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Economic Policies of GCC Countries in the Era of Low Oil Prices and Their Policy Implications for Korea

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I. Introduction

Over the past several decades, the six member countries of the Gulf Cooperation Council (GCC) have implemented economic policies for industrial diversification to lessen severe dependence on the oil industry. Such policy efforts have been driven by their awareness of macro-economic and structural risks from heavy volatilities in international oil markets in terms of fiscal and trade sectors. For instance, the drop in international oil prices reduces export performance in the oil and natural gas sectors, which in turn results in a decline in the stability of fiscal revenue.

The recent trends of low oil prices since 2014, as well as high unemployment rates, have strengthened the policy regime for industrial diversification and job creation supported by mid- to long-term economic plans of the GCC countries. This report reviews what has been emphasized in the areas of industrial, employment, trade and investment policies. We then derive implications for Korean companies and policymakers for sustainable cooperation between Korea and the Middle East.

II. Industrial Policies: Reinforcement of Technological Innovation Capabilities and Digital Transformation

The fourth industrial revolution has emerged as a global topic which is also affecting the industrial environment in the GCC region. In the face of low oil prices, the need for industrial diversification is growing in most GCC countries, which rely heavily on the oil sector, and technological innovation is emphasized in the process of pushing for it.

Although the level of innovation in GCC countries is still considered to be below expectations, technology innovation policies are continuously being pursued to strengthen innovation capabilities in Saudi Arabia and the UAE. In addition, digital transformation is being actively promoted by digitizing government services and establishing various digital service platforms. Digital transformation is also becoming more important in the oil sector as it can increase operational efficiency and workplace safety and minimize environmental impact. State-run oil companies are employing cutting-edge technologies in the form of robots, drones, AI and big data to conduct real-time analysis and management of their industrial facilities.

Smart cities, tourism, logistics, space and life sciences are areas where the introduction of digital technology is accelerating, and government-level fostering policies are being strengthened. Meanwhile, Saudi Arabia and the UAE recognize technology-based startups as key factors that will lead the nation's innovation and are pushing for policies to vitalize the startup ecosystem by expanding support programs for startups.

Furthermore, GCC countries are pushing for a transition to a knowledge-based economy, emphasizing innovation. Saudi Arabia and the UAE are announcing new policies to strengthen their innovation capabilities, establishing related organizations, and incorporating innovative technologies into various industrial sectors, including the energy sector. To that end, these countries are actively expanding cooperation with innovation leaders.

III. Employment Policies: Expanding Employment for National Workers and Enhancing Job Competencies

GCC countries have recently tried to reform their employment policies for expanding employment opportunities for national workers. Through the introduction of the Nitaqat system, Saudi Arabia has strengthened the management and supervision of the quota system for national workers and subdivided its application criteria by industry and business size. Furthermore, in recent years, quota systems have been applied to jobs that require relatively high levels of technology, such as engineers, while foreign fees have also been introduced.

The UAE is implementing systems that take into account the relatively small size of its national workers, such as the Absher Initiative, in which the government covers the cost of vocational training for national employees, and the Tawteen Gate, in which companies that want to hire foreigners are mandated to review national job seekers first.

In addition, GCC countries are taking measures to improve the employment environment of the private sector by introducing a minimum wage system, wage protection system and maternity leave. For example, Qatar has recently set minimum wage for all its workers. By doing so, Qatar has become the first country in the GCC to adopt a minimum wage system in both the public and private sectors.

Regulations to expand the employment opportunities of national workers can lead to certain negative consequences, such as industrial development being hindered, outflow of excellent foreign workers, and reduced inflow of foreign investment. In preparation for such a situation, GCC countries are trying to increase vocational training support for national workers to enhance their job competencies, eliminate restrictions on women labor and foster cooperation with companies and educational institutions in advanced countries.

Table 1. Standards of Nitaqat Program

(Unit: %)

	Size	Small B	Medium A	Medium B	Medium C	Large	Mega
Manufacturing	Platinum	27 -	31 -	31 -	31 -	37 -	37 -
	High Green	21 - 26	26 - 30	26 - 30	26 - 30	31 - 36	31 - 36
	Medium Green	15 - 20	21 - 25	21 - 25	21 - 25	26 - 30	26 - 30
	Low Green	9 - 14	16 - 20	16 - 20	16 - 20	21 - 25	21 - 25
	Red	0 - 8	0 - 15	0 - 15	0 - 15	0 - 20	0 - 20
Construction	Platinum	22 -	16 -	16 -	16 -	16 -	16 -
	High Green	17 - 21	14 - 15	14 - 15	14 - 15	14 - 15	14 - 15
	Medium Green	13 - 16	11 - 13	11 - 13	11 - 13	11 - 13	11 - 13
	Low Green	9 - 12	8 - 10	8 - 10	8 - 10	8 - 10	8 - 10
	Red	0 - 8	0 - 7	0 - 7	0 - 7	0 - 7	0 - 7

Source: Tools and Solutions, Saudization (Nitaqat) New Ratios.

IV. Trade and Investment Policy: Expanding Local Production and Procurement

GCC countries are increasing tariff rates and strengthening non-tariff measures. The GCC's tariff rate remained low at around 5 percent as it launched a customs union in 2003, but has been rising slightly since 2015. Furthermore, Saudi Arabia has raised its own tariff rate by up to 20 percent in June 2020 in order to secure the government's non-oil revenue. The GCC drafted the Common Law on Anti-Dumping, Countervailing and Safeguard Measures in 2004, and has been imposing safeguard and anti-dumping duties on imported goods such as steel products, car batteries, whose domestic production have increased. In addition, the GCC has tightened regulations on food imports for the purpose of health and safety for its citizens through increasing the number of sanitary and phytosanitary measures (SPS) notifications. The GCC Standardization Organization (GSO), a joint body of GCC countries, is increasing standards and technical regulations and each GCC member country is introducing its own certification system and tightening labeling policy as well.

Regarding investment policies, GCC countries are relaxing various regulations and offering incentives as FDI inflow has been decreasing. In particular, Saudi Arabia, the UAE and Qatar are removing regulations restricting foreign ownership, expanding various support measures (for instance to grant permanent residency to foreigners), tax exemption and allowing the transfer of profits overseas. On the other hand, these GCC countries are also strengthening localization policies such as Aramco's In-Kingdom Total Value Add and ADNOC's In-Country Value so that overseas bidders can further contribute to investment, production and job creation in the region by granting additional points to local employment and local production of the bidders.

Table 2. Comparison of Localization Programs of Major GCC Countries

	IKTVA (Saudi Arabia)	ICV (UAE)	Tawteen ICV (Qatar)
Organizations	Aramco	ADNOC	14 energy firms including QP
Related Policies	Saudi Vision 2030	Abu Dhabi Economic Vision 2030	Qatar National Vision 2030
Goals	· Achieving 70% of domestic goods and services purchased in the energy sector by 2021 · Achieving 30% of exports of domestic goods and services in the energy sector by 2021 · Creating 500,000 jobs by 2021	· Realizing industrial diversification by fostering new industries · Expanding employment of its citizens · Localization of core competencies	· Creating an annual revenue replacement effect of 9 billion rials (2.5 billion dollars) · Achieving 40% of domestic goods and services purchased within 5 years · Creating jobs in the energy sector
Evaluation category	· Localized goods and services, Salaries paid to Saudis, Training & Development of Saudis, Supplier Development Spend, Local Research and Development	· Manufacturing sector: Manufacturing costs (50%), local investment (25%), salaries and benefits paid to Emaratis (15%), and the number of foreign employees (10%) incurred in the UAE · Service sector: Value of domestic products and services (50%), size of local investment (25%), salary and benefits paid to Emaratis (15%), number of foreign employees (10%)	· Value of domestic products and services, education costs for Qataris and foreigners, development and certification costs of suppliers, and depreciation of assets in Qatar

Sources: Aramco (2019), p. 3; Industrial Development Bureau, In-Country Value (Accessed: 2020. 7. 1); Tawteen, In-Country Value (Accessed: 2020. 9. 1).

V. Policy Implications for Sustainable Cooperation between Korea and the Middle East in the Era of Low Oil Prices

As noted above, the GCC oil exporters have pursued economic diversification policies for several decades, but their policy aims have not been fulfilled yet. Moreover, the spread of Covid-19 around the globe looks to hinder their progress, keeping oil prices low. Korean companies and policymakers, however, should keep an eye on their economic policies as they will serve as guidelines for cooperation with the GCC countries, as follows.

First, a digital cooperation platform should be established for a shared vision of digital transformation based on technological advancements in the era of the fourth industrial revolution. As the Korean government announced the Korean New Deal including digital and green projects as a national strategy last July, digital cooperation could be a catalyst for bilateral collaboration between Korea and Arab partners. Digital cooperation could cover not only technology development but also education, medical services, logistics, and so on.

Second, as the GCC countries encouraged employment of national people rather than foreign workers at the workplace in the region, productivity enhancement programs for local workers became crucial in stabilizing business activities for Korean companies. For this, in-house vocational education and training (VET) program could be applied to local workers together with joint manpower exchange programs. Small and medium-sized enterprises (SMEs) without in-house VET programs could be supported by local VET institutions and universities. Various joint VET programs could be organized by both Korean and the GCC countries' governments to improve the job competencies of local workers.

Third, government-driven corporate support networks and programs managed by Korean embassies, KOTRA and the Korea SMEs and Startups Agency (KOSME) should be aligned on forming "one team, one goal" to maximize the business performance of Korean investors. This would function as an integrated one-stop support center or platform that provides Korean companies with updated local market information and revised regulations concerning tax, customs, visa, labor relations, etc.. The support center will allow Korean companies to quickly adapt to local markets and regulations and expand their investment and employment of local workers. KIEP