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A Postcard from Dubai



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The Gulf as a crisis winner must seize the opening opportunity

This week I am writing to you from Dubai. While elsewhere worries about war, inflation and recession are doing the rounds, Dubai, the tourist mecca and business center of the Gulf region, is all sunshine (in the literal sense of the word, of course, with temperatures currently at 40 degrees Celsius).

The Gulf is the only region to benefit economically from the geopolitical upheavals. The International Monetary Fund raised its 2022 growth forecast for the Gulf Cooperation Council (GCC: Saudi Arabia, UAE, Qatar, Kuwait, Bahrain and Oman) countries to 6.4% in April from 4% last October.

High oil prices lubricate the economy

The main reason for this is the rise in oil prices since the Russian invasion. Budget surpluses are rising rapidly (see figure on the next page). The GCC current account surplus, which was slightly negative as recently as 2020, is likely to be close to 20% of GDP this year. External surpluses are being reinvested abroad through sovereign wealth funds. By the end of the year, foreign assets of GCC governments will reach nearly \$3.5 trillion, 200% of GNP.

Speed up now to diversify the economy

Gone, at least in the short term, are concerns about longer-term growth prospects. After all, a world that wants to break away from oil dependence poses an existential threat to an economy that thrives on oil. A rapidly growing but already often underemployed population adds significantly to this challenge. These structural problems have not disappeared as a result of the oil price boom.



Surging oil prices bring high budget surpluses

Governments must now use the sudden glut of money wisely to launch a more economically sustainable economic model. Even if global CO₂ targets are missed, demand for oil will steadily decline over the coming decades. The current economic structure is a dead end in the long term.

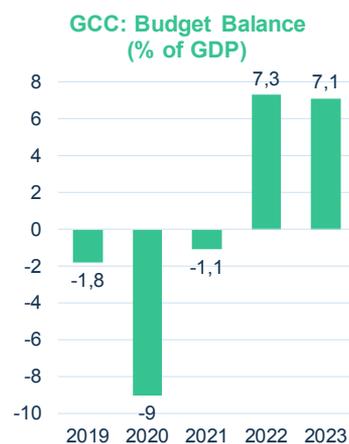
What needs to be done: education and promotion of the private sector

Governments' diversification efforts in the Gulf too often revolve around prestigious infrastructure projects. But in fact, the region's infrastructure is in good shape. And nowhere more so than here in Dubai.

Instead, the focus should be on promoting the underdeveloped private sector and improving the education of the local population.

It remains difficult for private companies to operate in the region. Crippling bureaucracy and a slow judiciary are just two of the frequently cited examples. Dubai has shown that an agile business sector can function in the GCC context. Despite encouraging gradual progress being made, others, including Saudi Arabia, still have catch-up potential here.

In the long term, the education and productivity of the population are an economy's greatest assets. In the Gulf, educational results in international comparisons are unfortunately still very unsatisfactory. And although girls regularly perform better than boys, the participation rate of women in the labor market is still low. A more modern education system adapted to economic requirements is needed. This is the only way to achieve growth that is independent of oil revenues and foreign specialists.



Source: IMF

**For a sustainable economy:
Improve the education system!**

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