



FIVE DRIVERS OF RISK AND OPPORTUNITY IN THE ARAB REGION OVER THE NEXT FIVE YEARS

2024
2025
2026
2027
2028



INTRODUCTION

The Arab Strategy Forum has engaged Control Risks to analyse the events and dynamics that have shaped the Arab region over the past two decades, and to identify the drivers of risk and opportunity that will catalyse political and economic change in the next five years.

Control Risks is a specialist risk consultancy that helps create secure, compliant and resilient organisations. We believe that taking risks is essential to success, so we provide the insight and intelligence that governments and organisations need to realise opportunities and grow.

From the boardroom to the remotest location, we cut through noise and emotion to provide dependable and actionable advice.

EXECUTIVE SUMMARY

Two tumultuous decades have shaken the unipolar global world order and redefined the Arab world and its role on the global stage.

As the Arab world becomes bolder and more prominent in international politics, new challenges await. Over the next five years, governments in the region will need to grapple with the diplomatic, trade and security realities and expectations that come with forging new partnerships and occupying a more prominent role in global affairs.

Thanks to their vision and ambition, Arab governments have captured geopolitical and economic opportunities that have turned them into actors with growing political and economic power and influence on the global stage, and importantly within the region. Over the next five years, these powers will have to continue to choose the issues that they want to lead on and define their role in the new global order.

Insecurity and conflict outside the Arab world, on its peripheries, and within its borders will continue to threaten stability and opportunity in the region in 2024 and beyond. In several Arab countries, non-state actors now do not just hold sway on the battlefield, but increasingly also control the levers of economic and political power, complicating conflict mediation, bilateral engagement, and investment. If Arab-led mediation efforts can build on the successes of the past few years, then 2024 could be the tipping point for when the Arab region can look to itself to solve old and new conflicts in the region and beyond.

The national vision plans announced by governments across the Arab world since 2011 have been an effort to remedy ineffective policymaking and implementation that challenged the political stability of so many countries, and to maximise the potential of the youth through human capital development.

These visions hold the key to economic diversification that can propel the Arab region into an increasingly important role in global trade and supply chains in the next five years, becoming a core node in sectors where once they were peripheral, or the sectors did not exist.

The Arab world is a major player in the conventional energy system but is set to take a commanding role in the global energy system of the future through investment in renewable energy and hydrogen. Over the next five years, Arab governments will build on recent successes and use energy transition initiatives as an opportunity for national regeneration and diversification.

This process will go hand in hand with the region embracing the Fourth Industrial Revolution. Along with the human capital development plans laid out in national vision documents, the ambition to develop thriving technology-based sectors including fintech, e-commerce and a technology-driven start-up culture will drive the Arab region's technological renaissance and build a successful path into the future for regional economies.



20 YEARS OF HISTORY: RE-SHAPING THE ARAB WORLD

The tumultuous past 20 years, starting with the US invasion of Iraq in 2003, have reshaped the Arab world and triggered a process of transition in the global order from a unipolar to a more multipolar architecture. These trends will continue to drive risk and opportunity for the Arab region over the next five years.

A series of key events in the region over the past two decades have led to:

- A profound reorientation of the Arab region's place in and relationships with a changing world order.
- Shifting rivalries and alliances that have reshaped the political landscape and traditional alliances within the Arab region.
- A series of conflicts – many of which continue today – that are complicated by the rise and increasing entrenchment of non-state actors across the region and are being met by a new wave of Arab-led conflict mediation initiatives and successes.
- A series of long-term visions to diversify economies and lay the foundation for a successful energy transition.
- An accelerating awareness of the need to grow local manufacturing and industry, develop new technologies, and attract foreign direct investment to be more resilient against future global shocks.

This introduction provides an overview of the key events that have shaped the region over the past 20 years and summarises how they have contributed to the five drivers of risk and opportunity identified for 2024.

2003

The 2003 US-led invasion of Iraq followed the 9/11 attacks on the United States by terrorist group Al-Qaeda. Together with the US-led war against the Taliban regime in Afghanistan, the invasion of Iraq constituted the backbone of the United States' two-decade-long "Global War on Terror". The invasion of Iraq led to prolonged instability, conflict and governance challenges in Iraq and exacerbated political, ethnic, and religious divisions both in Iraq and in neighbouring countries.

It also inaugurated a prolonged period of intensive US military engagement in the Arab region and had a profound impact on US-Arab relations at both the political and the popular levels, fracturing regional relations and affecting the Arab region's internal social and political cohesion. The invasion also sowed the seeds for the rise of non-state actors within Iraq: from the ethno-sectarian blocs that formed after the US invasion, which still dominate Iraqi politics, to the rise of Islamic State (ISIS) in Iraq initially before subsequently spreading to other countries in the Arab region and beyond.

2011

The 2011 Arab Spring uprisings were the next major event to shape the region. Mass civil unrest and popular mobilisations – driven by a combination of deteriorating living standards, lack of economic and employment opportunities, and frustration at ossified political systems – caused regime change in Tunisia, Egypt, Libya and Yemen and led to prolonged conflicts in Libya, Syria and Yemen.

The legacy of the Arab Spring uprisings does and will loom large over several of the drivers of risk and opportunity for the Arab region over the next five years, as discussed in this report. Many of the region's current conflicts can be traced to the Arab Spring uprisings and their aftermath, which were also a catalyst for a proliferation of non-state actors and their increasing entrenchment in political and economic governance. The uprisings also focused the Arab region's policymakers on the need to secure long-term economic growth to avoid future popular discontent at deteriorating socioeconomic conditions and to drive welfare and human development throughout the region.

2014

2014 saw the culmination of several of the most destructive dynamics that were unleashed by the 2003 US invasion of Iraq and the contested transitions and fractured aftermath of the 2011

Arab Spring uprisings: the rise of the ISIS terrorist group in Iraq and Syria and the onset of the Yemen civil war.

From 2014 to the end of 2015, an ISIS insurgency succeeded in taking control of large swathes of territory in north-central and western Iraq and eastern Syria. A combination of US, international, Iraqi and Kurdish forces largely defeated ISIS by 2019 and the group no longer controls any populated areas in Iraq or Syria. However, ISIS today continues to launch regular attacks against government and civilian targets in rural areas of Iraq, and ISIS franchises and affiliates continue to pose a security threat in several countries in the Arab region and beyond.

In September 2014, following the ouster of former Yemeni president Ali Abdullah Saleh in 2012, the rebel Houthi movement seized control of Yemen's capital Sana'a and took control of much of Yemen's state apparatus. In March 2015, the Houthis advanced south, and a Saudi-led coalition began military operations to restore Yemen's internationally recognised government to power. The subsequent war in Yemen, absence of any central government control, and disparate security provision allowed terrorist groups to operate in several parts of the country. A truce agreed by the warring parties in April 2022 expired in October 2022; however, to date elements of the truce are still holding and the conflict's intensity has reduced.

2020

The most recent major event to have shaped the region over the past 20 years, and which will also strongly shape the five identified drivers of risk and opportunity in the Arab region over the next five years, is the COVID-19 pandemic.

The World Bank estimated that the economies of the region lost a combined total of USD 200bn during the most acute period of the pandemic from February 2020 to October 2021. This regional figure obscures considerable diversity in the degree of fiscal shock experienced by the Arab region because of the pandemic, and individual countries' varied rates of recovery.

For both countries in the Arab region that recovered relatively quickly from the effects of the pandemic, such as the Gulf Cooperation Council (GCC) states, and those Arab countries whose recovery has been slower, the pandemic focused policymakers' attention on the need to build economies that are less reliant on imported natural resources (and vulnerable to their associated price fluctuations), to grow local manufacturing and industry, to develop new technology-driven and technology-enabled economic sectors, and to attract foreign direct investment.

ADAPTING TO THRIVE: HOW THE ARAB WORLD DEFINES ITS ROLE IN A CHANGING WORLD ORDER

KEY TAKEAWAYS

- Big power competition between the US, Russia and China has incentivised stronger South-South bonds with major investment potential over the next five years.
- The Arab world has contributed to a growing realignment in global trade through currency swaps and broadening trade relationships.
- Regional leaders will be faced with unfamiliar scenarios to confront as new relationships yield new and unexpected challenges.

KEY RISKS

- As strategic competition between the US and China increases, Arab countries will face pressure to choose between a US-aligned camp and a China-aligned camp.
- OPEC will need to adapt to a changing market and new energy environment, and OPEC+'s internal cohesion will be tested by member states' changing energy production and export plans.
- External and regional shocks and intensifying geopolitical competition will challenge the Arab world's political and economic resilience.

KEY OPPORTUNITIES

- The ability to balance diplomatic relationships and commercial interests between China and the US can be a source of political and economic advantage for Arab countries.
- Strengthening South-South relations provides an avenue for Arab countries to claim a new role for themselves in the architecture of the future global political and economic order.
- An expanded BRICS would provide meaningful Arab representation and a new perspective within the group from three of the region's key players.

The 2003 invasion of Iraq was a geopolitical earthquake for the Arab world, but also the start of a shake-up of the global order. Several other factors post-2003 fed into this trend: the Global Financial Crisis of 2008, the Arab Spring uprisings of 2011-2013, the oil price crash of 2014-2016, the COVID-19 pandemic, and the repeated swings of US foreign policy from internationalism to isolationism over the last decade.

Nowhere has that shift played more acutely than in the US-Arab world relationship. A defining feature of that relationship in the last two decades has been how much it has changed. Underpinned by a mutual understanding of oil-for-security, crystallised since February 1945 amid what was then a fast-changing world as World War Two



was coming to an end, this foundation has been shaken by the rise – and thriving – of US shale oil and gas production.

The US appears to want to reduce its direct involvement in the region but has stopped short of clearly defining what that future involvement would look like and how it could bring value anew to the Arab world.

At the same time, China has risen as a formidable economic power. This has provided the Arab world with an opportunity to balance its commercial interests and diplomatic relationships between these two poles of power.

But as strategic competition between China and the US intensifies, Arab states will have to stave off pressures to choose one camp over the other, and work together with leading powers in other regions of the Global South to define their role in the new global institutional and trade architecture.

Balancing big power competition

The big power competition between the US, Russia and China has been on full display over the last decade as these three nations battle for assets and influence in Africa, Asia and South America.

This has prompted a strengthening of South-South bonds in the realisation that countries can stand up together against attempts to divide the world into spheres of influence. Governments in the Global South resent the pressure of being pushed to join one camp or the other and want to use this geopolitical opportunity to claim a

new role for themselves in the architecture of the future global political and economic order.

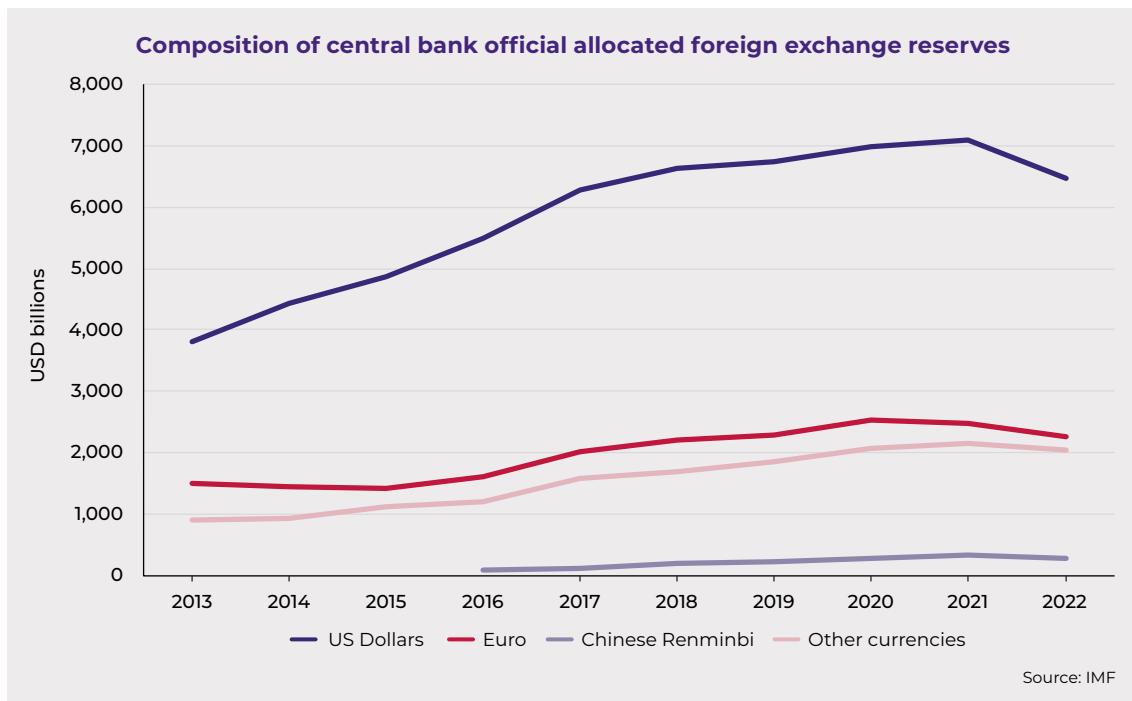
This trend is manifesting itself both at bilateral and multilateral levels.

The Middle East-Africa corridor has been growing in importance, with deal value increasing year-on-year since 2020, reaching at least USD 3.8bn in 2022. It has led to closer ties, which will bring skilled workers to the Arab world and will create flows of financing and knowledge that will benefit both regions. And this does not preclude South America: while starting from a low base, there is potential for bilateral trade in agricultural products and food, and even in financial services and fintech.

China's transition from a manufacturing-fuelled growth model to a services-based economy is prompting the movement of manufacturing capacity to Southeast and South Asia. This opens up shared opportunities across almost all economic sectors for investments that utilise the Arab world's geographic location as the gateway to Europe and Africa for Asian exporters. Trade between Asia and the GCC alone is set to reach over USD 500bn by 2030.

Trade and diplomatic realignment

The Arab world is also undergoing a realignment of its participation in multilateral institutions in response to great power geopolitical competition. The BRICS (Brazil, Russia, India, China, South Africa) club is set to enlarge in 2024. Conceived as the acronym that encapsulates the economic



powerhouses of the Global South, the group is looking to offer an alternative to the G7 and G20 as a space to discuss policy, share ideas and generate solutions to problems that do not necessarily feature at the top of the agendas of other international fora. Egypt, Saudi Arabia and the UAE's prospective membership will provide meaningful Arab representation and a new perspective within the group from a key triumvirate of growing economic players. The India-Middle East-Europe Economic Corridor (IMEC) announced at the G20 in New Delhi in September 2023 is a long-term moonshot project that is a clear signal of the intent and motivation of the countries of the Arab world to build a network of assets and an economic role in connecting Europe and other parts of the world as a counterweight to US-China competition.

2024 will see more currency swaps between trading nations, as an area where countries are showing increasing trading sovereignty and reducing their exposure to the US dollar in key partnerships. The Arab World has led the way in 2023, with the UAE and Saudi Arabia signing approx. USD 12bn in currency swap deals with China – their respective largest trading partner. Other incentives include tighter US monetary policy and attendant US dollar strength through 2023, with a significant impact on financing costs and inflation in numerous countries, including in the BRICS.

A dedicated BRICS+ currency is a very long-term project and the US dollar is likely to remain the predominant global currency of choice for the next two decades at least, with 85% of global trade

financing as of 2023. However, incremental de-dollarisation in the Global South will allow participating nations to reduce the effects of devaluations, drive more bilateral trade and reduce the potential impact of unilateral US sanctions. Since the start of the conflict in Ukraine in February 2022, the Chinese renminbi's share of international trade finance has almost doubled to 4.72%, according to data from the SWIFT interbank network. The US dollar will remain the currency that is central to the global trade of goods and services over the coming five years, but just like with the shift in global reserve currency usage over the last two decades, in the next two there will be more options, rather than fewer, for nations looking to hedge the exposure – and political risk – that comes with conducting trade in US dollars. The de-dollarisation push among many regional heavyweights, some of which are leading commodity traders, should not go ignored.

Over 62 years, the Organization of Petroleum Exporting Countries (OPEC) has led the way in managing 40% of the oil market and price stability for the key fuel that defined human development in the second half of the twentieth century. But OPEC's role is different now from how it originally envisaged itself. With the US as the world's largest oil producer and exporter as of 2023, OPEC has had to adapt to a changing market and adjust its role to reflect the new environment even as it maintains its original mandate. OPEC+ – an enlarged group of OPEC members with fellow oil producers, including Russia, Oman, and others – was born out of the crisis that was the

2014-16 oil price crash. It has continued to face new crises since. The group had a key role in the wider response to stabilise international markets as demand collapsed in the early days of the COVID-19 pandemic in April and May 2020.

And although the group has weathered multiple difficult market developments since, the changing energy production and export plans of member states will test OPEC+'s internal cohesion. Membership has fluctuated over time as member countries' energy sector priorities have changed, and the OPEC+ we see today may not be the same in 2028.

OPEC+'s key external challenge in the next five years will be how to manage an oil market with gradually declining long-term demand, combined with increasing output from non-OPEC countries such as the US, which do not see the same value in collective responsibility for such a key commodity and underlying driver of economic growth.

New challenges

As the Arab world becomes bolder and more prominent in international politics, it will face tougher questions and expectations regarding its role in the world.

US-China competition will continue to intensify as both compete for a greater share of key industries – semiconductors, fintech, rare earths extraction and processing, electric vehicle (EV) manufacturing and artificial intelligence (AI). This competition will continue to put the Arab world to the test. Can it successfully navigate these tensions, keeping its friends, influencing others, forging new alliances and avoiding making new enemies? How will it define its role in the geo-economic contest of the 21st century? What does navigating

that contest mean for its bilateral relationships with other countries, such as the BRICS?

Arab leaders will also have to be prepared for unexpected geopolitical or economic shocks. What will be the Arab world's position on mounting tensions in the South China Sea? How might the Arab world support its trading partners in West and Central Africa as they face continued instability from violent extremists?

Given the number of external and regional shocks of the past decade and the intensifying geopolitical competition, Arab leaders will need to focus on building geopolitical and economic resilience for the region and their respective countries. The rising importance of supply chain security can be used as an opportunity to support domestic economies by attracting investment that builds local capacity and know-how and promoting outward investment that secures external supply chains. It is through this "global outwards, local inwards" approach that nations and businesses will stay competitive in a fast-changing multi-polar world.

Increased South-South trade and economic activity, supported by the USD 27trn gross domestic product of the BRICS nations, and network effects afforded by membership in organisations like BRICS+ will create an opportunity for the Arab world and its partners to reshape the global institutional infrastructure and reform global institutions to be more inclusive and more focused on development and sustainability objectives, and ultimately mirror the new distribution of global power around the world.



SHIFTING SANDS: RIVALRIES AND ALLIANCES WILL CONTINUE TO RESHAPE REGIONAL POLITICS

KEY TAKEAWAYS

- Progress in the Arab world's relationships with Iran have the potential to yield material political and economic benefits for all actors.
- Regional partnerships and multilateral bodies like the Arab League will have an even more important role in regional diplomacy in the next five years.
- The failure of the JCPOA presents an opportunity for the region to proffer a local solution to an issue dominated for so long by international actors that can deliver broader regional benefits.

KEY RISKS

- Without a JCPOA or new replacement framework, Iranian nuclear proliferation will continue to jeopardize regional security.
- Regional competition rather than collaboration can exacerbate security issues in fragile Arab states.
- Worsening Morocco-Algeria relations could stymy the opportunity for the Arab world to benefit from North Africa's energy potential.

KEY OPPORTUNITIES

- The UAE and Saudi Arabia can build on the complementarity of their economies to fuel growth across the Arab world.
- The Arab League can be a vehicle for growing regional problem-solving and collaboration.
- The diplomatic and political progress made between Iran and the region's major powers since 2021 creates space for a locally generated solution that protects against the risk of the JCPOA's collapse.

The power of ISIS to take territorial control of 40% of Iraq and 30% of Syria – governing, taxing and holding the monopoly of control – was a major blow to the confidence of the Arab world. It profoundly questioned the ability of states in the region to stay cohesive in the face of political, social and religious challengers driven by extremism, and began a reshaping of regional politics.

Inter-regional cooperation and external collaboration in the form of The Global Coalition against ISIS and the aerial campaign Operation Inherent Resolve (CJTF-OIR) from June 2014 spearheaded by US Central Command (CENTCOM) succeeded in degrading ISIS's capabilities from late 2014 onwards. This provided a moment for the Arab world to reconsider how it conceives and manages competition and collaboration



for power and influence – political and economic – within it. Nowhere has this rethinking manifested more clearly than in how much change there has been in the relationship between Iran and the Arab world over the last decade.

The JCPOA journey

The Arab world cautiously welcomed the Joint Comprehensive Plan of Action (JCPOA) when it was signed between Iran and the P5+1 (China, France, Russia, UK, US, EU and Germany) in October 2015. Although the JCPOA did not address the Arab region's fundamental concerns regarding Iran's political, military and economic influence across the region, the Arab countries noted the opportunity to create a new paradigm, based on the containment of Iranian nuclear proliferation and a more equal playing field in the region, through gradually lifting sanctions and creating opportunities for investment.

The deal itself was short-lived – with the US withdrawing from the agreement as early as May 2018 on the order of President Donald J Trump.

The US withdrawal from the deal, however, created a political and diplomatic vacuum. Iran took retribution against what it perceived as the US imposing its own interests in the region and on the JCPOA deal, prompting it to expand and reinforce its proxies, and with those proxies, subversive activities. The instances of insecurity in the Arab region caused by Iranian proxy groups – in 2018, 2019 and 2022 – again raised security concerns across the region.

The regional actors most concerned with absorbing the cost of the potential escalatory pathway between the US and Iran decided to pivot from contestation. Iraq, Saudi Arabia and the UAE considered that there could be another way. This set the stage for a new type of process between the region's major powers: one of conversation.

Started as a process fostered by Iraq in early 2021, officials from Iran and Saudi Arabia in March 2023 signed an agreement to re-establish formal diplomatic relations, restoring formal ties severed in 2016 and precipitating the reopening of mutual diplomatic missions.

Similarly, senior engagement between the UAE and Iran since early 2021 culminated in Iran extending an offer of a state visit to affirm the material improvement in diplomacy and increased communication between the two states. Iran has similarly offered a state visit to Saudi Arabia to underline the progress in that bilateral relationship.

The progress made since 2021, and especially during 2023, can lead the way towards a new era of cooperation on terms set by in the region that has chances to prove more robust than any process imposed from the outside. Iran needs USD 200bn in investment to repair and modernise its oil production, petrochemicals and power sectors, and countries in the Arab world have unrivalled expertise in successfully developing these sectors. 2024 will show the path for closer

economic cooperation and political dialogue, setting a foundation for building trust and strengthening ties over the next five years.

Partnerships

The close relationship between the leading regional powers – Saudi Arabia and the UAE – will continue to reshape the region and feed into its economic growth and development, as well as give it a voice on the international stage. The two largest economies in the Gulf are building on the complementarity of their economies to fuel growth across the Arab world by using their attractiveness to foreign investors and projecting it across the region in a hub-and-spoke approach.

Recent progress on some key GCC initiatives, such as GCC Rail and the implementation of VAT (almost region-wide) play into this trend. The next five years will likely challenge Gulf economies to make a decision on whether they want to push through with further integration, such as the previously touted single currency, interconnection of electricity grids, and the creation of a single market, or choose to build on their complementary capabilities within the current framework of the GCC.

In 2023, the Arab League has come to the forefront again as a body that facilitates regional communication and cooperation. The return of Syria to the body in May after being suspended in November 2011 is another signal of the potential for growing regional collaboration over the next five years: in seeking to find collective solutions

to regional problems, this approach can create space for regional dialogue and growth.

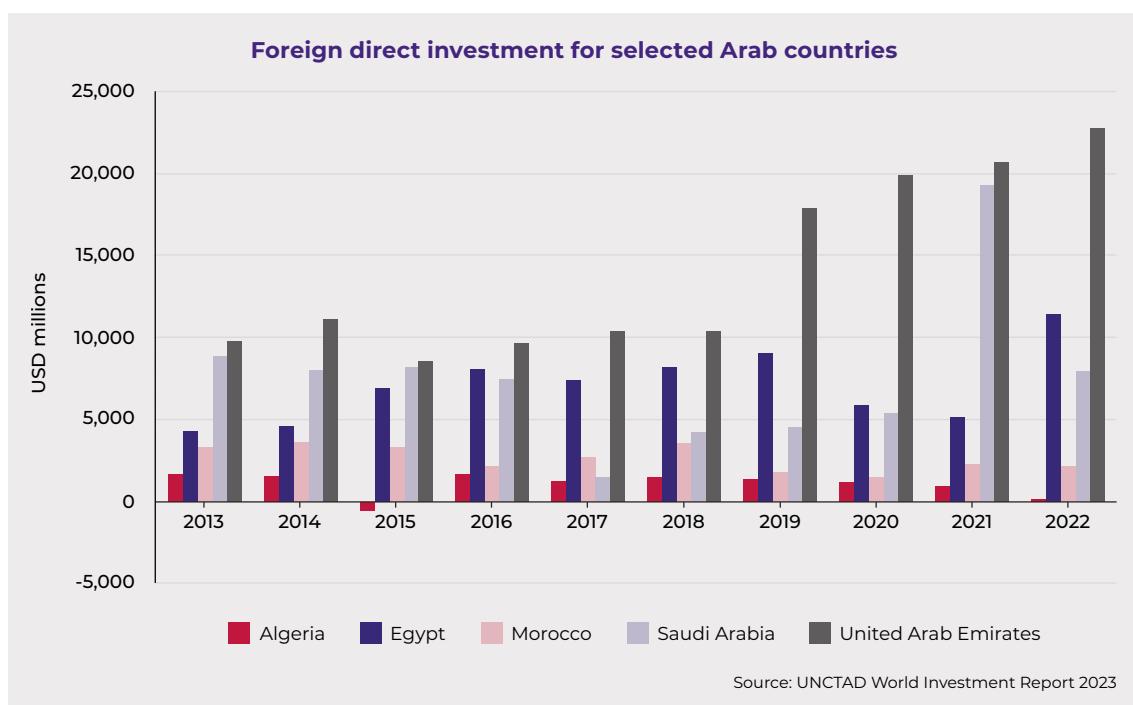
Maghrib competition

A rivalry that is unlikely to see collaboration in the next five years is that between Algeria and Morocco. Bilateral relations between Algeria and Morocco have been tense for decades, mostly due to their rivalry for leadership in the Maghrib region and the historical animosity between the Moroccan monarchy and Algeria's military-political establishment.

These tensions have been further reinforced by Algeria's political and material support to the pro-independence Sahrawi movement and its armed military wing the Polisario Front (including by its accommodation of the Polisario Front's leadership in Sahrawi refugee camps in Tindouf, near the border with Morocco).

Relations took an even sharper downward turn in 2020 when the US recognised Moroccan sovereignty over the territory of Western Sahara. The effects of the confrontation have been mainly restricted to the diplomatic and economic fields, with diplomatic relations suspended since August 2021, emphasising the higher overall tensions.

If diplomatic contestation between Algeria and Morocco continues over the next few years, this will stymy the opportunity for the Arab world to benefit from the sub-region's energy potential. Leveraging Algeria's gas resources and Morocco's investment in renewable energy could create the conditions required to stabilise regional energy



supply and grow a new regional export hub for Europe, similar to the Arab Gulf and more recently the East Mediterranean region. The countries have separate projects: Algeria, the USD 13bn 30 billion cubic metres (bcm) Trans-Saharan natural gas pipeline; and Morocco, the USD 25bn 30 bcm Nigeria-Morocco Gas Pipeline project. Combined, they would make an export hub for North Africa greater than the sum of its parts and a rival to the East Mediterranean hub.

A stumbling block

In late 2023, there was an important and potentially contentious milestone relating to the JCPOA that passed largely without incident: the expiration of sanctions in UN Security Council (UNSC) Resolution 2231 on Iran's ballistic missile programme, eight years after the deal's adoption in October 2015. The sanctions encompassed constraints on the acquisition or selling of ballistic missile technologies, the spread of sensitive technologies and the blacklisting of individuals and entities associated with Iran's nuclear and ballistic missile projects.

Earlier, an attempt through April to June led by US officials and facilitated by Omani diplomats to try to reach an "understanding" between the P5+1 as a stopgap deal failed after it was publicised in the international press, and the list of demands from the US of Iran became apparent as a wish list rather than an attempt to create common ground.

In September 2023, the European parties to the deal known as the "E3" (France, Germany and the UK) chose to not activate the snapback

mechanism which would see sanctions reapplied in the event of Iranian non-compliance, instead seeking to enshrine the restrictions in UNSC Resolution 2231 in domestic legislation to achieve two aims: to ensure that the sanctions would not lift in their entirety, and also to not be forced into activating the snapback mechanism. To do so would endanger the stalled talks between the P5+1 to renegotiate the JCPOA, underway since April 2021 and which remained extremely precarious. The E3 continue to keep the integrity of the snapback mechanism as a key means to preserve the JCPOA re-negotiation talks at least as a channel for communication, since progress on a new basis for what a new JCPOA could look like has been so lacklustre.

Amid this international diplomacy for the JCPOA and its successor, in 2024 there is potential for a solution to come from within the region. The diplomatic and political progress made between Iran and the region's major powers since 2021 creates space for a locally-generated solution to the risk of the JCPOA's collapse bound in the region's own needs – political stability, shared economic opportunity and growth.

To maximise on this opportunity would require even more shuttle diplomacy, political realism and conversations on the role of economics and trade than ever before. But more solutions for the region and by the region will become a feature of diplomacy over the next five years. We explore which issues are ripe for mediation by regional power brokers in the next section.



CONFLICTS OLD AND NEW: THE ARAB REGION SOLVING CONFLICTS BY ITSELF

KEY TAKEAWAYS

- Insecurity on the Arab region's peripheries as well as old conflicts within the region will persist in 2024, threatening to undermine the region's potential.
- The rise and increasing entrenchment of non-state actors in the Arab region will complicate conflict mediation, bilateral engagement, and disincentivise investment.
- The Arab region can be a source of solutions for its own regional diplomatic challenges.

KEY RISKS

- The Russia-Ukraine conflict will continue to pose economic, food security and diplomatic challenges for Arab countries.
- Conflicts in Libya, Syria, and Yemen persist, undermining their political and economic potential, while the civil war in Sudan could create a long-term governance and security vacuum.
- The increasing entrenchment of non-state actors in several Arab countries will complicate conflict mediation, bilateral engagement and investment.

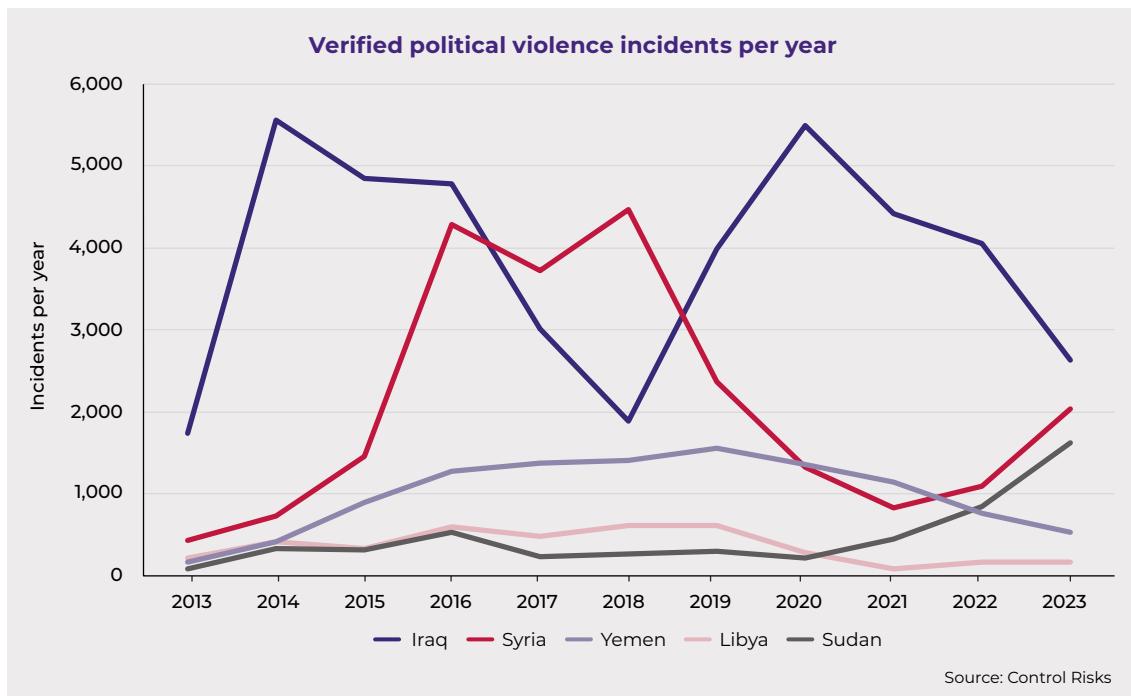
KEY OPPORTUNITIES

- Arab countries can continue to build on their achievements in mediating conflicts outside the Arab world.
- Within the region, the conflicts in Sudan, Yemen and Syria lend themselves to a solution driven from within the region.
- A new generation of Arab-led conflict mediation efforts could enhance regional geopolitical and economic stability.

Wars and armed conflict outside the Arab world, on its peripheries, and within its borders threaten to undermine stability and opportunity in the region in 2024. In several Arab countries, non-state actors now do not just hold sway on the battlefield, but increasingly also control the levers of economic and political power, complicating conflict mediation, bilateral engagement, and investment. However, Arab-led diplomatic and mediation initiatives have notched up a series of recent successes, raising hopes that the Arab world will increasingly be able to look to itself to solve old and new conflicts in the region in 2024 and over the next five years.

Conflicts old and new

Outside the Arab region, the Russia-Ukraine conflict enters its third year and continues to pose a series of economic, food security, and diplomatic challenges for Arab countries. Insecurity and conflicts on the Arab region's peripheries will also continue, and could worsen, in 2024. Persistent



insecurity, limited state control and the presence of militant groups in the Sahel region poses security threats to Arab North African countries such as Libya, Algeria, and Mauritania. Afghanistan remains mired in conflict and instability and presents the risk of spillover into Pakistan and Iran. And ongoing tensions between the United States and Iran continue to cast a shadow over the Gulf region's security environment.

Within the Arab region's borders, old conflicts drag on without clear resolution in sight. In Libya, although a ceasefire agreement in October 2020 ended the large-scale conflict between the east and the west, intra-militia violence persists and the prospects for either the formation of a unity government or organising national elections remain slim despite ongoing international mediation efforts. In Syria, successive peace talks have failed to persuade the warring parties to agree on a framework for a permanent cessation of hostilities and a political transition, pointing to a continuation of the country's 12-year-long conflict beyond 2024. A comprehensive political resolution to the conflict in Yemen will also remain challenging over the coming 12 months.

More recent conflicts could also threaten stability in the Arab region. The civil war in Sudan will continue in 2024, raising the spectre of a long-term governance and security vacuum in the Arab region's second-largest country, and sowing the seeds for long-term instability on the southern border of its largest country, Egypt. The Sudanese economy will take time to recover as every sector

has been affected by the war; the 2023 budget is set to have a gap of USD 9bn, compared with the original deficit forecast of USD 1.4bn.

Rise of non-state actors

A common denominator in several of the Arab region's most protracted conflicts is the rise and increasing entrenchment of non-state actors. In Libya, governance is fragmented between a range of local, regional and tribal power centres and security is provided not by the state but by a patchwork of local armed groups. The Syrian conflict likewise involves a range of armed non-state actors, including so-called moderate opposition groups that are participating in peace talks; militant organisations; and ethnically or regionally organised factions.

In some Arab countries, non-state actors increasingly combine military with political and economic power. In Yemen, individuals appointed by the rebel Houthi movement often control decision-making in government ministries nominally controlled by the internationally recognised government. Key regional actors regularly engage directly with the Houthis in an effort to reach a deal to end Yemen's civil war. Iraq is no longer a theatre of active conflict, but a variety of non-state actors have leveraged their erstwhile influence on the battlefield to capture government ministries, state institutions and the security services, as well as significant business interests. Hezbollah – arguably the Arab region's most powerful non-state actor – exercises wide-ranging influence in Lebanon's politics,



security, and economy. The rise and increasing entrenchment of non-state actors in the Arab region is complicating conflict mediation, bilateral engagement, and investment. Many non-state actors do not adhere to established norms of engagement and diplomacy.

In countries such as Libya, the existence of multiple actors all claiming to act on behalf of the state, or indeed to be the state, has made inward investment increasingly complex. Many non-state actors – from Hezbollah in Lebanon to Iran-backed paramilitary groups in Iraq – are subject to international sanctions. This creates complex legal and reputational risks for both private businesses and sovereign states that wish to invest in these countries, with lost investment leading to lost economic potential as a result of the barriers to international trade and financing.

Mediation hopes

In this complex environment, Arab-led diplomatic and conflict mediation initiatives have been playing an increasingly prominent role in addressing conflicts both outside the Arab world and within the region's borders. Qatar played a key role in facilitating evacuations from Afghanistan following the US withdrawal in August 2021. The UAE has been engaged in mediation efforts between Russia and Ukraine and between India and Pakistan. The UAE and Saudi Arabia facilitated a prisoner exchange between the United States and Russia in December 2022, helping to alleviate a source of acute tension between Washington and Moscow.

Within the Arab region, the March 2023 agreement between Saudi Arabia and Iran to re-establish formal diplomatic relations was brokered by China, but was the fruit of nearly two years of talks hosted mainly by Iraq and Oman. Saudi Arabia has been hosting mediation talks between the Sudanese warring factions. The United Arab Emirates has led the way in gradually rehabilitating Syria's relations with the Arab region. Oman plays a key role in facilitating and supporting the UN-backed peace process in Yemen.

Herein lies an opportunity: if a new generation of Arab-led mediation efforts can build on the successes of the past few years, then 2024 could be the tipping point for when the Arab region can look to itself to solve old and new conflicts over the coming 12 months and beyond.



LEADING THE WAY: WITH ECONOMIC DIVERSIFICATION AND ENERGY TRANSITION LEADERSHIP

KEY TAKEAWAYS

- The proliferation and imagination of national vision plans sets the stage for dynamic national transformation that will ripple across the Arab world.
- But effective human capital development and tackling unemployment will be key to fulfilling the promise of economic diversification in the vision plans.
- The future will be defined by renewable energy, and the energy transition is an opportunity for national regeneration and a way to develop leverage in the new global energy system.

KEY RISKS

- Youth unemployment remains high in some of the region's largest economies.
- A lack of investment and implementation in human capital development risks undermining ambitious economic transition plans.
- Many Arab states will face the dual challenge of diversifying away from oil and of adapting their energy systems to be able to cope with global warming and increasing water scarcity.

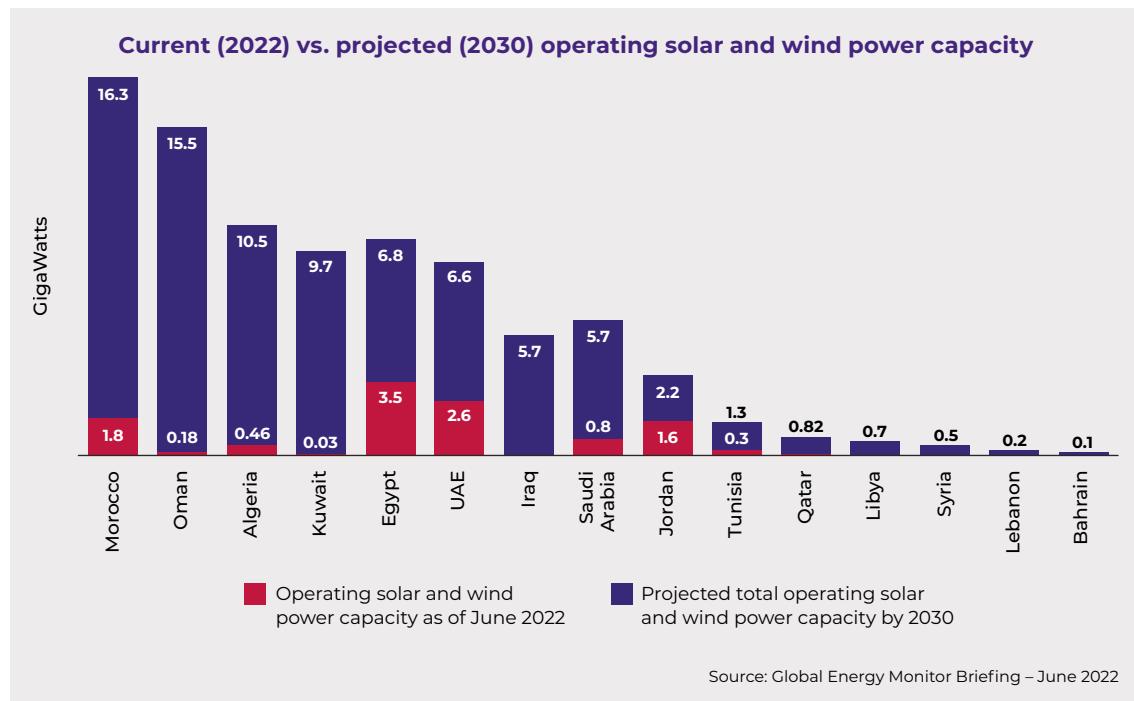
KEY OPPORTUNITIES

- Arab governments' commitment to national vision plans can continue to drive economic successes.
- Continuing to expand renewables capacity in many regional states will lower costs for governments and consumers and improve energy security.
- The Arab world is well-positioned to play a significant role in a new global energy system defined by renewable energy, expanded international electricity power grid connections and hydrogen.

Prior to the Arab Spring uprisings in 2011, economic policymaking in the Arab World was mostly stagnant and reactive to global trends. In countries across the Arab world, people called for a change in their relationship with the state, for dignity in life and work, access to public goods and more vibrancy in the private sector.

It was a wake-up call for leaders in the region to realise that they were missing out on the opportunity of involving their young populations in building more competitive, effective and vibrant economies.

The multiple visions announced by governments across the Arab world since 2011 have been an effort to improve policymaking and policy implementation and to maximise the potential of these markets through human capital development.



Although long-term strategic planning has been central to many governments in the region since the mid-1990s, it is the ambition of the latest visions that has made the most recent editions unique, by setting out clear targets to diversify national economies, increase self-reliance, and improve the wellbeing of their populations. Among them are Jordan's Vision 2025, the UAE's We The UAE 2031 and Vision 2071, Saudi Arabia's Vision 2030, Kuwait's Vision 2035 (now delayed to 2040 under the Fourth Kuwait Master Plan), and Oman's Vision 2040.

Some countries have gone one step further and defined their economic planning documents in terms of sustainable development for the benefit of people and country. In 2016, Egypt announced its Vision 2030 with the title "Sustainable Development Strategy" to underline its commitment to a better way of development. The UAE was the first Arab country to commit to the UN's sustainability development goals (SDGs), announcing its dedicated Sustainable Development Agenda to work alongside its economic Vision documents in 2017; the UAE has subsequently integrated the SDGs into every major economic policy document, with others including Saudi Arabia and Morocco following suit. These visions – and governments' commitment to them – have been key to early economic successes we have seen across the region in recent years, and to continued success in the future. The UAE's economy has grown by over 25% in a decade to USD 507bn; Morocco's has grown by 17% and Saudi Arabia's by 50% in the same period.

Skills

The key factors to successful human capital development are investment, commitment and continuous long-term implementation.

People under 30 make up 55% of the population across the Arab world. Youth unemployment remains high in some of the region's largest economies, an under-utilised resource that could help propel the component projects and ambitions of these Vision plans forward.

Without the people with the skills to deliver a more sustainable future, both the economy and the workforce will wither as the moment of transition and opportunities are lost. In 2024 and beyond, Arab leaders will have to continue to commit to creating education and employment opportunities that prepare the new generation for the economic transitions that are afoot in the region – the region needs at least 3.5m new jobs a year to reduce unemployment and drive growth.

Energy transition

As part of its multiple visions, many Arab states face the dual challenge of diversifying away from oil – the commodity that has fuelled their growth over the last half a century – and of adapting their energy systems to be able to cope with global warming and increasing water scarcity in the next decades.

All the GCC economies have adopted national energy transition strategies, but implementation has been variable. The UAE is making progress towards its target for clean energy (at least solar and wind) to constitute



30% of its national energy mix by 2030. States across the region are committed to expanding their renewables capacity in the coming decade and have already taken big strides. By mid-2022, the UAE had 5.8GW of operational capacity, followed by Egypt, Morocco, and Jordan with 4.8GW, 3.6GW, and 2GW, respectively. Saudi Arabia has 7.1GW in various stages of development.

The UAE has led the way in development of the solar sector, with various high-profile projects in the country operational and even set to expand, including the 1GW Mohammed bin Rashid solar park in Dubai (set to reach 5GW by 2030) and the 2GW Noor solar park in Abu Dhabi, commissioned on 20 November 2023. The UAE is also targeting generating 1.4 million tonnes per annum (mtpa) of blue (gas-derived) hydrogen by 2031.

Beyond efforts to alter the national energy mix, governments are also exploring practical measures to bring about sustainable environmental advances. These include improvements in recycling and waste management systems, and adoption of low-carbon construction standards and transport systems. Arab regional governments will also look to address the key challenge of water scarcity and growing demand for desalinated water (which in turn raises energy demand) through cloud seeding and green energy-fuelled desalination plants.

Energy as geo-economic leverage

The energy transition is not just an opportunity for national regeneration, but a way to develop leverage in the new global energy system, which will be defined by renewable energy, expanded international electricity power grid connections and hydrogen.

The Arab world is positioning itself to play a significant role in this new global energy system and 2024 will see more efforts to build a pipeline of projects and contracts to support that ambition.

Oman and Saudi Arabia are looking to develop hydrogen as a future export. Oman is aiming to generate 1mtpa of green hydrogen from solar power by 2030. In Saudi Arabia, the Saudi Green Initiative envisages clean energy (solar, wind and hydrogen) contributing 50% of its energy mix, though with only 700MW of solar capacity installed in 2022, the kingdom's targets remain highly ambitious. Its 2.7mtpa blue hydrogen export target for 2030 is equally ambitious.

The Arab world has an edge with its existing oil and gas infrastructure, which can be retooled for hydrogen transport and export, as well as with the much more active role of government entities and especially prominent national energy companies in securing financing, supporting technological advancement, and ultimately managing these projects once operational.

Even with this pipeline of projects, North America and Western Europe are ahead of the region in terms of the total number of hydrogen projects in the pipeline: approximately 160 in total compared with 66 across the Arab world, according to industry publications. But of all of those projects, the conversion rate from proposed project to final investment decision (FID) is poor everywhere: 4% in Western Europe, 15% in the US, and 6% in the Arab world. If the Arab world can move faster than elsewhere, it will automatically create a first-mover advantage and dominance in the market that could be difficult to reverse.



NEW OPPORTUNITIES & CHALLENGES: NAVIGATING ECONOMIC GROWTH PROSPECTS IN 2024 & BEYOND

KEY TAKEAWAYS

- Supported by the national vision plans, the technological renaissance and commitment to 4IR across the region will fuel ICV and regional value chains.
- The growth of public and private financing will materially fuel investment across the region, but increasing ESG regulation in major developed markets may act as a blocker.
- The Arab world is still vulnerable to exogenous shocks – from food prices to benchmark interest rates – but it is in a strong position to build deeper cushions to those shocks and drive forward growth and development over the next five years.

KEY RISKS

- Some Arab countries' ongoing struggles with macroeconomic stability will make delivering large-scale strategic transformation challenging.
- Increasingly stringent ESG and anti-greenwashing standards will lead to more regulatory and political risks for companies investing in the Arab world.
- The potential for a global economic recession and the persistence of some inflationary pressures in the Arab world in 2024 will continue to cause economic headwinds.

KEY OPPORTUNITIES

- Enhanced investment into advanced technology, artificial intelligence, and the digital economy will stimulate innovation and improve economic performance across the Arab region.
- Technology-focused developments in manufacturing and industrialization can create value-added exports that bring benefits to the whole Arab region.
- Private capital investment combined with sovereign wealth fund investment can drive forward the energy transition and the success of the green targets of national vision plans.

While nations across the Arab world were already putting in place more sustainability-focused and human capital-driven economic diversification plans before 2020, COVID-19 and the conflict in Ukraine brought home forcefully the importance of supply chain security and economic resilience to geopolitical shocks. The best government crisis planners and policymakers could never have been ready for the major global event of the last five years that overturned the world, and with it, all of our assumptions: the COVID-19 pandemic.

In transforming the world's "normal" for a year or more, the pandemic handed the Arab world an opportunity to ask "how are our national visions compatible with a world where supply

chains are so fragile and bilateral trade ties can snap in an instant from self-interest?"

The COVID-19 pandemic and all of its consequences prompted radical problem-solving and a renewed commitment to innovation that delivered creative, reliable and effective solutions that fundamentally changed how state bureaucracies worked and how people interacted with their governments.

The pandemic provided the moment many countries in the Arab world were waiting for to digitise their economies – and the opportunity to convince their publics that this technological transformation would be a help, not a hindrance. Digital government services have improved service delivery times and public satisfaction, and reduced corruption.

Industrial Renaissance

With the combined national visions, surveillance of the horizon and digitisation culture-shock of recent years, the region is entering the Fourth Industrial Revolution (4IR), a period of rapid technological advancement that will see substantial change in norms of living and working this century.

Along with the human capital development plans laid out in national economic diversification vision documents, the development of thriving technology-based sectors including fintech and e-commerce, and an environment across the region that fosters a technology-driven and facilitated start-up culture is the way the Arab region is driving its technological renaissance. The Arab world fintech market is worth USD 2.5bn a year and growing. With countries' government functions increasingly digitised in response to the crisis of bureaucracy and policy management that COVID-19 created, it is a small step from there to a full digital economy eco-system not just transforming banking and finance at the national level, but altering forever the business and commerce landscape and facilitating the growth of new sub-sectors and industries.

As digitisation gathers pace, many of the most promising economic sectors primed for

development over the next five years are ones that derive from or intersect directly with technology. Agriculture, food security, food waste management – these will only develop with the help of technology, from hydroponic farming to AI-sorted recycling.

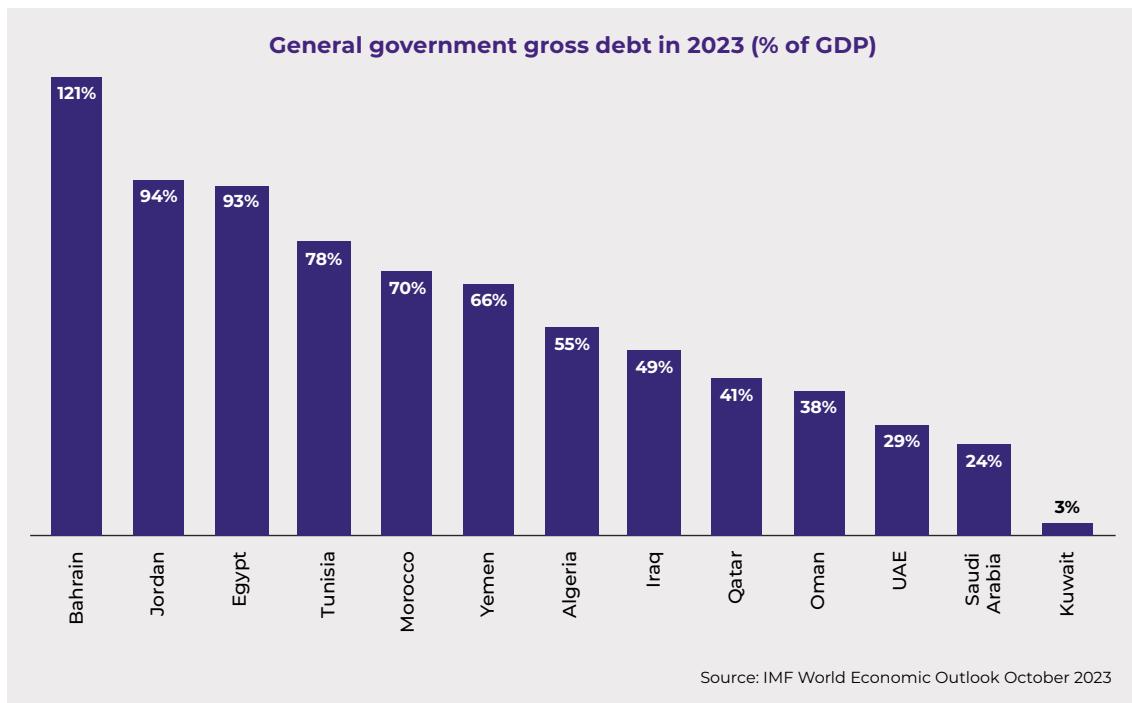
Countries across the Arab region are looking to attract more investment into promising sectors such as advanced technology, artificial intelligence, research and development, and to further enhance the digital economy. All of these stimulate innovation and improve the performance of the economy, creating potential for linkages in the Arab world with benefits for investors and consumers across the region.

And technology-focused development is breathing life into old sectors. Manufacturing and industrialisation are on the cusp of exploding across the Arab world as the region looks to leverage its increasing political and economic clout combined with the gift of geographic location that will come to reshape international politics in the next five years. Some of the most dynamic sectors in the region include food production and processing, the recycling and transformation of petrochemicals and metals, specialised parts and tools for the hydrocarbons (and ammonia) sector, and electric vehicles, with the use of robotics and AI supercharging existing industries.

From gigafactories to homesteads, the nature of manufacturing speaks to the Arab world's strengths. There is an under-exploited internal value chain within the region that has the potential to create value-added exports that have net benefits for the whole region, not just as in-country value (ICV) but as in-region value (IRV). The supply and value chain for the fabrics that line the interiors of electric vehicles is one example of where a new IRV chain could emerge: cotton grown in Egypt can be woven into fabrics in Jordanian factories, sent on to the vehicle assembly line in Saudi Arabia and then exported to Europe as part of a fully-fledged automobile.

Sovereign debt challenges

Despite much optimism in the Arab world,



some countries are struggling with their own macroeconomic stability, which makes delivering transformation extremely challenging.

Egypt, Jordan and Lebanon have had a challenging 2023, with all three experiencing poor economic growth, currency depreciation, falling foreign reserves or a combination of all three. Their difficult economic conditions and the increased cost of securing foreign debt due to market wariness and the rise in benchmark interest rates mean that they will likely be less resilient to the impacts of regional conflict. This includes tourism, which is a major source of employment and state revenue in all three countries. The IMF forecasts that investment as a percentage of the economy will remain flat over the next five years at 16% for Jordan and 17% for Egypt by 2028, and central government gross debt is set to stay high by 2028 at 80% and 76% respectively.

PPPs to PPF

The public private partnership (PPP) model has had lacklustre take up in the Arab world, as many states have until recently sought to maintain ownership and control of their assets.

But the next five years will see an explosion across the region in public and private financing, what we call "PPF". With private capital investment in search of higher-yield projects, infrastructure – and particularly green infrastructure – will be the target of external private capital combined with sovereign wealth fund investment to drive forward the energy transition and the success of the green targets of national vision plans.

The incentives are clearest with the capital required to finance each country's energy transition, from building solar power farms to ensuring robust ESG reporting frameworks to facilitate international capital flows.

Green finance

The picture for green finance in the region is improving but mixed, whether in terms of enforcing ESG standards in companies or developing an effective structure to support ESG-based investment through sovereign and corporate green bonds. Both the Dubai International Financial Centre (DIFC) and Abu Dhabi Global Market (ADGM) have sustainability reporting frameworks, but these are voluntary – designed primarily for companies with a dual listing and more stringent ESG reporting requirements elsewhere.

Corporate guidelines for ESG standards have begun to emerge, with Saudi Arabia's sovereign wealth fund the Public Investment Fund (PIF) leading the pack, followed by others such as Qatar's banking sector. Even as green financing frameworks for debt issuance in the region will continue to drive scepticism among foreign investors, given the overwhelming role hydrocarbons continue to play in the region, local banks and financing institutions are likely to develop more sophisticated guidelines in the coming years. They will seek to meet both the desire and need of their domestic client base to protect their home markets, while also facilitating outbound investment elsewhere in the world.

Increasingly stringent anti-greenwashing regulations, which tighten marketing and classification rules for ESG-based investments, are another external driver of what will become an increasingly sophisticated green finance system and structure. One such rule is due to be imposed from May 2024 by UK financial sector regulator the Financial Conduct Authority (FCA). The FCA's UK Sustainable Disclosure Regulation (SDR) is more robust than – but does not overlap with – the EU's Sustainable Finance Disclosure Regulation (SFDR), which has been in place since December 2019 and is aligned with its ESG taxonomy.

Robust checks on the categorisation of projects have the potential to impact foreign direct investment in the Arab region, even in renewables and related projects, as financial firms are required to justify their investments in the region, creating space for regulatory risks to morph into political risks. Even as corporate ESG standards strengthen in the region in the coming years, this will drive growing tensions and compliance issues for foreign investors looking towards the region and regional investors looking towards the EU, UK and elsewhere for investment opportunities.

Exogenous risks

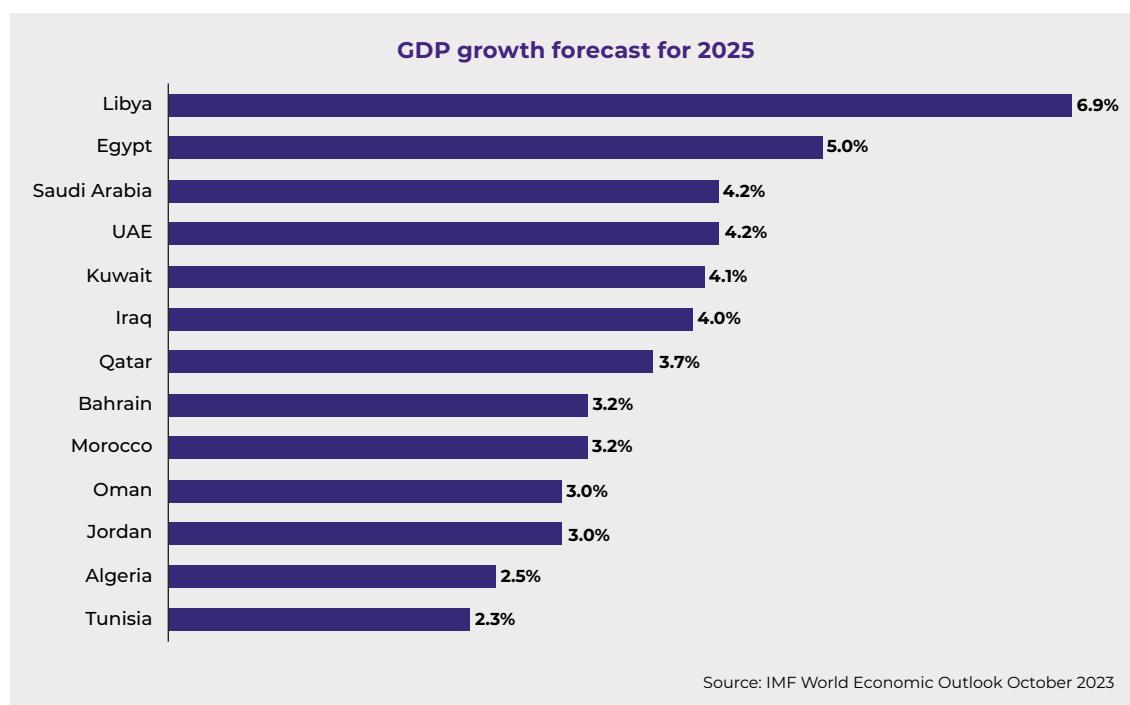
With the potential for global economic recession still lingering on the horizon as we enter 2024, with global growth forecast by the IMF to slow to 2.9% from 3.5% in 2022 and 3.0% in 2023, the next five years for the Arab world are likely to have a challenging beginning.

Some inflationary pressures will persist in the Arab world in the coming months as geopolitical dynamics continue to impact the supply of key commodities. The prices of food commodities

have stabilised and fallen since their peak in 2022, when supplies of grain and edible oils were severely disrupted. The same applies to potash – a key ingredient in fertiliser. Costs rose significantly and suddenly, with global wheat prices rising to USD 444 per metric tonne, and sunflower oil trading globally at USD 2537 per metric tonne in May 2022; their prices as of December 2023 were USD 216 and USD 1,146 per metric tonne respectively. But a reliance on imports to ensure domestic supplies of staple foods, including wheat for the Maghrib, continues. Global events continue to create bottlenecks, with some delays in supply persisting.

US Treasury interest rate increases since late 2021 have had a meaningful impact on Arab world countries, which are exposed to US dollar pricing in global trade or in managing their currency pegs through 2023. The slow reduction of benchmark interest rates by the US Federal Reserve from its current 22-year high range of 5.25%-5.5% beginning in 2024 is likely to fuel improved investment conditions over the coming five years in the Arab world, reducing the cost of debt for government and businesses to fuel investment, although the super-low rates of the last decade should be considered a trend of the past.

Even as global economic conditions are set to be less-than-ideal in the short term, there is still an opportunity in the Arab world to capitalise on the potential with an early-mover advantage as interest rates decline back to historic norms. The benefits of investment in renewables and green financing will be wider than just a good investment opportunity, also supporting a nation's shift into the future.







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