impact from the pandemic.

However, the postponement of the much anticipated EXPO 2020 Dubai, mounting sovereign and state owned enterprises (SOEs) debt and dwindling housing market means that the economic impact of the pandemic in Dubai Emirate may yet get worse, thereby affecting the economic prospect of the UAE as a whole. This scenario assumes that Abu Dhabi, using its large SWF, will most likely intervene to protect the economic stability of the United Arab Emirates.

Scenario Two: Diversification and Expansion Import-substitution Industries

This scenario assumes the pandemic may have a larger impact on the global economy resulting in even slow recovery over a decade or more. In this case, the impact on both global oil and tourism industries will also be stronger than currently projected. Therefore, a well-diversified energy and non-energy industries may provide the necessary

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portfolio of products to hedge against the risks associated with reliance on the core oil trade. UAE is already on the path to diversification, with significant investments into sectors such as infrastructure, education, healthcare, and renewable energy.

However, there are three reasons why this scenario assumes the COVID-19 pandemic may provide opportunities to consider changing the structure of the UAE's economy through further diversification and a move towards import substitution industries.

First, in the event of slow recovery of the global economy, or if the economies transition to greener alternatives of renewable and clean energy, the outcome will likely be a sustained decline in global demand for oil, which will continue to have adverse effects on the government revenue as a significant part it comes from the oil sector. Second, if the COVID-19 pandemic continues to spread through multiple waves, it will have a substantial impact on the tourism and hospitality industry, which will also affect the government revenue. Third, this pandemic has shown that import-dependent countries can be severely affected through disruption in international trade, where the supply of essential goods may be limited or available at higher prices.

Scenario Three: UAE as GCC and MENA Regional Supply Chain Leader

Undesirably, rather than respond to the call for international cooperation in dealing with the health and economic challenges posed by the COVID-19 pandemic, countries, instead, retreat to nationalistic and protectionist policies to protect their citizens. The barriers to international trade, such as export controls and closure of businesses, introduced by countries as they respond to the pandemic, raises the question of whether the current globalised economic order is coming to an end or fundamentally reshaped, with changes such regional supply chains emerging as countries attempt reduce their dependencies on Chinese manufacturing.

The rising need for nationalistic and protectionist policies may grow even stronger without vaccine to control this deadly novel coronavirus. However, the UAE, as an emerging hub for international trade, with 37 free trade zones and additional zones in construction, the UAE can take advantage of weakening international trade cooperation and position itself as champion of free trade, especially at the regional level. According to the World Economic Forum the UAE had improved to become the 25th globally in the 2019 Global Competitiveness Report, and continues to maintain position as the most competitive economy in the Middle East and North Africa (World Economic Forum, 2019). This puts the UAE in position to seek to position itself as the leader of the supply chain for GCC and MENA Regional

Scenario Four: Emiratisation of Labour through Growth of Digital Economy

The COVID-19 pandemic offers the UAE an opportunity to re-strategize on its Emiratisation policy. Two of the indicators for measuring the outcome of the UAE Vision 2021 National Agenda are the share of UAE nationals employed in the private sector, and the share of employed UAE nationals in the total workforce. However, only 3.64% of workers in the private sector are UAE nationals while just 7.62% of the total workforce is UAE nationals (UAE, 2020a; UAE, 2020b)

In the face of disruptions to international migration that may emerge from the COVID-19 pandemic, there is need to consider a scenario where the supply foreign labour may be interrupted, with a negative impact on economies that rely heavily on foreign labour. Alternatively, such countries may seize the opportunity to prepare and encourage its unemployed citizens for future job opportunities. But the challenge for the UAE, as with other foreign labour-based economies, is that the nationals are often less interested in the private sector jobs, instead seeking for a more lucrative but limited job opportunities in the public sector.

Consequently, this scenario, the Emiratisation of labour through growth of digital economy, offers triple benefits to the UAE: creating knowledge-based economy, high paying job roles for the national, and broader source of revenue for the government. For this scenario, the core of the digital economy should be about encouraging investment in technological hubs and attracting foreign investment into technology-based businesses. For example, a research by

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Accenture in 2018 predicted investments in artificial intelligence (AI) could result in 1.6% increase in the UAE's economy and add \$182 billion to its economy by 2035 (Accenture, 2018).

Fortunately, the UAE already has a plan to leverage on for this scenario. In September 2017, the UAE Government launched the UAE Strategy for the Fourth Industrial Revolution (4IR), for the purpose of expanding the economy through advancing innovation and future technologies (UAE, 2020c)

Conclusion

The UAE has made a great progress in meeting its Vision 2021 National Agenda, especially in the areas of education, health, infrastructure and competitive economy. However, the current COVID-19 pandemic is threatening to halt, or even reverse, the gains of the last decade. As the post-COVID-19 pandemic debate continues, especially with respect to the role of globalisation, a scenario-based analysis of the potential future path for the UAE can offer an important contribution to the debate, especially on the problems and opportunities the pandemic presents.

The scenarios discussed depend on the nature and duration of recovery in the global economies from the devastating impact of the COVID-19 pandemic, and the extent to which the principles of globalization are maintained. For example, if countries retreat to nationalistic and protectionist policies, it will have adverse on the UAE's economy, though its impact on foreign investment, trade and migration. On the other hand, it will also create opportunities for the UAE's economy, especially on the potential changes to the structure of the economy. Finally, the focus of these scenarios is particularly relevant for the new UAE Centennial 2071, which aims at investing in the future generations, by preparing them with the skills and knowledge needed to face rapid changes, as the UAE considers its strategies for post-COVID-19 pandemic.

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