

# ASG Analysis: Trends to Watch in MENA in 2021

March 1, 2021

## 2020 in review

- Last year presented unprecedented challenges for the Middle East and North Africa and the world. The oil-producing Gulf countries suffered from the double-blow of the Covid-19 pandemic and the related collapse in global oil demand. The effects of the Gulf economic slowdown rippled across the rest of the region, where many countries rely on the Gulf for remittances, tourism, and investment flows.
- The pandemic and economic crisis worsened the humanitarian crises in Yemen and Syria and exacerbated unrest in other countries like Iraq and Lebanon. Last year also underscored the deep inequalities in the region – between the oil-rich Gulf states, which had the deep pockets to weather the crisis, and the rest of the region, which was not so fortunate.
- But the pandemic also presented unexpected silver linings. In Saudi Arabia and the UAE, it accelerated social reform and market liberalization. It also served as a catalyst for digital innovation and transformation in a region that has lagged other parts of the world in technology adoption and spurred a surprisingly swift and seamless transition from face-to-face to online business interactions.

## What to expect in 2021

- This year, we expect many of these trends to continue even as the region and the world begin to look beyond the pandemic. The regional economic recovery will hinge on the vaccine rollout, a rebound in international trade and travel, and the recovery of global oil markets to near pre-pandemic levels.
- In addition to these macro-trends, we will be watching closely for shifts in U.S. policy toward the region under the Biden administration. President Biden has vowed to rejoin the Iran nuclear deal so long as Tehran returns to full compliance, a policy shift with significant implications for regional geopolitics. He has also pledged to restore the traditional U.S. focus on democracy and human rights, which will increase pressure on various regional governments, including the Gulf states, Egypt, and Turkey.
- Finally, we will be watching closely for opportunities emerging from the pandemic and its lasting effects on societies, economies, and governments. The pandemic has underscored the urgency for countries across the region to diversify their economies away from oil and make long-term investments in digital transformation, human capital, and innovation.
- We discuss several of these trends and their implications for business in more detail below.

# 1 Vaccine rollout will shape economic reopenings across the region

As is the case globally, the ability of MENA countries to fully reopen their economies will hinge on the success of their vaccination campaigns. What we have seen of the vaccine rollout thus far has underscored the deep inequalities in the region. The wealthy Gulf countries and Israel have snapped up early doses of the vaccines and launched aggressive vaccination campaigns, while poorer countries have struggled to compete for vaccines, much less distribute them efficiently.

Israel and the UAE now lead the region and world for vaccinations per capita and are on track to vaccinate most of their populations by the summer. The other Gulf states – Saudi Arabia, Qatar, Kuwait, and Oman – were among the first countries to start vaccinations and have secured large numbers of doses but lag the UAE and Israel in distribution. In contrast, Egypt, Morocco, Algeria, and Lebanon did not begin their vaccination campaigns until late January or early February and have received small numbers of doses thus far. Iran, which has seen the highest death toll from Covid-19 in the region, was also late in starting its rollout of the Russian Sputnik V vaccine. Iraq and Tunisia are expected to begin their vaccination campaigns this month after lengthy procurement delays. Populations in active war zones like Yemen and Syria will have to wait even longer.

In the months ahead, we will be watching middle-income countries like Egypt and Morocco especially closely. Like many other developing economies, they will have to rely heavily on cheaper and easier-to-distribute Chinese and Russian vaccines and on international organizations like the World Health Organization and the vaccine alliance Gavi. In contrast to the Gulf states, many of these countries will likely fully reopen their economies before they have vaccinated even half of their populations. If these countries can get large-scale vaccinations underway soon, they may move quickly to lift remaining restrictions on economic activity and travel and relieve the pressure on their struggling economies.

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**Implications for Business:** Israel and the UAE are on track to reach herd immunity by the second quarter and Saudi Arabia by the end of the third quarter. Companies can expect these countries to ease domestic public health restrictions as vaccination rates rise, though some travel restrictions may remain in effect longer. The timeline for lifting restrictions across the rest of the region will vary. Some countries like Egypt have already opted to largely reopen their economies regardless of infection rates, while other countries like Lebanon and Jordan have lifted and reimposed lockdown measures in response to case numbers. We expect these differences in approach to continue.

# 2 Regional economic recovery will hinge on rebound in oil prices and global trade

The regional economic recovery will also hinge on the recovery of global oil markets. Oil prices climbed past \$60 per barrel this month and are expected to average above \$50 barrel for the year. This reflects the rebound in global oil demand as the world begins to exit the pandemic, as well as the stabilizing effect of supply cuts by major producers. In December, the Organization of Petroleum Exporting Countries (OPEC) and its allies – collectively known as OPEC+ – decided to extend its historic 9.7 million barrel per

day (bpd) production cut accord through at least March. Saudi Arabia – the driving force behind these cuts – pledged in January to unilaterally cut its production by an additional 1 million bpd.

We expect the OPEC+ producers to largely maintain production cuts in the near term given the uncertainty in the global economic outlook and potential supply increases from Libya and Iran. However, agreement within OPEC+ is fragile. Saudi Arabia and its Gulf neighbors all have high fiscal breakeven oil prices – the minimum price per barrel at which they can balance their budgets – and see it as imperative to maintain prices at above \$50 per barrel, even at the expense of output. In contrast, Russia has a much lower breakeven price and, therefore, less to gain from production cuts. This is reflected in varying levels of compliance with production caps, with Saudi Arabia consistently underproducing its quotas and Russia overproducing.

The recovery of global oil prices to pre-pandemic levels is vital to the economic and fiscal stability of the Gulf countries and, by extension, the rest of the region, which relies heavily on the Gulf countries for investment, tourism, and remittances. With the exception of Qatar, all the Gulf states entered deep recessions last year. While the UAE and Qatar, and to a lesser extent Saudi Arabia and Kuwait, have the financial reserves to weather the crisis without major long-lasting cuts to spending, Bahrain and Oman are on much more fragile footing and will need to implement tough austerity measures if global oil markets do not rebound to favorable prices.

The recovery of the region's non-oil economy – including logistics, events, tourism, transport, and trade – will depend on the full resumption of global economic activity. In the Gulf, target sectors for economic diversification and job creation were particularly hard-hit by the drop in international travel and trade. We expect that a recovery to pre-pandemic levels will take years and that the region's non-oil economy, which lacks a large single market, will remain vulnerable to further setbacks caused by the pandemic. This in turn will pose challenges to economic diversification and job creation efforts across the region that will be felt in the GCC countries and, more acutely, in Iraq, Egypt, and Algeria.

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**Implications for business:** For companies operating in the Gulf, the trend toward more cost-conscious government procurement is likely here to stay, regardless of oil prices. Companies should also anticipate the potential for higher tax burdens, including increases to VAT, expat fees, and commercial registration fees, as well as greater pressure to localize employment and content. There is also heightened risk of non-payment or delayed payment on government contracts, though Saudi Arabia and the UAE have reformed their procurement and payment systems in recent years and may benefit from increased oil revenues, making a repeat of the kind of payment delays seen following the 2014 oil price crash unlikely.

## 3

### Gulf countries will push forward with economic reforms

Closely linked to the question of recovery from the pandemic is the future of economic reforms, especially in the Gulf countries. Strict Covid-19 lockdown measures and the global crash in oil demand dealt a double blow to Gulf government revenues. At the same time, these governments had to step up to fund the public health response and economic stimulus measures. Faced with lower revenues and new demands on their finances, several of the Gulf countries turned to austerity. Already heavily indebted Bahrain and

Oman slashed government spending across the board, as did Kuwait. The UAE and Saudi Arabia imposed smaller cuts and looked for new ways to raise revenue. Saudi Arabia, for example, tripled its VAT from 5% to 15%.

**Continued investments in economic diversification.** While naturally some of these austerity measures have reduced spending on economic reform initiatives, the Gulf countries have largely avoided pulling back on strategic investments in economic diversification. On the contrary, the crash in oil prices has underscored the urgency of these reforms. For example, after announcing last spring that it would cut ~\$8 billion from various programs under its ambitious Vision 2030 plan, Saudi Arabia has opted to forge ahead with Vision 2030 spending even at the risk of ballooning near-term deficits. In recent weeks, the Kingdom has unveiled two massive new Vision 2030 programs: (1) The Line, a high-tech 170-km linear city of 1 million residents with no cars, streets, or carbon emissions running through the independent economic zone of Neom in northwest Saudi Arabia; and (2) the [Riyadh Vision](#), which aims to double the population of the Saudi capital by 2030 and challenge Dubai as the hub for regional company headquarters. We expect this rivalry between Riyadh and Dubai to grow over the medium- to-long-term.

**Accelerating regulatory and legal reforms.** Saudi Arabia and other Gulf countries have also accelerated regulatory and legal reforms to improve their investment climates and economic competitiveness. Last month, Saudi Arabia announced a [new wave of judicial reforms](#) aimed at modernizing its legal system, which continues to be based on uncodified Islamic law. While the first four laws under development as part of these reforms will likely have few immediate implications for foreign companies operating in the Kingdom, the broader push to enact clear written laws and improve judicial efficiency, transparency, and predictability is a promising sign for foreign investors. Meanwhile, the UAE has in recent months removed longstanding foreign ownership restrictions across a wide range of sectors and relaxed its previously restrictive citizenship rules for select foreign investors and specialized professionals.

Compared to expensive strategic investments in economic diversification, these kinds of social, legal, and regulatory reforms represent low-hanging fruit. We expect further legal reforms in the months and years ahead as the Gulf countries look to capitalize on the expected rebound in foreign investment following the pandemic. We will be watching the release of new laws in Saudi Arabia closely for insight into how far-reaching the Kingdom's legal reforms will be. We expect Saudi Arabia to also continue to accelerate its Vision 2030 investments. However, several questions hang over the future of Vision 2030, including whether this level of spending is sustainable and how the Kingdom's efforts to attract foreign investment, including rumored tax and Saudization breaks, fit with its goal of localizing jobs and content.

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**Implications for business:** For companies operating in Saudi Arabia, new Vision 2030 projects present investment opportunities across a wide range of sectors including sustainable infrastructure, renewable energy, and tourism, but also present risks as the government ratchets up pressure on foreign companies to increase their commitments to the Kingdom and relocate their regional headquarters to Riyadh (see our recent [Analysis](#)). In the UAE and other Gulf countries, where economic reforms are less far-reaching than Vision 2030, the opportunities and risks associated with these reforms will likely be comparatively smaller.

# 4

## Digital transformation will continue to accelerate across the region

As in other regions of the world, the pandemic has accelerated digital transformation in a number of MENA countries. The pandemic has driven technology adoption in areas such as digital payments and e-government; spurred demand for cybersecurity, enterprise, and cloud solutions; and accelerated digital transformation processes across the broader economy.

**Increased public investment.** Regional governments will continue to increase their investments in digital transformation and infrastructure modernization to accommodate the surge in traffic that has accompanied the pandemic. The GCC countries, which were already among the first countries in the world to deploy 5G at scale, have accelerated their rollout of 5G. Beyond the Gulf, Israel launched its first 5G network last year, and Egypt and Morocco are in the trial stages of launching 5G networks. Across the region, we expect Chinese technology giant Huawei to continue to cement itself as the dominant provider of 5G infrastructure, emblematic of the growing influence of China and Chinese companies in the region.

**Focus on government efficiency.** MENA countries are also making digital transformation a cornerstone of efforts to improve government efficiency and lower public spending in the long term. Last July, the UAE announced plans to significantly downsize and reshuffle the federal government (see our previous [Analysis](#)). One of the headline moves was the announcement that half of government service centers will be transitioned into fully digital portals within two years. We expect emirate-level governments to follow the lead of the UAE federal government with similar consolidations and reshuffles to improve efficiency and address new priorities arising from the pandemic.

**New technology regulations.** Finally, MENA countries are accelerating their adoption of new regulations to facilitate and govern digital transformation. Saudi Arabia has unveiled a slew of new technology policies in recent months – including a new [strategy for data and artificial intelligence](#) and [interim data governance regulations](#) – in hopes of challenging the UAE and Bahrain as a regional technology hub. Meanwhile, the UAE is developing a federal data protection regulation modeled after the EU’s General Data Protection Regulation (GDPR), which we expect to be released this year. Egypt released its own GDPR-style data protection regulation last year and is now drafting the executive regulations.

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**Implications for business:** For technology companies operating in the region, these changes present new commercial opportunities with government and the private sector but also present risks in the form of new regulations and surrounding uncertainty. Companies should also anticipate government efforts, especially in the Gulf, to impose new taxes on technology services and increase enforcement of existing taxes. Saudi Arabia, for example, has held discussions about adopting a European-style digital tax, though these have been put on hold for now. Finally, we expect “data nationalism” to permeate policymaking across the MENA region as governments use data classification regulations to localize data and promote local industry, often citing reasons of national security.

# 5

## Political instability will continue but Arab Spring 2.0 is unlikely

Last year, the pandemic and economic recession fueled an increase in political and social unrest in several countries across the region, a trend we expect to continue this year. Tunisia, considered the lone success story of the 2011 Arab Spring, has seen large-scale protests erupt in recent weeks over high unemployment, poor public services, and pervasive corruption – challenges that we expect the pandemic and economic crisis will continue to exacerbate throughout 2021. Similar conditions are fueling the revival of anti-government protests in neighboring Algeria on the second anniversary of the protest movement that ousted former President Abdelaziz Bouteflika, as well as ongoing unrest in Iraq and Lebanon.

This trend has raised concerns that the region could be in store for a second Arab Spring. While the political and economic drivers of the Arab Spring are just as present a decade later, credible political alternatives or organized opposition are largely absent and regional governments are more alert to potential unrest and unafraid to use force early to prevent political movements from forming. In recent years, Saudi Arabia, Bahrain, Egypt, and other countries have cracked down further on political dissent, expanded their sprawling intelligence and security apparatuses, and introduced tough new laws curbing social media, recognizing the pivotal role it played in the Arab Spring. All these factors make a repeat of the Arab Spring unlikely. However, we expect unrest to continue in Iraq, Lebanon, Tunisia, Algeria, and potentially other countries across the Levant and North Africa. We do not expect significant instability in the GCC countries in 2021.

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**Implications for business:** Political and social unrest will present a range of interrelated risks to organizations with interests in the MENA region throughout 2021. Organizations should continue to monitor trends through local, regional, and global lenses and prepare to manage potential risks to their people, assets, and reputations.

# 6

## U.S.-Iran tensions will decline over time but persist in the short term

While the change in U.S. administrations will likely have little immediate impact on the macro-trends shaping the region, the Biden administration will bring major changes in U.S. policy toward Iran, which in turn will have broader geopolitical implications for the region. President Biden has vowed to rejoin the Iran nuclear agreement so long as Tehran returns to strict compliance. The challenge now is who will go first. In February, the Biden administration formally offered to restart nuclear talks with Iran. Tehran, which demands that sanctions be lifted first, seems to still be figuring out how to respond to the offer. In an apparent attempt to leave space for negotiations, Iran agreed to partially retract its earlier threat to limit international inspections of its nuclear facilities for three months.

Beyond a return to the nuclear deal, the Biden administration faces pressure, including from the U.S.' regional allies and even from the EU countries, to take advantage of the leverage the United States built up against Iran under Trump to negotiate follow-on agreements that would aim to address Iran's regional activities and ballistic missile program. This will be a tough task. Tehran has publicly stated that the terms

of the nuclear deal are non-negotiable. If a conservative hardliner wins the Iranian presidential election in June, as most analysts expect, it would further hinder efforts to negotiate a broader deal.

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**Implications for business:** While we expect U.S.-Iran tensions to decline under the Biden administration over the longer-term, Iran could in the meantime use its proxy forces, especially in Iraq and Syria, to put pressure on Washington to return to the nuclear deal and lift sanctions. Accordingly, companies in the region should continue to monitor closely for potential short-term flareups in U.S.-Iran tensions.

# 7

## Biden administration will bring changes to U.S.-Gulf relations

The Biden administration will also renew the U.S.' focus on democracy and human rights, which will increase pressure on various governments in the Middle East, including the Gulf states, Egypt, and Turkey. While President Biden will not go out of his way to antagonize the leaders of these countries, he will take a harder line than the Trump administration did on their human rights records and their involvement in regional conflicts like those in Yemen, Syria, and Libya.

The greatest change in this regard will likely come in the U.S. relationship with Saudi Arabia. In his first weeks in office, President Biden suspended some arms sales to Saudi Arabia and stopped U.S. support for Saudi-led offensive operations in Yemen, in an effort to pressure Riyadh to end its involvement in the conflict. In a bid to turn the page, Saudi Arabia made a series of apparent goodwill gestures to the Biden administration. It pushed for the agreement in January [ending the three-year blockade of Qatar](#), which had complicated U.S. military operations and commercial interests in the region, and released activist Loujain Al-Hathloul, though she remains banned from traveling abroad.

Last week, the Biden administration released a long-awaited CIA report implicating Saudi Crown Prince Mohammed Bin Salman (MbS) in the murder of journalist Jamal Khashoggi and imposed travel restrictions on 76 Saudi nationals accused of threatening dissidents overseas, including but not limited to Khashoggi. In an apparent attempt to soften the blow, the administration released the report on a Friday, amid coverage of Biden's stimulus bill and debate over the U.S. minimum wage. More importantly, the sanctions announced by the State Department did not include MbS, although the administration will likely keep its distance from the crown prince by having President Biden deal with King Salman instead.

This approach seems to have succeeded in mitigating the Saudi reaction, at least for now. Although the official Saudi statement predictably rejected the CIA report, it also underscored that the Kingdom remains committed to and looks forward to maintaining its "robust and enduring partnership" with the United States. While the administration faces criticism for not going further in punishing the Kingdom, and MbS in particular, it will likely stick with this measured approach of correcting what it sees as the excessive closeness of the Trump administration to Saudi Arabia while maintaining security and diplomatic cooperation with the Kingdom.

Another challenge that the Biden administration faces in Saudi Arabia and across the Gulf and wider region is the growing influence of China. As in other regions, Beijing has used "healthcare diplomacy" during the pandemic to strengthen its economic and political position in countries like Saudi Arabia, the UAE, and

Egypt by providing medical supplies, developing Covid-19 testing facilities, and delivering large quantities of vaccines. Before the pandemic, Chinese companies were already increasingly present in the field of digital health and genomics and deeply involved in technology, including e-commerce, social media, and 5G infrastructure. The prospect of cooler diplomatic relations with the United States may prompt Gulf countries, including Saudi Arabia, to prioritize even closer ties with China, which could in turn strengthen the competitive position of Chinese companies.

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**Implications for business:** The cooling of the bilateral relationship between the U.S. and Saudi Arabia is unlikely to have a significant impact on commercial and investment ties between the two countries, unless the Saudis seek to provoke a rupture with Washington. However, companies with significant current or planned investments in the Kingdom should anticipate heightened media scrutiny and negative coverage of Saudi Arabia in the coming weeks, which (barring any further incidents) will likely decline as the Khashoggi report fades from headlines.

Across the region, companies should monitor for their exposure to U.S.-China rivalry, including potential changes in their competitive position vis-à-vis Chinese companies. One growing area of U.S.-Chinese rivalry is the ideological competition between the U.S. model of an “open internet” and China’s closed approach. Companies should watch closely whether regional governments begin to encourage the use of Chinese vs. U.S. platforms or providers.

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## About ASG

Albright Stonebridge Group (ASG) is the premier global strategy and commercial diplomacy firm. We help clients understand and successfully navigate the intersection of public, private, and social sectors in international markets. ASG’s worldwide team has served clients in more than 120 countries.

ASG’s [Middle East & North Africa Practice](#) has extensive experience helping clients navigate markets across the region. For questions or to arrange a follow-up conversation please contact [Michael Bessey](#).