

8.04.2021

### Concept Note

## **Workshop and conference held by Regional Programme Gulf States at KAS (RPG) and Doha Institute for Graduate Studies (DI) -School of Public Administration and Development Economics on “Economic Diversification in the Gulf States: Challenges and Opportunities”**

### 1. Context

The Gulf States economic model for long has relied on oil as the main source of export and fiscal revenues. This oil driven growth model has helped achieve rapid economic development and a significant improvement in the life of the Gulf States citizens, but it has several weaknesses:

To begin with, the Gulf States’ strong GDP growth was supported by rising government spending financed by increasing oil revenues. However, with the fluctuation of oil prices in the international market, this growth strategy is no longer viable. Further, the Gulf States’ citizens (nationals) are employed mostly in the public sector, and as a consequence, the wage bill makes more than half of the annual budget of some Gulf States’ countries. As the GCC labour force is projected to increase in millions in the next decade, it will be difficult for some of the Gulf governments to continue to absorb nationals in public sectors. Unless they find jobs in the private sector, unemployment will increase. Finally, while oil production horizons are high in many GCC countries, it is very risky to rely solely on it for economic growth. Oil is an exhaustible resource; its price is subjected to competition and new discoveries, and the developed countries are already investing heavily in renewable energy.

Economic diversification is therefore very important for the GCC countries and this has been recognized in their economic and social strategies (Saudi Arabia Vision 2030; Qatar National Vision 2030, Bahrain Economic Vision 2030, The New Kuwait 2035, The UAE Vision 2021, and Oman Vision 2040). In fact, efforts by the Gulf States for economic diversification have started since a long time and have intensified in the wake of the sharp decline in oil prices between 2014 and 2016.

Through economic diversification, the Gulf States hope to reduce the exposure of their economies to volatility and uncertainties in the global oil market; to create jobs in the private sector that are needed to absorb young and growing working-age populations; to increase productivity and sustainable growth; and to pave the road for the non-oil economy that will be needed when oil revenues start to decline.

### 2. Challenges

Economic diversification is easily said than done. The rentier state development model in the Gulf States is suffering from structural challenges that make the processes of diversification very challenging.

One of these challenges of the Gulf States’ economies is the lack of fiscal policy that emanates from the absence of taxation. In Kuwait, e.g., 16 per cent of the government’s 2018/19 budget was reserved for subsidies and 54 per cent of it for the salaries of workers employed in the country’s public sector. In the wake of declining oil prices and increased budget deficits, this pattern of governing is no longer possible. As a result of the lower prices of oil in 2015 and 2016, the GCC countries had to borrow around US\$318 billion. They have also cancelled or postponed many mega infrastructure projects and introduced measures to contain the fiscal shortfalls including the reduction in government expenditure and the decision to introduce 5 per cent value-added tax (VAT) in 2018. But these measures are not sufficient. According to International Monetary Fund, introducing the VAT in GCC countries will have a limited fiscal impact on GDP, as United Arab Emirates (UAE) is likely to rise only 2.1 per cent of GDP from tax, compared to 2 per cent in Kuwait and 1.1 per cent in Qatar. Furthermore, the Gulf States so far lack income tax, which makes in



developed countries 30-50 per cent of their revenues. In fact, the tax revenues-to-GDP ratio made 33.9 per cent in OECD countries in 2019, while the oil rents account for almost 80 per cent of the Gulf States' revenues.

A second challenge for economic diversification in the Gulf States is that oil and oil-related products are the only tradable commodities to be sold internationally for rent revenues. Accordingly, this tradable sector receives most governments' attention, often at the expense of non-tradable sectors that produce for local consumption. This has led to the so-called Dutch Disease in the Gulf States where the discovery of oil and the increase in its production and export in large quantities have led to the deindustrialization and disappearance of traditional industries such as pearl fishing. The cases of oil-related industries such as petrochemicals, chemicals, fertilizers, aluminium, and steel are clear examples of industries that are exceedingly dependent on state subsidies to survive domestically and compete internationally. Investment in these oil-related industries is unlikely to reduce the dependence of the state on the hydrocarbon sector because their production depends largely on the availability of low-cost energy. Finally, while empirical studies have associated higher income levels with export quality upgrading and greater export sophistication implying the need for the GCC countries to invest heavily in the industrial sector, this sector is still suffering from low investment.

A third challenge is related to the levels of labour productivity and participation of nationals in the private sector. Statistics show an average 60 per cent of all enrolled students in all GCC higher institutions are female but the unemployment rates among females are much higher than their male colleagues depriving the GCC economies of a highly qualified and significantly important segment of the society. A further related challenge is the demographic stratification of the labour force in the GCC countries. Most of the foreign workers are concentrated in the private sector while the nationals are in the public sector due to privileges such as job security, social status, shorter working hours, and financial incentives. Increasing the participation of nationals in the private sector is a critical socio-economic challenge for GCC governments for that the better labour rights for nationals in the public sector make their incentive to work in the private sector less attractive. Finally, the large wage differentials between local and foreign workers reduce the productivity of the private sector.

### **3. Strengths**

The structural socio-economic challenges should not obscure the great opportunities of the Gulf States to diversify their economies and achieve sustainable development.

The Gulf States possess human and material resources that are not available to many developed countries. First, more than 60 per cent of the population of the Gulf States are young; they can join the workforce and contribute to the economic growth of their countries. Second, most of the Gulf States have Sovereign Wealth Funds (SWFs) that can be used to support mega-projects related to economic diversification. Third, unlike many countries where States Owned Enterprises (SOEs) are marred with corruption and inefficiency, the Gulf States' SOEs are efficient, competitive, and financially sound. Fourth, the geographic location of the Gulf States makes them extremely significant to the world's economy: two of the world's maritime straits are tied to the Gulf region, the strait of Hormuz and the strait of Bab al-Mandab. Finally, the Gulf States' economies are well integrated in global market. For example, the Gulf region was the EU's fourth-largest export market in 2016.

The Gulf States are also determined to move ahead with diversifying their economies. The introduction of VAT, the cut-off of many subsidies, the huge investments in human capital and renewable energies, the state's support for small and medium enterprises (SMEs) and start-up projects, and the introduction of public policies that aim to empower women and youth all points to this direction.

Against this backdrop, the Doha Institute for Graduate Studies (DI) and Regional Programme Gulf States (RPG) are planning to hold a two-day virtual workshop in May and a conference in September 2021 to discuss the theme of "Economic Diversification in the Gulf States: Challenges and Opportunities."



المركز العربي للأبحاث ودراسة السياسات  
Arab Center for Research & Policy Studies





## Workshop

# Economic Diversification in the Gulf States

## Challenges and Opportunities

25 May 2021 (12:00-14:00 Doha Time, 9:00-11:00 GMT)

26 May 2021 (14:30-16:25 Doha Time, 11:30-13:25 GMT)

Time Table



# Time Table

Tuesday 25 May 2021

zoom		Online Registration
	<b>Moderator: Frank Himpel</b> Professor at Anhalt University of Applied Sciences, Germany	
	Opening remarks	
12:00-12:10	<b>Haider Saeed</b> Head of the ACRPS Research Department	
	<b>Fabian Blumberg</b> Regional Representative to the Gulf States at Konrad Adenauer Stiftung	
	<b>Hamid Ali</b> Dean of the School of Public Administration and Development Economics at Doha Institute for Graduate Studies	
12:10-12:25	<b>Hessah Alojayan</b> Assistant Professor of Finance at Kuwait University <b>Before It's Too Late: A Vision to Reform the Kuwaiti Economy</b>	
12:25-12:40	<b>Hatim al-Shanfari</b> Assistant Professor in the Department of Economics and Finance at the College of Economics & Political Science at Sultan Qaboos University <b>Oman Experience in Fiscal Sustainability</b>	
12:40-12:55	<b>Khalid Al Abdulqader</b> Vice President for Academic & Student Affairs at the Community College of Qatar	
12:55-13:10	<b>Noura Allahow</b> Vice Chairwoman of the Economic Forum at Kuwait Economic Society <b>The Role of the Private Sector in Economic Diversification</b>	
13:10-13:25	<b>Oliver Oehms</b> CEO of the AHK Gulf Region (German Chamber Abroad) <b>FDI Attraction, Industrialization and SME</b>	
13:25-14:00	Discussion	

# Wednesday 26 May 2021



Online Registration

	<b>Moderator: Maream Almisnad</b>
14:30-14:45	<b>Nawaf Alabduljader</b> Professor of Management at Kuwait University-College of Business Administration <b>Before It's Too Late: A Vision to Reform the Kuwaiti Economy</b>
14:45-15:00	<b>Ayhab F. Saad</b> Assistant Professor of Economics Doha Institute for Graduate Studies <b>Export Diversification in Qatar: Progress, Policy Implications, and the Road Ahead</b>
15:00-15:15	<b>Adham Al Said</b> Assistant Professor in the Department of Economics and Finance at the College of Economics & Political Science at Sultan Qaboos University <b>SMEs as a Vehicle of Job Creation &amp; Economic Diversification: The Omani Experience</b>
15:15-15:30	<b>Yousuf Bin Hamed Al Balushi</b> Founder Smart Investment Gateway <b>Economic Diversification in the Gulf States: Oman as case study</b>
15:30-15:45	<b>Sebastian Sons</b> Political Analyst on Arab Gulf States and Middle East, and Researcher at the Center for Applied Research in Partnership with the Orient (CARPO) <b>Chances for Closer European-Gulf Cooperation in Terms of Economic Transformation</b>
15:45-16:15	Discussion
16:15-16:25	Closing remarks