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Economic Diversification in GCC Countries: Past Record and Future Trends

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Abstract

Employing an empirical and comparative approach, this research paper analyses the past record and future trends of economic diversification efforts in the six Gulf Cooperation Council (GCC) countries. Applying the methodology of content analysis, possible future diversification trends are studied from current development plans and national visions published by the GCC governments.

The past record of diversification has yielded only meagre results. Current development plans point unanimously to diversification as the means to secure the stability and the sustainability of income levels in the future. Even though the states continue to lead the economies, diversification entails a reinvigoration of the private sector and as such necessitates the implementation of broader reforms.

The paper, however, questions the likelihood of diversification plans being translated into action. There are a number of structural barriers to diversification, which relate to the growth scenarios for the world economy, the duplication of economic activities among the GCC states, and, not least, the sizable barriers to interregional trade. Furthermore, the policy response to pre-empt the Arab Spring uprising indicates that these regimes easily give up their well-argued and planned policies when under pressure and fall back on established ways of doing business, namely through patronage and the predominant role of the public sector. Hence, the prospect of diversifying economies through politically difficult economic reforms has suffered a significant setback. This conclusion, however, does not rule out a piecemeal and ad hoc implementation of the diversification strategies in the future.

1. Introduction

There are several reasons to study economic diversification as it unfolds in the Gulf states. As pointed out by Kubursi, ‘Were oil supplies everlasting, and the demand for oil strong and continuous, economic diversification would be pointless. The governments of the region would instead need only to ensure the distribution of oil revenues among the population’ (Kubursi 1984: 1). However, in the real world, oil resources are finite and experience shows that both the price of and the demand for oil have fluctuated considerably. A second factor that has brought diversification to the forefront of economic policy in the Gulf region is the simple fact that oil revenues quickly crowd out any other economic activity. As Beblawi phrases it:

> the Gulf states’ drama is that it [oil extraction] is not simply another economic activity added to the other existing productive sources within a viable and modern economy, as it is with the Netherlands or, for that matter, Canada, Australia, and the Scandinavian countries. In the Gulf, the oil sector dominates the economy; it is almost the unique source of wealth. (2011: 188)

These three factors – income from hydrocarbons is finite, fluctuates and is practically the only source of the wealth – have placed the issue of economic diversification on the political agenda in the Gulf countries since oil was discovered.

The political emphasis on diversification seems to have fluctuated inversely with the incomes from oil and gas, such that low oil prices spurred strong political emphasis on diversification. The boom years (2000–8) were atypical in the sense that the diversification drive coincided with a period of high incomes.

Currently, Arab Gulf states seem not only to give political priority to economic diversification, but also to pursue such a strategy in real terms. Reviewing official statements, actual investments and projects under implementation by the Gulf Cooperation Council (GCC) states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates [UAE]) shows this.

It is plausible that the recent political focus on diversification is motivated by multiple problems which arise from the developmental issues particular to the oil- and gas-driven economies of the GCC states. This 'allocation state' model (defined in greater detail below) relies on the sale of hydrocarbons, is state-led and state-driven, emphasizes wealth distribution, makes extensive use of migrant labour, and is characterized by a significant underdevelopment of productive assets. This model therefore fails to support further development of the GCC states in two important respects. First, it fails to generate a stable and sufficient income for the population; and second, it fails to create job opportunities for the swiftly growing group of young and well-educated citizens (Hvidt 2011a: 88).

Economic diversification is, however, not a new strategy among the GCC states. It has been on the political agenda since oil and gas became the main and almost sole source of income in these countries some half a century ago (Henry and Springborg 2001: 26ff; Hvidt 2007; McBrierty and Al Zubair 2004: 116ff.; Niblock and Malik 2007; Rivlin 2009: 218ff.; Seznec and Kirk 2011). Notable projects like aluminium smelting in Bahrain, the industrial cities of Yanbu and Jubail in Saudi Arabia, and the ports in Dubai were established in the 1970s with the specific aim of diversifying the economies by means of investing oil money in productive assets.

1.1. Research questions

Employing an empirical and comparative approach, this paper will analyse the economic diversification programmes undertaken in the GCC countries. More specifically, it aims to provide a comparative assessment of the most recent development plans or national visions

published in each of the GCC states, through an analysis of how the plans relate to each other (similarities and differences) and how they contribute to broader prospects for diversification in each country.

This analysis will deal with two issues believed to be of importance for the drive towards diversification and thus future development trajectories in the GCC states. First, it will inquire into the specific economic sectors and 'created comparative advantages' that each state has been or is seeking to implement through its diversification policy (Evans 1995: 8–9).[1] Second, it will explore various future roles of the state in the economy and its possible impact on development. Strong state involvement in the economy has yielded significant developmental results in the Asian economies (Amsden 1989; Economist 2012; Weiss 2000; White and Wade 1988; World Bank 1993), while 'the West' – from the early 1980s and at least until the advent of the financial crisis in 2008 – has advocated a neo-liberal approach, based on the market economy and driven by the private sector.

Given this, there are different ways to conceptualize the role of the state in an economy. This paper will therefore explore whether the diversification effort (as described in the development plans) envisions a continuation of current state capitalism or a shift towards the 'western' neo-liberal model. Furthermore, it analyses what role(s) the private sector is expected to play and, not least, the degree to which the plans express a desire to move these societies from being *allocation states* to being *production states*.

Applying Luciani's distinction between allocation states and production states shows the Gulf states as archetypical of the former.[2] These are characterized by the state being largely dislocated from the national economy. Because of the large income from, for example, exports of oil, gas or other 'rents', the state is not forced to tax the local economy to finance its activities. In other words, because the state has these rent incomes, it is not under pressure to develop an efficient economic foundation for the society. Rather, it can see its role as that of distributing the revenues which flow into the country. In the production state the situation is reversed. Here the creation of a solid economic foundation for society determines the state's ability – through taxation – to strengthen its power, both nationally and internationally. As such, allocation and production states must be understood as opposite extremes on a continuum.

[1] Most value is currently added at several removes from natural resources. 'Created comparative advantages' are the social and institutional factors that a country creates during the development process which shape the capacity of the productive base and its international specialization (Evans 1995: 8–9).
[2] For an in-depth discussion of allocation and production states see Luciani (1990: 71ff.).

To explore the two issues listed above, the following questions will be asked in order to assess differences and similarities among the plans:

1. What barriers to growth are envisioned in the plans and how should diversification overcome them?
2. What economic sectors are targets for the diversification effort (e.g. industry, trade, finance, tourism, oil and gas, logistics, knowledge etc.)?
3. Who will be the driver of the future economy? State vs. market: who determines what and how much is to be produced? Public vs. private sector: who produces?
4. What type of (economic) state is envisioned in the future (allocation state vs. production state)?

With the exceptions of Saudi Arabia and Oman, which have conducted economic planning for nearly four decades, formalized economic planning is a relatively recent phenomenon in the countries included in this study. However, Bahrain, Kuwait, Qatar and the UAE have recently published long-term development plans.

1.2. Outline of the paper

Following the above introduction, this paper proceeds with a definition and delimitation of the concept of diversification. In section 3, the past record of the diversification effort in the Gulf region is described and analysed. In section 4, the main section of this paper, a review of the current development plans for all six Gulf countries is undertaken. In section 5, the plans are compared (similarities and differences), using the four questions listed above. In section 6, the broader prospects of diversification related to the implementation of the plans are analysed.

2. DIVERSIFICATION: DEFINITION AND DELIMITATION

The central issue to be dealt with in this paper is the attempt by the Gulf countries to diversify their economies away from the near-complete dependence on income from oil and gas.

2.1. Definition of diversification

'Diversification' is defined in a variety of ways according to the field of application. In political economy, the conceptual underpinning of this study, diversification 'normally refers to exports, and specifically to policies aiming to reduce the dependence on a limited number of export commodities that may be subject to price and volume fluctuations or secular declines' (Routledge Encyclopedia 2001: 360). Within political economy, diversification can take place through either *horizontal diversification* (new opportunities are sought for new

products within the same sector, e.g. mining, energy or agriculture) or *vertical diversification*, which entails adding more stages of processing of domestic or imported inputs.[3] Thus, vertical diversification encourages forward and backward linkages in the economy, as the output of one activity becomes the input of another, thus upgrading the value-added produced locally.[4] Furthermore, vertical diversification entails a shift from one sector or industry to another, and generally from the primary to the secondary and tertiary sectors. For example, a mining company may expand from just extracting copper to engage in processing, transporting or retailing it. Parallel to this, the company shifts from extraction (primary sector) to manufacturing, for instance producing electric cables (secondary sector), and finally to transport or retail (tertiary sector). It follows that a country may attain three linked objectives through diversification: stabilizing earnings, expanding revenues and retaining or increasing value-added.

Risk is the underlying issue in this definition. Since price and demand fluctuations are basic components of the world's economic system, diversification is one of the options open to societies, firms and individual investors to protect themselves from this phenomenon. The underlying logic of diversification is that 'instability for any group of products tends to be significantly lower than for any of its constituents, indicating that price and volume stability gains are attainable from diversification' (Routledge Encyclopedia 2001: 360).

Risk, however, no matter how important it is, is not the only concern in GCC governments' pursuit of economic diversification. Problems such as low growth rates, lack of public and private incentives to accumulate human capital, lack of competiveness in manufacturing etc., the likelihood of shocks and spill-over effects in the economies, and various rentier effects make it imperative for the countries to pursue economic diversification strategies (El-Kharouf et al. 2010: 135ff.).[5] As stated by the General Secretariat for Development Planning in Qatar, 'A more diversified economy is inherently more stable, more capable of creating jobs and opportunities for the next generation and less vulnerable to the boom and bust cycles of oil and natural gas prices' (GSDP 2011: 10).

2.2. Diversification vs. industrialization

In the literature on diversification and in the development plans being studied here, the concepts of 'diversification' and 'industrialization' are very often used interchangeably, even

[3] Vertical diversification is also termed diagonal diversification. Throughout this paper the term 'vertical diversification' will be used.
[4] For a detailed discussion of forward and backward linkages, see Hirschman (1958 [1969]: 98ff.).
[5] El-Kharouf et al. (2010: 135–6) provide a detailed literature review of various economic reasons that make a diversification strategy imperative for the resource-based GCC states.

though – obviously – they carry different meanings. This practice is understandable since a diversification process, especially vertical diversification, implies the accumulation of productive capacity within either the manufacturing or the service sector. Throughout the post-1973/4 period a continued effort has been invested in developing a manufacturing sector. As Seznec pointed out, 'it was obvious that because the region's geography does not permit much growth in agricultural jobs, service jobs would be the solution. However, service jobs need something to service. Much effort was placed into developing industry, which would create manufacturing jobs and in turn many times more service jobs' (2011b: 2). The *Encyclopedia Britannica* defines *industrialization* as 'the process of converting to a socioeconomic order in which industry is dominant'. The term *industry* is there defined as 'a group of productive enterprises or organizations that produce or supply goods, services, or sources of income'.

It follows that industrialization is a much broader process than merely establishing manufacturing industries.[6] Industrialization also entails the process of creating service industries such as tourism, financial services, insurance, banking, real estate services, transportation, restaurants, repair and maintenance services etc. In this way the concepts of (vertical) diversification and industrialization become synonymous. The aim of diversification is spreading risk by creating a variety of income sources; industrialization in its broadest understanding is the process of creating these diverse income sources.[7]

2.3. Diversification vs. oil sector development

Given the aim of diversifying away from oil and gas revenues, how can development of the oil sector be seen as a part of the diversification strategy?

Beblawi (2011: 186) provides a useful distinction. He divides the manufacturing sector into two categories: *oil-based* and *import substitution* industries. In addition to the extraction of oil and gas, the oil-based industries include refineries, the vast petrochemical sector and energy-intensive industries such as aluminium. As he points out, oil-based industries are usually large-scale and capital-intensive projects and as such generally state owned.

The import substitution industries include a diverse set of activities, most commonly food processing and the manufacture of construction materials. The latter includes production

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[6] Manufacturing industry, again according to the *Encyclopedia Britannica*, (1) takes the raw materials supplied by primary industries and processes them into consumer goods, or (2) further processes goods that other secondary industries have transformed into products, or (3) builds capital goods used to manufacture consumer and non-consumer goods. Secondary industry includes energy-producing industries (e.g., hydroelectric industries) as well as the construction industry.

[7] In the literature on diversification, especially of earlier date, it seems to be the practice to treat diversification merely as the creation of manufacturing industry; see e.g. Looney (1994).

of cement, steel, aluminium window frames, building cladding etc. These industries are usually small, labour intensive and often privately owned.

It is obvious that diversification by expanding the oil industry will not reduce dependence on oil and gas, since this industry relies wholly on the low cost and ample supply of oil and gas in each of the Gulf countries.[8] This industry has little prospect of survival in the post-oil era. However, processing crude oil (refining) and using gas as feedstock in petrochemical plants reduce the risk associated with fluctuations in international oil prices, create jobs (however few) and attain a higher value-added – as long as oil is present.

Diversification through the establishment of import substitution industries is potentially much closer to the original aim of divesting away from oil. It also holds a much better prospect of survival after the oil era, if this industry has been accustomed to operate under market conditions during the oil era; that is, if it does not rely on favourable production conditions provided by the circulation of oil money in society. This, however, does not seem to be the case.[9]

Diversification within the oil sector, however, by expanding the oil-based industries, has been the most notable outcome of efforts in the Gulf states. It has been relatively easy for the states to do, given the capital surplus situation and centralized governance structure, as has been the case with state-owned cement factories etc. The most difficult type of industry to foster has been the private import substitution sector. This cannot be created by decree, but necessitates entrepreneurship and private risk taking.

2.4. Diversification and the private sector/economic reforms

A related question is whether diversification necessitates increased private sector involvement. For example, in its definition of diversification, ESCWA writes, 'By implication, it [diversification] also means reducing the leading role of the public sector in the GCC economies by promoting the growth of the private sector' (2001: vii).

One could argue that this need not be the case; state-owned enterprises (SOEs) and organizations are capable of providing productive investments over a broad range of economic activities.[10] If they invest in and operate tourism facilities, manufacturing industries, harbours

[8] As such, this industry cannot convert to imported oil or gas when the domestic oil sources have dried up.
[9] As pointed out by Beblawi (2011: 185), 'Over the last three or four decades, most countries in the region have invested lavishly in large and high-quality physical infrastructure projects, such as roads, ports, airports, electricity, schools, and hospitals. No less generous were governments' expenditures on social welfare, which provided citizens with a wide range of free or low-cost services, such as water, housing, education, and health care.'
[10] SOEs are defined as 'Public corporations and parastatal agencies (e.g., agricultural marketing boards) owned and operated by the government' (Todaro and Smith 2011: 756).

etc., they can no doubt provide a push towards creating a non-oil economy, non-oil exports and non-oil revenue sources.

Hertog (2011: 17) sums up the general (neo-liberal) critique of SOEs, namely that 'outside of the infrastructure and utility sectors they are generally seen as a bad, outmoded, and fiscally deleterious idea – especially [when operating] in rentier states'.[11] However, he goes on to argue that a new breed of dynamic, profitable and rapidly growing SOEs is found in the GCC states. They are successful in both manufacturing and service sectors, and 'stand in striking contrast to the politicized and inefficient SOEs in more populous and more populist oil states such as Venezuela, Iran, or Russia' (Hertog 2011: 17).[12] The implication of this finding is that – given the right context – firms owned by the government can be efficient, and as such, that private sector involvement does not have to be a prerequisite for diversification.

Nevertheless, in the current neo-liberal paradigm, especially before the financial crisis of 2008, there was, as mentioned above, a strong disbelief in the efficiency of SOEs and a correspondingly strong belief in the efficiency gains to be obtained by privatization. Furthermore, most studies and development plans, in dealing with diversification in the Gulf region, adopt the view that diversification presupposes an increased private sector contribution to the economy.

The reason for the link between diversification and private sector involvement in the economy is twofold. First, under the current allocation state model, only a relatively small part of the local population is involved in economic activities. This is so both because oil and gas extraction is capital intensive and thus does not provide many jobs, and because, as argued above, allocation states do not need to focus on creating a productive base, and therefore cause systemic underdevelopment of the productive sectors. So the emphasis on private sector development is seen as a way to create jobs and involve a large section of the population in production.[13]

A second reason for the call for increased private sector involvement as a part of diversification relates to the issue of foreign direct investment (FDI). FDI brings with it not only capital but also, and more importantly, jobs, new technology and new management methods, all items which these economies are in dire need of in their attempt to build and expand their societies into knowledge societies. However, FDI flows are private flows which

[11] For a similar understanding and a discussion of advantages gained by privatizing SOEs see Todaro and Smith (2011: 758ff.).
[12] See also Hvidt (2009: 409–10) for a description of SOEs in Dubai.
[13] See Cook and Nielson (2011: 199) for a similar argument.

primarily flow to private firms.[14] As such the potential for GCC states to attract FDI (except for the hydrocarbon sector) is severely limited without a well-functioning private sector.

2.5. Diversification and the sovereign wealth funds

Do the sovereign wealth funds (SWFs) play a role in the diversification strategy? El-Kharouf et al. (2010: 124) analyse this question and argue that 'the conception and evolution of the SWFs was an integral part of an overall prescription for the cyclical economic and fiscal imbalances of the oil-based GCC economies'. The policy premise is simple: by investing oil revenues in either local or international industries, the GCC countries could convert the volatile and exhaustible oil incomes into a more stable financial stream of wealth that could be used to develop their societies in the long run (El-Kharouf et al. 2010: 133).

Kuwait spearheaded this development by establishing the Kuwait Investment Office in London as early as 1953 (Beblawi 2011: 189–90). Kuwait's Reserve Fund for Future Generations, in which 10 per cent of its yearly oil and gas revenues are placed, was estimated to hold US$100 billion by the time of the first Gulf War in 1990–1, and the returns on these investments were of an order comparable to the annual income from oil and gas (Europa Publications 2008: 689). Today, the largest single SWF in the world is the Abu Dhabi Investment Authority, which alone held assets worth US$ 627 billion in 2011. More than one SWF is present in each country.

As can be seen from Table 1, the Gulf countries hold an estimated US$1,659 billion of assets. If investments are undertaken overseas, they do not create jobs in the local economies or contribute to further education and training of the local workforce.

2.6. How to measure diversification?

How does one measure change or progress in economic diversification? There is quite a battery of measurements, which can provide a detailed picture of effects that stem from the diversification process. However, most good measurements need good data and, as such, are

Table 1. *GCC countries deposits in sovereign wealth funds (US$billion), end of 2011*

Bahrain	Kuwait	Oman	Qatar	Saudi	UAE	Total
9	296	8	85	478	783	1,659

Source: SWF Institute (2012).

[14] Privatization of public sector companies and enterprises is another way to expand the role of the private sector as well as open up the economies to foreign investments (ESCWA 2001: 47).

hard to apply in the Gulf countries. Thus, only the following few crude measures are usually applied:

1. the percentage contribution of oil versus non-oil sectors to GDP (or GDI), which provides an indication of the structural change in society;
2. the percentage contribution of oil revenues as a proportion of total government revenues, which indicates whether or not dependence on oil revenues is being reduced;
3. the percentage contribution of non-oil export to total export earnings, since rising non-oil exports are an indication of diversification;
4. the relative contribution of the public and private sector to GDP, which is an important measurement of the success of diversification in so far as development of the private sector implies or presupposes growth in the public sector;
5. the volatility or instability of GDP and its relation to oil price instability.

Even though these measures are very crude, they are still difficult to assess in a situation of changing oil prices. If the price of oil changes, all these measures will be affected (Looney 1994: 10). In addition to the problems associated with having the right kind of data, and with the changing oil incomes, in measuring the degree of diversification it has to be recognized that a significant share of the non-oil economy is indirectly driven by oil-induced demand. Government spending, for example on construction activities, is funded by oil money, and as such creates demand for goods and services.

The above paragraphs have been an attempt to define and substantiate the concept of economic diversification. Diversification entails a broad societal process, which transforms a country from a single source of income, in this case oil or gas, to a society where multiple sources of income are generated across the primary, secondary and tertiary sectors, and where large sections of the population participate. It has furthermore been found that private sector involvement is generally seen as a necessity for attaining diversification. A practical definition applied in a study of the Gulf countries is illustrative:

> Within the context of the GCC countries, economic diversification means reducing heavy dependence of the oil sector by developing a non-oil economy, non-oil exports and non-oil revenue sources. By implication, it also means reducing the leading role of the public sector in the GCC economies by promoting the growth of the private sector. (ESCWA 2001: vii)

3. Economic diversification in the Gulf region: a historical account

This section reviews the actual process of diversification as it has unfolded in the GCC countries over the last half a century and especially following the boom in oil incomes subsequent to the oil price hike in 1973/4. Answers to the following question are sought: what were the objectives and the overall achievements of the economic diversification effort in the GCC countries? In addition to using the various textual sources,[15] the author has conducted field studies in all six Gulf countries and conducted close to a hundred interviews with planners, decision makers and analysts over the past years.

As pointed out in the ESCWA study, economic diversification has been both the byword and the catchphrase of economic policy in the Gulf countries since the first oil boom in the 1970s (ESCWA 2001: 1). However, the motivation behind economic diversification has changed over time. The drive for diversification in the 1970s was an awareness of the finite nature of oil resources, and thus the likely prospect of an end to the oil boom (ESCWA 2001: 3; Koren and Tenreyro 2010: 2). From this perspective, diversification was to ensure the creation of a viable economy that would sustain the livelihood of society in the aftermath of the oil era.

The sharp decline in oil prices in the first part of the 1980s, and their heightened volatility in the 1980s and 1990s, however, shifted the focus for diversification: it was a measure to counteract fluctuations in state incomes. Since oil exports had begun, oil (and later gas) revenues had become the only noteworthy source of revenue for the Gulf countries, and thus the only income to finance the vast governmental spending programmes. As such, the price of oil and the nominal GDP of the GCC countries moved in tandem (El-Kharouf et al. 2010: 131). It was this one-to-one relationship between international oil prices and the performance of the economies (export earnings, current accounts, government revenues, and ultimately total income and employment) that made diversification one of the priorities in economic policy (ESCWA 2001: vii, 3),[16] or as bluntly pointed out by Peterson (2009: 1): 'The decline in oil prices during the 1980s, though, hammered home a key lesson, namely, that prosperity and continued growth could not remain unhealthily dependent on oil income, reinforced by the fact that oil was a depletable resource – and was being depleted rapidly in some states.'

[15] The most important sources that inform this chapter are ESCWA (2001), Looney (1994), Shochat (2008) and, not least, the contributions in Seznec and Kirk (2011).

[16] Looney (1994: 23–4), for instance, finds a one-to-one relationship between oil incomes and the size of the construction sector in each GCC country and a very close relationship between oil incomes and the size of the service sector.

The ESCWA study (2001: 8) summarizes the palette of actual measures fully or partially applied by the GCC countries in order to achieve economic diversification (and development in general):

1. *the development of the physical and social infrastructure*: investments in infrastructure, schooling and, not least, health services, as such investments were deemed necessary for non-oil economy growth;
2. *the development of capital-intensive industries that utilize the region's comparative advantage in hydrocarbon resources*: for example, production of steel, aluminium, fertilizer and petrochemicals (i.e. chemical components derived from oil which serve as building blocks for products such as detergents, adhesives, plastics, fibres, lubricants and gels);[17]
3. *the development of other manufacturing industries*: for example, cement, construction materials (plaster, cladding, rebar, window frames etc.), electrical products, textiles, clothing, furniture and household items;[18]
4. *the development of other productive sectors and services*: for example, agriculture (animal production, poultry, dairy products), trade, banking, financial services and, since the early 2000s, aviation, real estate, tourism and a significant buy-up of overseas firms (e.g. hotel chains, harbours, real estate) to be managed from the Gulf;
5. *the reduction of the direct role of the public sector as an agent of economic growth*: by privatizing publicly owned companies and utilities and reducing domestic subsidies.

As pointed out by Cook and Nielson (2011: 199), a 'one size fit all' description does not apply when it comes to diversification. Each country has its own unique history of diversification, and as such represents a unique mix of the above-mentioned measures and a unique overall pattern. Interviews and observations by the author in the six GCC countries certainly confirm this finding. Oman, for example, is building a service and tourism industry, while other Gulf countries promote the banking, media, aviation, shipping or manufacturing

[17] E.g. the Saudi Basic Industries Corporation (SABIC), which was established in 1976.
[18] In parallel, the GCC countries invested overseas in productive assets. During the earlier phases, in the 1970s, investments were generally placed outside the country, in banks and not least in productive investments (stocks and bonds). In the boom years, from 1999 to 2008, a significantly higher percentages of the oil surpluses were invested inside the GCC countries (Hvidt 2011b: 40).

sectors that best suit their respective geographical locations, natural endowments and resource base.

3.1. What are the overall achievements in the drive towards diversification?

In Table 2, some numbers are listed which illuminate the achievements – or lack thereof – concerning the diversification effort. From the table it is obvious, even after nearly forty years of diversification policies, that hydrocarbon export still plays a significant role in the Gulf economies.

In assessing the period 1973–93, Looney (1994: 25) considers the manufacturing sector performance for the GCC countries to be very weak when compared to other non-oil Arab countries and in relation to the service and distribution sector. He concludes that the GCC attempts at industrialization 'must be considered minor failures'. Shochat (2008: 13) finds that the GCC diversification pursued most proactively in the 1980s and the 1990s was *within* the energy sector, both upstream (searching for and recovering hydrocarbons) and downstream (refining, selling and distributing hydrocarbons).

ESCWA (2001: 46) finds that since the 1970s, the GCC countries have developed industries, services and other sectors, thus reducing the relative size of the oil sector. Furthermore, non-oil export has on average increased as a proportion of total exports, while the contribution of oil revenue to total government revenues has generally been in decline. The study concludes that 'All these development are indicative of varying degrees of success in diversification away from dependence on oil. Nonetheless, nearly three decades after the oil boom of the early 1970s, the contribution of the oil sector to the GCC economies in all its aspects remains quite high.'

Table 2. *Oil as percentage of economic indicators in the Gulf countries*[a]

Country	% of export earnings	% of state budget	% of GDP
Bahrain	69	86	24
Kuwait	90	93	45
Oman	65	77	41
Qatar	91	80[b]	46
Saudi Arabia	85	85	50
United Arab Emirates	69	77	32

Source: Calculated from data in the statistical appendix following each country section in Europa Publications (2011).

[a] Except for Qatar, it is not clear whether these values include proceeds from investments by SWFs.

[b] Includes proceeds from invested hydrocarbon revenues.

Writing ten years later, Beblawi (2011: 187) stresses the continued dependence on oil, and notes that it is 'clear that neither oil-based nor import substitution industries have much hope to survive or to expand in a post-oil era'. This indicates that the diversification efforts have not yet resulted in a sustainable development pattern.

Seznec (2011a: 30) put the above-mentioned and somewhat meagre results of the diversification effort into perspective by reminding us that, despite these shortcomings in the diversification drive, 'From an industrial base of near zero 30 years ago, the Gulf has become a major world production center for petrochemicals, fertilizers, aluminium, cement, prefab metal building, fiber-optic cables, air conditioners, and all manner of products related to construction.' In addition, he notes that vast current developments in services including banking, shipping, logistics and distribution, airports, real estate etc. have taken place.

Finally, Koren and Tenreyro, who address the issue of volatility in relation to diversification, find:

> in part due to their strong dependence on oil, GCC economies are intrinsically more volatile than other economies at the same level of development. Startling progress has been achieved, however, since the 1970s, volatility falling in most GCC countries by a factor of 4 or more by 2005.The fall in volatility is mostly due to two factors. The first is the rise of the service economy (comprising, among others, financial intermediation, tourism and real estate), which is inherently less volatile than the oil sector and had led to higher levels of sectoral diversification. The second is the general decline in volatility in the world markets since the 1980s, a period that economist have called the 'great moderation'. (2010: 29)

3.2. What are the reasons for weak diversification results?

As Looney (1994: 266) pointed out some twenty years ago, many of the problems

> facing the industrial sectors in the Gulf States can be traced back to the lack of an overall industrialization strategy, problems related to the Dutch disease,[19] the bureaucracy and administrative routine, to the instability of the industrial labour force (almost exclusively expatriate), to the unbalanced consumer consciousness, to the inadequacies of incentives at both production and export levels and to the insufficient protection vis-à-vis competition from abroad.

The above review points out that these problems still undermine the diversification effort.

Concerning the lack of an overall industrialization strategy, Looney refers to the disappointing results of the GCC's efforts to coordinate industrial policies. Except for Saudi Arabia, each of the Gulf countries remains very small viewed as an individual market. This led

[19] This is a situation where major discoveries of e.g. oil or gas translate into the local currency rising in value, which in turn discourages exports. This leads to the affected country experiencing a decline in the manufacturing sector (Thirlwall 2006: 74).

the GCC to aim not only to coordinate but also to allocate industrial activities among the member states in its first economic policy period from 1981, because this, it was thought, would 'lead to industrial development and the diversification of their products on an integrated basis' (GCC 1981: Article 12, No. 1). Twenty years later, in 2001, the GCC heads of states signed a new economic agreement which went much further in its attempt to integrate the economies of the GCC member states by 2010. The integration was to include a customs union, a common market and an economic and monetary union with a unified currency (GCC 2001: Chs. I–III).

The customs union was enacted in 2005, creating a single external tariff. The common market was declared in 2008 and removed some important barriers to free movement of goods and services as well as to the mobility of national labour and capital (Beblawi 2011: 19). The establishment of the monetary union has not materialized, and deficiencies in cross-border transportation, data sharing and communication technology etc. still affect interregional trade significantly.

Seznec (2011b: 2–3) offers an explanation for the insufficient protection vis-à-vis competition from abroad. He finds that in trading economies, such as the ones found in the Gulf states in the 1970s, an import substitution industrialization (ISI) strategy does not work – economically or politically. An ISI strategy aims to secure a home market for 'infant', not yet competitive industries by applying steep tariffs or quotas on imports (Todaro and Smith 2011: 600). However, this option was not open to the Gulf states, because of the detrimental effect this would have for their political allies – the merchants – who would have lost their basic source of income. Protection of domestic infant industries was therefore difficult to attain.

This lack of protection thus forced newly established industries to attain international competitiveness right from the outset, which made it preferable to opt for turnkey solutions and, not least, to employ skilled expatriate labour both in the new industries and in the services to go with them. In this way, the economic interests of the merchants and the application of foreign labour became a part of the framework condition for development in the Gulf region (Seznec 2011b: 3).[20]

An additional effect of the inability to protect the newly formed industries and services through tariffs was that governments felt obliged to pay 'heavy government subsidies' directed at, for example, manufacturing, agriculture, basic metal industries and the services

[20] See also Colton (2011: 5), who claims that diversification was brought about by engaging foreigners in sectors outside of oil and a re-emergence of the merchant class.

sector (Shochat 2008: 9). Subsidizing can thus be seen as a different way of protecting infant industries, in that it lowers their production cost.

Shochat (2008: 11–12) furthermore argues that the diversification 'remained largely ineffective' until the late 1990s, because it was not accompanied by structural change; that is, by changes related to the reduction of the public sector as the agent of economic growth, the lack of private and foreign investment, the deficiency of qualified manpower and the small market size. However, since then and especially during the boom period of 2002–8, economic reforms have targeted these areas and allowed diversification to be pursued with much greater vigour and success.

Hvidt (2011a: 102) analyses the economic and institutional reforms actually undertaken in the GCC countries during the decade prior to 2008 and finds that, with the exception of Qatar and Kuwait, these countries have in fact been implementing substantive reforms. Nevertheless, he warns that, 'while this is certainly an important initial step for these countries in reaching their stated aims of diversifying their economies and revitalizing the role of the private sector, rolling back 30 to 50 years of rentierism is not a process that can be accomplished easily or hastily'.

3.3. Summary

In summary, over the last five decades, the GCC states have taken a number of important steps on the route to diversifying their economies away from dependence on oil and gas. Infrastructure has been built, education and health systems have been created, and a broad range of manufacturing industries primarily servicing an international market have been established. Since the early 2000s, important economic reforms have been undertaken in some of the countries (though not Qatar and Kuwait), which have attempted to make investment by both nationals and foreigners attractive. Data shows, however, that the countries remain in a position where the oil sector continues to dominate the economy, and that few of the industries and services established would survive in a post-oil era. So the GCC states continue to be in the situation where they sell their hydrocarbons on the world market and use the proceeds to import almost all of their living requirements and large parts of their labour force. Viewed in this manner, the diversification strategy has largely failed.

4. Review of current development plans

An account of the past record of diversification was given in the previous section. Here, the focus shifts towards the future and the paper looks at how decision makers in the GCC

countries envision diversification and economic development in the years to come. For this purpose, the current published development plans, or *Visions* as some countries prefer to call them, act as the main source of data.

It is recognized that development plans do not offer solid evidence of what countries intend to do or what they actually will do. Various reasons underpin every planning exercise. First, and probably foremost, there is the economic imperative to overcome market failure; second, there is the need to facilitate mobilization of resources, both internally in a country and externally; and finally, plans may have an 'attitudinal' or 'psychological' impact (Martinussen 1997: 229). As such they can been seen as a part of the government's communication strategy and might, for example, comfort the population by addressing problems they are facing, such as housing shortages, health care issues etc.; or they might prepare the population for major reforms to come, such as changes in retirement bonuses or cuts in public sector jobs; or they might be a signal to international investors or creditors that the economy is well managed.

In other words, the plans are to be seen, read, interpreted and acted upon, rather than viewed as representations of physical events. Such documents must be analysed with these uses in mind. Krippendorff (2004: Foreword) suggests applying the methodology of qualitative content analysis to such data. This will be done in this paper.

Despite their shortcomings, the current plans are practically the only written source which offers insights into the aims and aspirations of decision makers in relation to the development of economies.[21] Even though many of the plans have been drafted with input from international consultancy firms, and thus may represent some degree of 'knowledge transfer' related to ideologies and international best practice etc., such plans are ultimately official documents, prepared in ministries, discussed among top decision makers and approved by the local rulers, who thereby subscribe to the overall ideas and conclusions embodied in the plans.

The planning approach found in the GCC countries varies in scope, in level of detail and in quality. All these countries have published long-term plans or visions establishing broader targets which are to be implemented through detailed plans and spending budgets. The general planning style is indicative planning, implying that economic incentives – not

[21] In centuries-old democratic societies with a Weberian-style bureaucracy, such as in Europe, decision making concerning broader developmental issues in society leaves a significant 'paper trail'; e.g. not only white papers, newspaper columns, hearings of interest groups and bureaucrats, but also minutes of parliamentary deliberations over draft legislation etc. Such sources of knowledge concerning the decision-making process are either non-existent or not made public in the Gulf countries.

directives – are issued in order to make the non-public actors pursue the planned targets. Typically the detailed plans (the five-year plans) establish quantitative targets, such as those related to investments, employment opportunities, GDP, the pattern of consumption and, not least, targets related to human and social development.[22]

4.1. Bahrain

4.1.1. The plan

Economic planning is a recent phenomenon in Bahrain. In October 2008, it launched its *Economic Vision 2030* plan, and a year later its *National Economic Strategy*, which is a detailed and short-term spending plan aimed to achieve the *Vision 2030* aims. The first plan is publicly accessible, while the latter is not. *Vision 2030* was prepared by the Economic Development Board (EDB), a recently established unit headed by Crown Prince HH Shaikh Salman bin Hamdan Al Khalifa.

Vision 2030 outlines a future path for the development of the Bahraini economy, built on a much-increased role for the private sector. The vision is 'to shift from an economy built on oil wealth to a productive, globally competitive economy, shaped by the government and driven by a pioneering private sector – an economy that raises a broad middle class of Bahrainis who enjoy good living standards through increased productivity and high-wage jobs' (Bahrain EDB 2008: 3). More specifically, the ultimate aim of the plan is that every Bahraini household double its disposable income – in real terms – by 2030 (Bahrain EDB 2008: 6). *Vision 2030* spells out the main challenge facing Bahrain, namely to create enough new jobs, both quantitatively and qualitatively, to secure employment for the fast-growing and successively better-educated Bahraini workforce. At present, Bahrainis are not the preferred choice for employers in the private sector, as stated in the plan. Job creation in Bahrain is currently aimed at low-skilled and thus low-paid non-Bahraini workers. Thus, the aim is to create or to attract (through FDI) jobs which contain high-level knowledge competencies and so result in high wages, and furthermore to make Bahrainis the preferred choice of labour (Bahrain EDB 2008: 8).

Until now, weak job creation has been solved by redistributing oil revenues and more directly by offering citizens jobs in the public sector. This, as is pointed out, has left the country with an oversized public sector, which is viewed as unsustainable considering the gradual decline of oil reserves (Bahrain EDB 2008: 7):

[22] As an example see State of Kuwait (2009).

> A considerable share of the country's growth over the last two decades was driven by the public sector. This model is running out of steam, as government finances become tighter and competition increases in a global economy. By 2030, the private sector should be able to drive economic growth in Bahrain independently. (2008: 10)

As such, the aim is to increase productivity in the private sector, and not least that the private sector becomes motivated to hire Bahraini people. The purpose is therefore to create an environment which is conducive to entrepreneurship and innovation, and which will create knowledge-based and high-value-adding companies and economic activities. Bahrain's economy will thus attain increasing levels of sophistication and innovation, enabling the country to claim an attractive position in the global value chain (Bahrain EDB 2008: 16).

The financial sector will remain the lead sector in the economy. Besides this, tourism, business services, manufacturing and logistics will be developed as income earning sectors. The public sector will invest in improving its human capital through education and training, particularly in the field of applied sciences.

The plan is less specific on how to attain these aims. However, investment in human resources, namely health and especially education, is highlighted. Education is mentioned again and again in the plan and is seen as a prerequisite for attaining a knowledge-based society. As a stimulus for educational efforts, the plan states 'Bahraini society in 2030 will be a meritocracy where hard work and talent are rewarded with success' (Bahrain EDB 2008: 20). A further means to achieve the aims is to attract FDI, which the plan claims is one of the key drivers of process innovation and best-practice transfer.

4.1.2. Review

Bahrain is a small country with very limited oil reserves, at least compared to its neighbours. Around 1.2 million inhabitants currently live there, including 670,000 non-nationals.[23] The lack of oil led the country to pursue a diversification strategy from the early 1970s, encompassing industrial developments, refineries, the shipyard, steel, its manufacturing flagship the ALBA aluminium smelter, and a range of downstream industries for processing raw aluminium. Financial services, however, became the leading sector in the diversification drive following the relocation of the international banking community from Lebanon to Bahrain in 1975 after the outbreak of the civil war in Lebanon (MEED 2009a). In the 1980s the country was already the most industrialized country in the GGC, since services and industry accounted for roughly 50 per cent of the economy (Koren and Tenreyro 2010: 6;

[23] Unless otherwise stated, the source of factual information concerning population size and composition is the statistical survey following each country section in Europa Publications (2011).

O'Sullivan 2008: 198). Bahrain is furthermore the only GCC country which, as a part of its diversification plan from 2006, has implemented a free trade agreement (FTA) with America.

As seen above, *Vision 2030* represents a full frontal attack on the allocation state approach. It expects the private sector to take a leading role in society. Furthermore, job creation is no longer to take place in the public sector, but in the private.[24] The plan sends a strong signal to the Bahraini people that a meritocracy will be implemented and as nationals they must prepare themselves to compete not only among themselves, but also against foreigners for jobs. As such the plan has a neo-classical flavour to it.

The role of the state is reduced to providing social and health services, environmental issues, housing, education, foreign policy, defence etc. The word 'privatization', however, is not mentioned.

As pointed out by MEED (2009b), *Vision 2030* is 'perhaps the boldest of the strategic documents published by any of the Gulf governments, addressing not just development and planning issues, but also mapping out a future direction for economic, governmental and social progress over the next 21 years'. It is the plan which most openly points to the current shortcomings of the allocation state model.

4.2. Kuwait

4.2.1. The plan

In February 2010, the National Assembly of Kuwait approved a five-year development plan covering the years 2010 to 2014.[25] This was the first plan approved since 1986 (Global Investment House 2010). In addition to the five-year plan, a detailed expenditure budget was approved for the period, devising how the government was to spend resources, both to develop the country further and to pull Kuwait out of the recession which it, along with the rest of the world, had experienced since September 2008. The budget included total spending of US$125 billon (Global Investment House 2010).

Prior to the approval of the five-year plan, the General Secretariat of the Supreme Council for Planning and Development (formerly the Ministry of Planning) had published its long-term plan, the *State Vision Kuwait 2035.*

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[24] A setback to this strategy resulted from the 'Arab Spring' uprisings. On 6 May 2011 it was announced that 20,000 jobs would be created in the public sector (Reuters 2011).

[25] Both documents are encompassed in State of Kuwait (2009). This planning effort was supported by the World Bank and the Korean Development Institute (KDI). The five-year development plan partially leveraged the findings and recommendation of the *Vision 2020* report published by the Kuwait Central Bank in 2007 (made with the support of McKinsey & Co.).

The aim of the *State Vision Kuwait 2035* plan and the five-year plan is to turn Kuwait into a regional trade and financial hub for the northern Gulf through economic development, diversification and GDP growth. In order to fulfil these aims, significant investments are to be undertaken, among them a new business hub, the so-called Silk City at Subiyah, with estimated costs of US$77 billion; construction of a major deep-sea container port at the Shatt Al Arab, which aims to attract the traffic otherwise aimed for Basra and Umm Qasr in Iraq; new railway and metro systems; the establishment of new cities to host the increasing population; and basic infrastructure and services, particularly within the health and education sectors.[26] Besides these expenditures, a significant fraction of public spending will be invested in the oil and gas sector, in order to raise production capacity and modernize current facilities (Global Investment House 2010; State of Kuwait 2009: 74ff.). Half of the US$125 billion expenditure is to be provided by the private sector, through investments in, for example, mega projects.

The plan furthermore recognizes the need to reform the legislative and institutional setup in the country and includes a substantive list of amendments to be made during the planning period. Forty-five laws need amendment and more than 230 policies are targeted for change or creation in order to facilitate the implementation of the plan within its three main areas: not only economic development and human and social development, but also public administration, planning and information.[27] A considerable number of these reforms are to make it easier and more attractive for private investors, both domestic and foreign, to invest in the country.

4.2.2. Review

Kuwait is a small but wealthy country (ranked as the eleventh richest in the world by income per capita), with 3.6 million people, of whom approximately 2.4 million are non-nationals. As was seen in Table 2 above, petroleum accounts for nearly half of GDP, 90 per cent of export revenues and 93 per cent of government income.

Kuwait has done little to diversify its economy over the years. This is partly, as some interviewees pointed out, because of the positive fiscal situation, which has allowed the country to carry on in an unsustainable way, and partly because of the constant dispute between the National Assembly and the government, which has paralysed economic decision

[26] From the author's own observations in April 2011, the construction at Silk City and the deep-sea port were under way.

[27] Interview, General Secretariat of the Supreme Council for Planning and Development, Kuwait City, 3 April 2011. See also State of Kuwait (2009: 78).

making over decades. According to Crystal (1990: 95ff.), attempts were made in the 1960s, 1970s and early 1980s to establish mechanisms for planning, but with very little impact because political consensus remained absent. This has continued to be the case (Crystal 2007: 159ff.). In 2007, however, a renewed emphasis on development and economic planning surfaced and led to the creation of a new entity: the General Secretariat of the Supreme Council for Planning and Development.[28] The commissioning of various expert reports and other planning initiatives are a testimony to this renewed emphasis.

In the 1950s Kuwait was the most developed among the GCC countries, and thus had the most promising developmental trajectory.[29] However, development has suffered not only from lack of political consensus, but also from fundamental shocks to the economy unique to the country. The first was the Iran–Iraq War (1980–8), which decreased the accessibility (by both sea and land routes) and thus the attractiveness of Kuwait as a trading hub. The second was the impact of the Iraqi invasion and the following Gulf War (1990–1), which left the country with badly functioning infrastructure, an enormous debt and, not least, an unresolved security situation. This has had negative impacts on the private sector's willingness to invest in the country since then.[30]

The current plans, however, seem to be an attempt to put the country back on a development track by returning to former successes, within trade and financial activities. This is to be done by initiating some long-overdue reforms. The emphasis is on making it more attractive for private investors through improved infrastructure, better rules and regulation etc. The long-term aim is that the private sector should be the driver of the economy and be able to absorb the increasing labour force. The fact that the expenditure plan assumes private investments is a testimony to a policy that aims to involve and foster a private sector. Furthermore, the proposed regulation that highlights transparency and accountability within the public sector could be interpreted as a step in the same direction. However, there are no indications in the plans, at least in the medium term, that the government intends to shift away from the current state-led developmental model. While encouraging the private sector to take a slowly increased part in society, the government retains responsibility for overall development. Finally, it is an open question whether or not sufficient consensus can be established within Kuwait to implement the proposed plans.

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[28] Interview, General Secretariat of the Supreme Council for Planning and Development, Kuwait City, 3 April 2011. See also Central Bank of Kuwait (2007).
[29] Interview, University of Kuwait, Department of History, Kuwait City, 3 April 2011.
[30] Interview, Emiri Divan, Kuwait City, 5 May 2011.

4.3. Oman

4.3.1. The plan

Oman has a long tradition of economic planning. Since seizing power in 1970, Sultan Qaboos and his government have attempted to direct development through a series of five-year plans, the first of which was launched in 1976. The latest is the *Eighth Five-Year Development Plan (2011–2015)*, which was announced on 2 January 2011. Each five-year plan is nested within a long-term development strategy, the first covering the period 1970–95, and the second, normally referred to as *Vision 2020*, covering the period 1996–2020 (MONE 1995). The recently established Supreme Council for Planning is entrusted with the task of preparing the development plans and annual budgets.[31] While the *Vision 2020* plan is published in full, only highlights of the five-year plans are made available to the public, on the website of the Ministry of Information.

Economic diversification has taken priority in the planning effort since the early 1970s, because of the country's limited oil and gas reserves and thus their unreliability as an income generator in the long term.[32] As a part of the diversification strategy, the first long-term strategy opted for government investments in income-generating projects within industry (e.g. the highly successful liquefied petroleum gas [LPG] facilities), mining, agriculture and fisheries.

Vision 2020 pursues the aim of 'providing suitable conditions for economic take off', which implies diversification by increasing the non-oil production in the country (MONE 1995: Section 2.6.4). It aims to achieve substantial changes in the structure of the national economy by diversifying the production base, enhancing the role of the private sector in the economy and developing human resources (MONE 1995: Section 2.7). In short, the plan seeks diversification, industrialization, privatization and increased integration into the global economy, in order to achieve the long-term aim of a productive and diversified economy. The specific aim is to reduce the oil sector's contribution to GDP to 9 per cent by 2020. According to Table 2 above, oil still accounted for 41 per cent of GDP in 2011. Tourism and gas-based industries are key components of the government's diversification strategy.[33]

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[31] The Ministry of National Economy was dissolved on 7 March 2011 as an attempt to quell unrest following the Arab uprising. By royal decree no. 30/2012 the Supreme Council for Planning was established, and with it the National Center for Statistics and Information.

[32] Oil production peaked in 2001 at 960,000 barrels a day; the 2010 rate of production was 800,000 barrels a day (MEED 2010a).

[33] MEED (2010a), however, claims that due to a then-current lack of gas there was an emphasis on strengthening the non-energy-intensive sectors of the economy, such as tourism, agriculture and food processing.

The *Eighth Five-Year Plan (2011–2015)* continues the efforts carried out under the previous plan, namely to complete and develop infrastructure and to improve the investment environment. More than half of total spending in the *Eighth Five-Year Plan* is allocated to the construction of airports and roads and another 26 per cent is allocated to seaports, water and housing (United Securities 2011: 11). Concerning improvement in the investment environment, a key element in the diversification strategy under the previous plan was the liberalization of foreign ownership policies. It was made possible to exercise 100 per cent ownership of assets within industry and for foreigners to buy property in Oman under freehold arrangements (MEED 2008). The explicit aim of these reform policies was to enhance the competitiveness of the national economy in the global arena (Ministry of Information, Sultanate of Oman 2006, 2011).

In the current plan, small and medium-sized enterprises (SMEs) in tourism, industry, agriculture and fisheries are encouraged in order to increase the role of the private sector in the economy. SMEs are furthermore seen as a vehicle to attract domestic and foreign private investments and hence raise the private sector's share in GDP and the provision of new work opportunities, particularly for the national workforce (Oman Daily Observer 2011).

Creating enough jobs for the Omani labour forces is a key issue as well. To further this end, Oman has employed one of the harshest strategies among the GCC countries in relation to bringing its own population into the workforce. The government has reserved entire categories of jobs and certain sectors exclusively to Omanis.[34] Only one third of the Omani labour force is expatriate. Tertiary education has furthermore been liberalized, thus providing more educational options – especially outside of Muscat. Liberalization of investment law has also attracted FDI. This applies particularly to the three sectors of tourism, construction and industry (MEED 2008). The *Eighth Five-Year Plan* expects to generate 40,000 to 55,000 new jobs a year.

Oman was one of the few countries in the region to announce plans to privatize all remaining state-owned power and water. In the *Eighth Five-Year Plan*, however, there is no mention of further privatization, which could be a consequence of the negative impact on investments of the financial crisis that hit in 2008.

4.3.2. Review

Oman, with its 2.7 million inhabitants (including approximately 820,000 non-nationals), has since the early 1970s directed revenues from its limited oil and gas production into the

[34] Interview, Ministry of National Economy, Muscat, 15 December 2010.

economy, in order to see through diversification.[35] It has been a state-led policy, carried out through a succession of five-year plans. As a result of these policies and aided by a climate suitable for agricultural production, however limited, and by good maritime conditions for fishing, in 2010 Oman had the second most diversified economy among the GCC countries (MEED 2010a).

In the absence of substantial oil and gas reserves, Oman seems to have chosen the most obvious path available in its diversification effort, namely to (re)invigorate the private sector. As such, the government has seen through substantial economic reforms since the early 2000s which have improved the business climate, opened up for foreign investments (for instance by creating free zones) and invited investors into gas development.

Despite these initiatives, as highlighted in Table 2 above, the country is still very much dependent on the hydrocarbon sector. Tourism, thanks to the unique landscape of the country, holds significant promise, but so far the tourism infrastructure is noticeably underdeveloped – at least outside the capital, from the author's observations. Both for the tourism industry and, not least, for the industrial sector, proximity to Dubai is important and likely to provide incentives to adopt liberal policies, since this opens up Oman as a hinterland to the economic activities of Dubai and Abu Dhabi. The joint venture between the Port of Rotterdam and the government of Oman concerning the development of the Port of Sohar and its industrial free zone is one example of this hinterland approach.[36]

Despite attempts to foster a viable private sector, the Omanis are still subject to a highly state-led, developmental model. In the plans, it is still the government and not the private sector that is expected to initiate and drive the economy. However, the policy has a distinct neo-liberal flavour to it, in that it emphasizes a free market economy and an active private sector. This, in combination with rapidly depleting oil resources, makes it a matter of urgency for Oman to implement a diversified and production-oriented policy.

4.4. Qatar

4.4.1. The plan

In July 2008, Qatar published the long-term plan called *Qatar National Vision 2030*, which was followed by the publication of the *Qatar National Development Strategy 2011–2016* in March 2011. *Vision 2030* is a short (just 35 pages), very general plan setting out long-term

[35] Oman is estimated to hold reserves of 5.5 billion barrels of oil, which is 0.4 per cent of the world's proven oil resources. At the current level of extraction, oil production can be sustained for 17 years (Europa Publications 2011: 137).

[36] Interview, Annica Sigevall, head of corporate communication, Port of Sohar, Sohar, 19 December 2010. See also the port's website (Port of Sohar 2012).

development goals, while the *National Development Strategy* is a 286-page report which encompasses not only detailed plans for specific projects and initiatives, but also economic and institutional changes to be undertaken during the plan period. Parallel to these plans, the Urban Planning and Development Authority is drawing up a national master plan to guide land use, namely for infrastructure, mega projects, housing and industrial activities. Furthermore, a transport plan is under way (GSDP 2011: 88). This sudden and substantial emphasis on planning is to be viewed within the context of the upcoming FIFA World Cup, which is to be hosted by Qatar in 2022.

The overall aim of *Vision 2030* is to transform 'Qatar into an advanced country by 2030, capable of sustaining its own development and providing a high standard of living for all of its people for generations to come' (GSDP 2008: 2). Development within the economic realm is to be guided by three overriding policies: sound economic management, responsible exploitation of oil and gas, and suitable economic diversification. Unlike other countries in the region, notably Bahrain and Oman, Qatar is planning in and for a situation of plentiful hydrocarbon reserves. The country holds the largest gas reserves in the world and sufficient reserves of oil to keep production going for another 45 years.[37]

The plan aims for 'suitable economic diversification', by which is understood a diversified economy that 'gradually reduces its dependence on hydrocarbon industries, enhances the role of the private sector and maintains its competitiveness' (GSDP 2008: 2).

The *National Development Strategy* implements the visions outlined in *Vision 2030*. It spells out that diversification necessitates bolstering entrepreneurship and private sector development, improving the business climate, strengthening regional integration and reforming the labour market (GSDP 2011: 26). As it points out, in Qatar, 'Diversifying the domestic output base is not a stroke-of-the-pen shift. Entrepreneurship and innovation need to be learned, embedded in the education system and in the surrounding culture and supported through business friendly policies and regulations' (GSDP 2011: 93).

The strategy points out that there is no ready formula for how to attain diversification, and mentions that Qatar has achieved little by way of diversification of output since the early 2000s. It highlights the significant challenges Qatar faces in the creation of a diversified economy, namely lack of entrepreneurship, the limited size of the economy and thus the limited number of consumers. It is also in a disadvantaged geographical location, where land transport can only be by way of Saudi Arabia. In addition, like the other GCC countries it has

[37] Estimates hold that the gas resources will last 200 years at the current level of production (MEED 2009e).

an economic model with low wages in the private sector and high wages in the public sector, which effectively discourages nationals from seeking employment in the private sector. Finally, there are Dutch disease issues (GSDP 2011: 95). The plan refers to a study pointing out that Qatar exported 1,630 products in 2008, but 98 per cent of them (in value terms) were linked directly to the hydrocarbon sector (GSDP 2011: 94).

The plan points to the weakness of the private sector; for example, 'Qatar's private sector will need strengthening, with support and incentives that encourage acquiring relevant capabilities and participating in a wide range of economic activities' (GSDP 2011: 93). The government thus feels obliged to undertake the twin functions of spearheading development *and* assuring the growth of private sector capabilities through financial support and other means (GSDP 2011: 96).

A considerable emphasis is placed on reforming the economy and its institutions towards openness, streamlining rules and strengthening the legal framework for enterprises. So far, the law concerning FDI has been liberalized, allowing full foreign ownership of assets; industrial cities at Dukhan, Mesaieed and Ras Laffan have been established; and economic free zones are under way (GSDP 2011: 97).

While oil and gas will continue to provide the main income in the foreseeable future, Qatar has an explicit focus on creating a knowledge economy as a means to create a regional hub for knowledge and high-value industrial and service activities (GSDP 2008: 24). Qatar has therefore invested large sums in establishing a cluster of well-known international universities, primarily American – the so-called Education City (MEED 2009c; Willoughby 2008). Qatar spends 5 per cent of its GDP on education (GSDP 2011: 4). The knowledge economy is envisioned to bring more Qataris into the labour force and thus, in the long run, to reduce the number of expatriates in the country. These currently make up 80 per cent of the workforce (MEED 2009e).

4.4.2. Review

Qatar, with its approximately 1.7 million inhabitants (of whom 1.2 million are non-nationals), is aiming for a future with oil and gas.[38] It is deliberately planning for a controlled approach to development and a slow process of diversification. Both plans implicitly send the signal that a Dubai-type fast-track development is not the way Qatar wants to proceed.

[38] The exact number of nationals in Qatar is subject to uncertainty.

In 2009 only 6 per cent of the labour force was Qatari, implying that only 75,000 among the national population of approximately 377,000 held a formal job.[39] Only 0.3 per cent of these work in the private sector (GSDP 2011: 148ff.). So to create a diversified economy based on a Qatari workforce and a Qatari private sector is a major if not impossible challenge. As such, the policies outlined to create a 'capable and motivated workforce' and, not least, a 'capable private sector' are urgent.

The plan is neo-liberal in its orientation and sees Qatar competing in a globalized scene, thus placing a distinct emphasis on the market. However, the plan sees the state and not the private sector as the main driver of the economy for decades to come. The private sector, it is claimed, is not yet ready to play a prominent role in the economy. The plan therefore aims to establish the preconditions for increased private sector involvement in the future. In order for the state to fulfil its role in development, it 'requires continuous improvements in the efficiency, transparency and accountability of government agencies' (GSDP 2008: Foreword).

As mentioned, the sudden and very extensive planning effort undertaken in Qatar must, however, be viewed within the context of the upcoming FIFA World Cup 2022. The country aims to spend US$70 billion over the intervening years on infrastructure, stadiums, housing etc., to facilitate this single event but certainly also as a part of the general development of the emirate (MEED 2012a: 23). One example is the 40 km Qatar–Bahrain causeway, which has been in preparation for more than a decade, but became an integrated part of the World Cup infrastructure, making it possible for some of the fans to be housed and entertained in Bahrain. As such the current effort can be seen as an attempt to plan the developments economically, socially, environmentally and according to land use before the excavators begin work. The *National Development Strategy* devotes a full chapter to the issue of 'developing modern public sector institutions', where capabilities such as 'strategic policy and planning' and 'budget and financial management' etc. must be acquired and implemented before the event.

4.5. Saudi Arabia

4.5.1. The plan

Saudi Arabia has the longest and most elaborate tradition of planning among the GCC countries, institutionalized in the Ministry of Economy and Planning (MoEP).[40] Since 1970,

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[39] An explicit target in the *National Development Strategy* is to increase the Qatari labour force participation rate from 63 per cent to 66 per cent for men and from 36 per cent to 42 per cent for women during 2011–16 (GSDP 2011: 155).

[40] Interview, MoEP, Riyadh, 23 November 2011.

nine development plans have guided the economy. The latest, the *Ninth Development Plan*, covers the years 2010–14. In 2004 a *Long-Term Strategy*, which spans the time period of 2005–24, was published. The subsequent plans, namely the eighth and the ninth, have been aligned with this strategy. Besides these plans, there are eight sector plans, the so-called *National Plans*. They cover areas such as youth, transport, privatization, employment, science and technology, industry etc. (MoEP 2010b).

The *Long-Term Strategy* was established in response to a number of challenges, notably the 'emerging challenges of providing productive employment to Saudi national manpower and improving the quality of life' (MoEP 2004: Section 3.1). Among the aims of the *Strategy* is to raise the national economy to the level of advanced economies, which implies doubling the per capita income between 2004 and 2024, creating jobs for the fast-growing and thus young population, increasing the role of non-oil production in the economy, and reducing the share of oil and gas in total exports from 72 per cent to 37 per cent during the plan period. As such, diversification and expansion of the economy base of society are the central focus of the plan and have, it claims, been the 'key objective of economic and social development ever since the development planning system was initiated some thirty years [earlier]' (MoEP 2004: Section 3.2.2.A).

The *Ninth Development Plan* targets the problems of living standards, lack of employment opportunities, regionally uneven growth and lack of international competiveness for the Saudi economy. The primary means to tackle those problems, besides the issue of uneven growth within the regions of Saudi Arabia, is increased participation by the private sector in the economy. The private sector is expected to increase production, open the country for investments (including FDI) and exports, and, not least, create jobs for the citizens (MoEP 2010a: 31ff., 2010c: 712ff.).

4.5.2. Review

Saudi Arabia is massively larger than the other GCC countries in terms of land mass, population and energy reserves. It has a population of 27 million, of whom 8.4 million are non-nationals; it sits on top of 19 per cent of the world's proven oil; and it has succeeded in establishing industrial muscle within petrochemicals, processing crude output into downstream products of oil through some forty years of diversification strategies (Seznec 2011a: 30ff.). Given not only the country's size but the time elapsed since the start of its oil era (beginning straight after World War II) and the level of institutional development, change of policies and implementation of plans are glacial in speed when compared to those of the

small ‘city-states’ like Qatar. Despite an oil production of close to 10 million barrels of oil a day in 2011, the country has the lowest GDP per capita among the GCC countries, due to its large population and relatively underdeveloped economy.[41]

Significant problems have become apparent over the last decades, namely the issue of youth (un)employment, low living standards and a considerable rise in poverty among Saudis.[42] Despite commanding nearly one fifth of the oil reserves in the world, Saudi Arabia faced current account deficits and tight budgets during the two decades starting in the early 1980s. During this period GDP declined to approximately half and the financial constraints translated into drastically falling living standards and a rise in unemployment (MEED 2005).

The problem is recognized in the *Ninth Development Plan*, which explicitly aims to raise the real income of citizens, to improve the quantity and quality of services offered to them, and to contain poverty (MoEP 2010a: 8). As such, there is an understanding that the ‘old’ oil-based economy is inadequate to run the current society.

The development plans focus on increasing the role of the private sector in the economy. However, the word ‘privatization’ is not mentioned anywhere in the plans, implying that increased private sector involvement relates to newly established activities – likely to be within the SME sector. Neither the established industries based on the oil sector, such as the petrochemical industries, nor the various state-owned enterprises are to be privatized, in this perspective.

There is no specific mention of the future role of ‘the state’. So far development has been state led, in the sense that a significant part of economic activity has relied upon public sector spending (not only on investments in e.g. infrastructure and schools, but also on the vast public sector recurrent spending), which is tightly linked to the income from oil and gas. So, even though the private sector contribution to GDP is almost 60 per cent, this does not indicate that the economy is market driven.

There is a distinctly neo-liberal flavour to the plans, due to the significant focus on the merits of the private sector and a market-driven economy. This orientation is in accordance with the actual implementation of liberal reforms since the early 2000s, aimed at improving the business climate in Saudi Arabia and, as a part of this, the climate for domestic and especially foreign investments. Attracting FDI has a very high priority, both in the private and in the public sector, for example in utilities or gas and oil extraction. In this way FDI is

[41] The CIA (2012) reports the GDP as US$24,200 per capita (PPP), which for comparison is less than half of that of the UAE and Kuwait.
[42] See IMF (2012a) and MoEP (2010c: 197ff.); interview, King Faisal Foundation, Riyadh, 23 November 2011.

believed to assist the country in building a new production base. Investments in the utilities sector are especially welcome. The liberalization process of opening up the economy to foreign competition has a flip side: many Saudi-owned firms were not competitive enough and thus have been forced to close down.[43]

A key achievement in the liberalization process has been the attainment of membership of the World Trade Organization (WTO) in December 2005. The Saudi Arabian General Investment Authority (SAGIA), with powers vested directly by King Abdullah, has made a special effort in branding the country as 'business friendly' to attract FDI, and has consequently succeeded in improving the procedures needed to start, operate and close a business. As a result, the 2012 World Bank *Doing Business* index rated Saudi Arabia as the twelfth easiest place in the world to do business.[44] Even though there is evidence to question the soundness of this ranking, there is no doubt that Saudi Arabia has carried through a significant number of reforms to ease the business climate since the early 2000s.[45]

4.6. The United Arab Emirates (UAE)

4.6.1. The plan

In February 2010, the UAE launched its *Vision 2021*.[46] This plan was preceded by the *National Work Program* from 2005 and the *UAE Government Strategy (2008–2010).* Following the launch of *Vision 2021*, the government published the *UAE Government Strategy (2011–2013).* The latter three documents carry the signature of the ruler of Dubai, Sheikh Mohammed Bin Rashid Al Maktoum, who acts as vice-president and prime minister for the UAE. All these plans appear to be inspired by the proactive and pro-business rhetoric which had become synonymous with Dubai until the financial crisis hit in 2008.

Vision 2021 is a short (26 pages) and very general plan, stating a series of overall aims for the development of the UAE (UAE Cabinet 2010b). The plan explicitly seeks to fulfil an aim of securing the dissemination of social and economic development and government services to all seven emirates (UAE Cabinet 2010a: Foreword).

According to *Vision 2021* the UAE aims to become one of the best places in the world to do business (UAE Cabinet 2010b: 18). In addition, it aims at diversification:

[43] Interview, Saudi Arabian General Investment Authority (SAGIA), Riyadh, 22 November 2011.
[44] For comparison, the UAE is ranked at number 33, Qatar 36, Bahrain 38, Oman 49 and Kuwait 67.
[45] See e.g. Hertog (2010: Ch. 5), who argues that the reforms lack in actual implementation. See also Hvidt (2011b), who analyses changes in the GCC states' ranking in the *Doing Business* index.
[46] The target year 2021 is chosen because the UAE will be celebrating its fiftieth anniversary as a federation of the seven emirates that year.

> We want the UAE to sustain its drive toward economic diversification, as this is the nation's surest path to sustainable development in a future that is less reliant on oil. This means expanding new strategic sectors to channel our energies into industries and services where we can build a long-term competitive advantage. (2010b: 17)

As mentioned, the means to diversify is to foster new high-growth sectors or industries (such as financial services, aviation etc.) which are internationally competitive. Furthermore, the traditional sectors of trade and commerce are singled out as ones to be boosted (UAE Cabinet 2010b: 17). However, the plan favours the creation of a flexible production system so that the economy can take advantage of the ever-changing possibilities offered by the global market.

The UAE is to transform its economy into a model in which growth is driven by knowledge and innovation, or as stated in the *Government Strategy (2011–2013*):

> the UAE government will continue to encourage innovation, research and development, and to strengthen the regulatory framework of key sectors while encouraging emerging high-value added sectors in order to enhance the UAE's competitiveness, develop its business environment, and ensure consumer protection. It will also encourage the formation of small and medium enterprises. (UAE Cabinet 2010a: 12)

4.6.2. Review

The UAE is made up of seven emirates, of which Abu Dhabi and Dubai are much the richest. While Dubai has depleted its small oil resources, Abu Dhabi alone commands nearly 7 per cent of the world's proven oil resources. As such Abu Dhabi is by far the wealthiest emirate, and sponsors development in the other emirates through its contributions to the budget of the Federation and through large off-budget payments to the other rulers. While Abu Dhabi, backed by its huge oil reserves, has sought diversification over the years through manufacturing industries – metals, plastics, fertilizers, petrochemicals etc. – a 'new economy' of high-technology-heavy industries, renewable energies, a luxury real estate market and cultural tourism has been pursued only lately (Davidson 2009: 61).

Dubai, on the other hand, has been the most proactive and eager emirate in its attempt at diversification in the GCC region. Through a historical commitment to a business-friendly environment, with openness towards foreigners in business and in society in general, as well as a strong belief in the proactive role of the 'state' in the economy, the emirate introduced a range of 'firsts' and 'news' to the region, in a blend of income-generating activities, architecture and logistics during the late 1990s and up to 2008, when it was hit hard by the global financial crisis (Hvidt 2007: 559). The key elements of the 'Dubai model' of economic development are the following: (1) government-led development, (2) fast decision making and

‘fast-track’ development, (3) a flexible labour force through importing expatriates, (4) bypassing industrialization and creating a service economy, (5) internationalizing service provision, (6) creating investment opportunities, (7) supply-generated demand, (8) market positioning via branding, and (9) development in cooperation with international partners. The development undertaken in Dubai has acted as a model for the other GCC countries – a model either to follow or to reject (Hvidt 2009: 401ff.). Dubai claimed that the non-oil sector accounted for 95 per cent of GDP in 2005 (Executive Council 2007: 19). Because of the speculative elements attached to the building boom, Dubai suffered significantly in the world economic crisis that began in 2008. Recent information, however, indicates that the real estate market is recovering and that investors and businesses in Dubai are regaining momentum (MEED 2012b).

Vision 2021 is, as mentioned, very general in nature. It is likely that this reflects the political challenges of planning for the seven emirates in unison. These are extremely different in geographical size, level of development, population size, oil resources and thus income. The plan does not point to any specific problems or challenges facing the state, but appears more like a catalogue of ‘positive’ developments to come.

Both *Vision 2021* and the *Government Strategy (2011–2013)* allocate a very limited role to the private sector. In fact, the word ‘private’ appears only seldom in the document. There is no mention of decreased government involvement in the economy, for example through privatization of government-owned productive assets, or of increased investments by the private sector. At the same time, however, it is made very clear that the UAE operates in a global market economy, where productivity, competiveness and innovation are key to success.

The plan thus seems to emphasize a special type of economic model, which is market driven and at the same time built on public ownership. This model could be called ‘diversification without privatization’. In this, the public sector – through its investment vehicles, such as the Mubadala Development Corporation – creates or buys enterprises and operates them on market terms, that is, as if they were private firms. The plans leave no doubt that the state is – and should be – entrusted with taking the lead in developing society. The private sector seems to be limited to its traditional activities, namely trade and SMEs.

Vision 2021 and the *Government Strategy (2011–2013)* both highlight the necessity for an improved regulatory framework within the economic sectors, and a government that is accountable, lean, innovative and forward-looking. Planning and coordination, both between government entities and between the seven emirates, are viewed as necessary for further economic development.

5. Analysis of the development plans

So what does the review of the development plans tell us? This section will compare the content of the current plans or visions published by the six GCC countries.[47] As a guide for the comparison, we will use the four questions posed near the beginning of this study, namely: (1) What barriers to growth are envisioned in the plans and how should diversification overcome them? (2) What economic sectors are targets for the diversification effort? (3) Who will be the driver of the future economy? (4) What type of (economic) state is envisioned in the future?

5.1. What barriers to growth are envisioned in the plans and how should diversification overcome them?

The plans and visions are in near total agreement concerning explicit and implicit barriers to growth and how diversification should solve these issues. The first barrier is the future depletion of the hydrocarbon reserves. The second is the fluctuating price of oil, and thus the fluctuating performance of the GCC economies. Third is the current economic model, the allocation state model, where oil money is allocated in the societies and vast amounts of income are spent on imported labour. This does not create a sufficient number of jobs, or the right kind of jobs, for the fast-growing and increasingly educated national population. Fourth, as a combination of the above points, there are the future difficulties of securing high living standards for the population (keeping up income levels), since the governments in all the states, with the possible exception of Qatar, do not have the financial means to act as the sole sponsor of the vast welfare societies established over the last half century. One indicator of this is that the oil price which produces the fiscal break-even point of the state budget in each country has increased significantly since 2008, to a level where it now equals the actual oil price. The Bahraini budget breaks even with oil priced at US$100 per barrel, while Saudi Arabia, Oman and the UAE need around US$80 per barrel. Kuwait and Qatar, however, need only US$40–50 per barrel (IMF 2011a: 22).[48] Hence the GCC economies have become more dependent on high oil prices and thus more volatile. A fifth and final barrier to growth explicitly or implicitly noted in the plans is the 'motivational and capability' (educational) problems related to the national workforce. It is understood that 'nationals' are neither motivated to take jobs outside the protected environment of the public sector, nor capable of taking them. As softly stated in the Bahraini plan, nationals are not 'the preferred choice' for the private sector.

[47] See Hvidt (2012:195ff) for a more extensive version of this analysis.

[48] Other sources, e.g. the Institute of International Finance, estimate that the break-even oil price is even higher (Wall Street Journal 2011).

Diversification is seen as a means to solve all of the above problems, or barriers to growth. In all the plans, diversification is understood as vertical diversification, where the crude output from the hydrocarbon sector is either processed into downstream products like petrochemicals or used as input into the manufacturing sector, such as in aluminium smelting or steel production. In both cases the value-added benefits the country. Second, vertical diversification entails the growth of non-oil-related manufacturing and especially service industries.

With the UAE as the only exception, the plans reviewed see diversification as synonymous with a greater participation by the private sector in the economy. Oman and Bahrain signal urgency in accomplishing the diversification process, due to their small and rapidly dwindling oil reserves. Kuwait, Qatar and the UAE, on the other hand, signal little urgency to diversify their economies, with Qatar deliberately aiming for a 'slow' diversification process. Saudi Arabia falls between these two groups.

5.2. What economic sectors are targets for the diversification effort?

All the plans aim at building 'created comparative advantages'. That is, the current oil and gas revenues should be invested in economic assets such as infrastructure, production facilities, housing, education, health, and 'soft infrastructure' such as administrative and legal practices etc., which will enable the country to compete internationally and generate a future income. From a review of the plans, a three-step approach to diversification seems to be advocated. First, for all countries with sizable hydrocarbon reserves, the first priority is for diversification within this sector. This implies using crude oil or gas output to produce downstream products, such as petrochemicals, fertilizer and chemicals, or as cheap fuel in energy-intensive industries, such as aluminium or steel. Thus the countries reap more of the value-added on their endowment.

Second, the countries seek further diversification within already successful activities or sectors. These include banking or processing raw aluminium in Bahrain; logistics, the seaports and trade sector in Dubai; the trade sector in Kuwait; and the LPG industry and steel mills in Oman.

Third, there is an effort to introduce new sectors, industries or activities which hold high growth potential. The choice of such activities has, not surprisingly, been made among the well-known high-growth sectors in the globalized economy, such as aviation, tourism and hospitality, real estate, logistics and business services or, within manufacturing, high-technology-content products like smart technologies or green technologies.

The massive investment in airports, planes and flight service facilities by Etihad (Abu Dhabi), Emirates (Dubai) and Qatar Airways (Qatar) is an example. According to Airbus Industries, passenger transport has generally doubled every 15 years since the 1960s, measured as revenue passenger kilometres – a statistic which has been relatively resilient to various economic shocks. Forecasters expect this trend to continue, especially due to growth in the economies in Asia (Airbus 2012: 20). The proximity of both the European and especially the Asian market makes the Gulf a favourable location for such carriers. As one observer noted following the Dubai Airshow 2011, the 'Gulf carriers want to redraw the world travel maps and turn the region into a global hub by placing record orders for new planes' (Khaleej Times 2011). Thanks to their ability to maintain high investment levels in new planes and, not least, access to jet fuel at very competitive prices, the Gulf carriers expect to gain an increasing share of the global market and thus revenues earned in this industry.

Given the small size of the indigenous populations, except for that of Saudi Arabia, the aim is to diversify into high-value-added jobs. This is mainly because such jobs are well paid and thus can support high living standards, but also because they fit well with the type of work desired by Gulf citizens.[49] On the downside, however, such jobs are characterized by a significant knowledge content, which again necessitates a high level of education. That is the reason why all of the plans emphasize human resources development as a key component of the diversification drive.

5.3. Who will be the driver of the future economy?

This question is divided into two sub-questions: first, who determines what and how much is to be produced (state vs. market), and second, who produces (public vs. private sector).

The first question is easily answered from the review of the development plans. The nature of these economies is that they sell oil and gas, or related products like petrochemicals, fertilizer, aluminium etc., on the world market and basically import all other materials and a labour force. Because these economies have virtually no domestic production, they are among the most globalized in the world. This is reflected in the plans, in which it is unquestioned that the market determines what and how much is to be produced. However, one could argue that domestic industries are favoured through subsidies and other price distortions. The productive sectors in general benefit from subsidized prices on water, electricity, land etc. Furthermore, gas and oil are often provided as feedstock to the petrochemical industry at discounted prices. Seznec (2011a: 39), for instance, discusses how the state-owned companies in petrochemicals,

[49] Interview, Bahrain Chamber of Commerce and Industry, Manama, 17 January 2011.

such as SABIC or Saudi Aramco, pay significantly lower prices for feedstock than do private companies. Another example is that the European and American airlines accuse the fast-growing aviation sector in the Gulf of benefiting from lower fuel prices and, not least, government funding for aircraft purchases etc. (Gulf Times 2011). Furthermore, there is a near-complete lack of transparency of the money flows within the large state-owned holding companies, which makes it possible to relocate both surpluses and losses within the entities (Hvidt 2009: 409). Both examples imply that there are elements of favouritism and the protection of domestic industries and, as such, the Gulf economies are not yet fully functioning market economies.

In terms of the second question, about who should produce – the public or the private sector – the countries differ significantly. Bahrain and Oman explicitly aim to create a neo-liberal free market economy, where the private sector (as opposed to the state) is the driver of the economy and where meritocracy is to be (re)introduced into the public sector through real competition for jobs. Oman is currently the only country among the six that has specific plans to privatize state-owned firms.

Kuwait, Qatar and Saudi Arabia signal a continuation of the state-led developmental model, although with the positive mention of a future role for the private sector. Among these countries, the state remains the driver of the economy through its significant development budget and ownership of firms, while the private sector operates in a market niche where the state has chosen not to invest, for example in trading, retail and construction. Saudi Arabia and Kuwait, however, are in need of further investments in their economies. The only source of these investments is the private sector, either local or foreign firms. Saudi Arabia has carried through substantial economic reforms to make the country attractive for investments, and Kuwait is just at the beginning of this process. The UAE is the only country which does not signal an aim to increase the private sector or the role of the free market.

Thus, besides Bahrain and Oman, the GCC countries are envisioned as continuing along the line of what could be termed 'state capitalism'. Here the state, through direct ownership of productive assets and large governmental budgets, is an active player in the market, creating both a supply of goods and services and, not least, a demand for them.

5.4. What type of (economic) state is envisioned in the future?

Recall that the allocation state hands out or allocates money and benefits to its population, while the production state needs to tax its population. So do the plans reviewed above tell us anything about the future along this continuum?

Through their plans and visions, all six countries call for further diversification of the productive base (irrespective of whether this is done by the private or the public sector). This implies that revenues from oil and gas sales are intended to be invested in real and productive assets which can secure future income streams for society – not least to create employment for the rapidly increasing national workforce. As such, there is a clearly stated aim of departing from the known economic model, where the governments generously disperse oil money and services among the citizens and at the same time invite foreign labour to fill the work positions in society.

Despite the smooth wording, stylish layout and promises of 'world-class' health care and general livelihood, the plans imply that coming generations of Gulf nationals, both men and women, will be expected to educate themselves and compete for jobs – not only in the public sector, but also increasingly in the private sector. They must work for most of their adult lives and contribute economically to society. The days when a Kuwaiti woman could receive a full, lifelong pension having been in the labour market for only 15 years seem to be over, according to the plans.

Oman, Bahrain and Saudi Arabia, the most economically challenged countries, express most urgency in undertaking these change processes, while neither the UAE nor Qatar signals any urgency. None of the plans, however, establishes a timeline for implementing these changes. As such one might read the plans as an attempt to articulate or send a warning that such policies are necessary – that they will be implemented in the long run.

5.5. Summary

The above analysis of the development plans points out that diversification in the broadest sense of the word is seen as the means to overcome fundamental problems in the allocation state model, by reducing volatility, solving the employment problems and securing high and sustainable income levels for citizens in the future.

The plans envision a gradual shift from the allocation state model to a more production-oriented model, where the state, the citizens and the private sector are encouraged to produce – and involved in producing – actual goods and services, and where the government relies on proceeds from this production in financing the societies. In order to achieve this shift, the diversification process ahead encompasses not only strategic investments in economic assets, infrastructure and education, but also – and much more politically challenging – broader economic and social reforms aimed at (re-)establishing the link between effort and reward in the work life of the nationals, in order to stimulate better use

of human resources. In other words, diversification as depicted in the plans calls for much more than just fine-tuning the economies: it involves fundamental changes. These will necessitate not only significant political commitment from the rulers but also strong and autonomous state apparatuses to implement such changes (Evans 1995: 59). As Richard and Waterbury remind us, reform processes always have winners and losers (2008: 3). The losers, whether individuals, professional groups, tribes or classes, have a natural inclination to oppose changes and fight to maintain their privileges, concessions, status or political power. Hence reform processes, no matter how beneficial they might be for the larger segments of society, will always be faced with oppositional forces.

6. Assessment of the likelihood that the planned diversification is implemented

From the review of the past record of the diversification process in section 3 of this paper, we found that the process up to now has been slow and has yielded minor results in relation to establishing non-oil economic activities. In this section we assess the likelihood that the planned diversifications measures will in fact be implemented.

As noted earlier, planning and plans serve other purposes than mere implementation. It therefore becomes relevant to ask whether the planning documents published in the GCC countries should be considered ‘window dressing’ or genuinely meaningful projects that function as a tool to direct or guide the actual development in each country.

From factors such as the young age of the bureaucracies, the limited power vested in the planning ministries or other lead agencies for planning, and, not least, what Hertog (2010: 5) denotes as the prevailing ‘segmented clientalism’, it is reasonable to assume that both the technical capabilities to conduct planning and the ability to implement plans remain quite weak throughout the GCC countries. This is especially the case when considering the broader and more complex reforms which have to be implemented in order to see through the diversification process. Such reforms necessitate not only an efficient and uniform implementation within a broad range of ministries and agencies in the state bureaucracy, but also country-wide coordination among national, regional and local entities. In other words, such reforms necessitate a mature administrative apparatus, which at present is not found in the GCC countries.

In the subsections below, the likely barriers to implementation of the planned diversification drive are discussed under two headings: structural and political.

6.1. Structural barriers to the planned diversification

All the development plans seem to presuppose growth, not only in the domestic economies, but also and especially in the global markets they address in their diversification effort. The current state of the world economy does not, however, look encouraging in this respect. According to a 2011 IMF *World Economic Outlook*, the financial crisis has turned out to be much deeper and last significantly longer than first estimated (IMF 2011b: xv–xviii). The October 2012 *World Economy Outlook* titled *Coping with High Debt and Sluggish Growth* paints an even gloomier picture of the prospects of the recovery of the world economy (IMF 2012b: xvii). As such, in the years to come the world faces stagnating global demand, slow growth, increasing risk and growing fear of protectionism. This medium-term forecast is likely to impact on the diversification effort in the GCC countries. A stagnating world economy means lower demand for, and thus lower returns on, the manufacturing and services activities they have established or aim to establish. This implies that it will be even harder to start and sustain new economic activities in both the public and the private sector until the crisis eases.

Fortunately for the Gulf states, the global financial crisis coincides with extremely high revenues from oil and gas. The incomes from hydrocarbons are now even higher than in the boom years of 2002–8 and significantly higher than all of the 1990s, when the oil price averaged around US$20 a barrel. In 2008, the previous record year, the average yearly oil price reached US$94.45 for the Organization of Petroleum Exporting Countries (OPEC) price basket, but after a dip to US$66.06 in 2009 and US$71.45 in 2010, the average oil price for 2011 stood at US$107.46 and was expected to rise to US$112.12 in 2012 (OPEC 2012). The IMF expected this price level to continue in the medium term (IMF 2011b: 34).

High state earnings cannot alleviate the demand problems in the world economy. The governments can, however, use these assets either to continue the unsustainable policies or to leverage economic reforms and other initiatives, furthering the aim of diversification.

A second, more technical issue which threatens the planned diversification effort is the duplication of activities. Even at present, there is a significant level of economic activity duplication among the GCC countries (GSDP 2011: 102). As several interviewees argued and as is hinted in the development plans, the GCC countries are in the process of creating further overlaps in investments, not only in energy-intensive areas such as petrochemicals, steel and aluminium, but also in tourism facilities, aviation, real estate, office space, banking and education. The effect of this is, however, difficult to assess. If the GCC countries compete against the world as one can claim they do in, for example, the aviation sector, then duplication is less of a problem. In fact in the terminology of Porter (1998), one could view

the high concentration of airports and carriers in the region as a globally competitive aviation 'cluster'. However, if we discuss goods and services of an import substitution character, then duplication inevitably leads to smaller home markets for each producing unit and thus less efficiency and profitability.

A third technical barrier – and closely related to the above – is the lack of interregional trade. As mentioned earlier, the GCC's unification of customs duties in 2005 and the declaration of the common market in 2008 removed some important barriers to free movement of goods and services, as well as to the mobility of national labour and capital. However, in practical terms this has made limited improvements. According to several interviewees, the policies and bureaucratic procedures related to the movement of goods, and especially that of employers and money, between the countries differs significantly among the six GCC states, leading to a situation which discourages interregional trade.

Furthermore, there exist deficiencies in the cross-border infrastructure which dampen the possibilities of reaping the benefits of a more integrated and enlarged economic space. To the degree to which Saudi Arabia can resolve issues related to visa restrictions etc., the proposed rail link which is to integrate all of the six countries holds substantial potential in this regard. So do smaller projects such as the Qatar–Bahrain causeway (MEED 2011a).

The prospect for a more unified and coordinated policy, however, seems bleak, at least in the short term. GCC bodies are not granted supranational powers, which implies that any policy, big or small, must be approved, adopted and incorporated into the national laws of each member state (Legrenzi 2008: 112). Also, owing to historical incongruence, tribal issues, regional competition and unsettled border disputes, the climate of cooperation among the GCC states is not one of trust, or, as stated by O'Sullivan, 'the GCC six aren't ready to trust in regional rather than national initiatives' (MEED 2009d).[50] The GCC simply lacks suitable mechanisms for effective coordination and enforcement of economic policies among the member countries. It follows that deficiencies in interregional trade and duplication of industries and services are likely to continue in the foreseeable future within the region, thereby limiting the prospect of further diversification of the economies.

6.2. Political barriers to the planned diversification

The proposed reforms are politically difficult to implement, simply because large segments of the population in each country will experience the outcome of the reforms as a reduction of

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[50] See also MEED (2012b), in which the status of the GCC on its thirtieth anniversary is assessed.

their time-honoured rights, or, as Davidson would term it, as a break with the ‘ruling bargain’ (Davidson 2005: 87).

The allocation state has pampered its nationals with cheap or free housing, land, low-interest loans, cash hand-outs, free schooling (even abroad), attractive pensions, subsidized water and electricity, and freedom from taxation. In addition it has provided ample jobs for the nationals in the public sector. According to the plans, diversification implies – at least in the longer run – an economic (re)vitalization of the nationals, by reducing or withdrawing these highly attractive privileges in order to shift job creation to the private sector and, not least, redress the link between effort and reward.

But do the governments have the political will and the legitimacy to see through such wide-ranging reforms? The Arab Spring provides a tentative answer to this question.

Faced with the uprising during the early months of 2011, the rulers of the GCC countries, whether or not actual demonstrations had taken place in their countries, reacted nearly uniformly to quell the unrest by means of significant spending. Kuwait increased its governmental spending by 3 per cent of GDP by handing out a cash grant of US$3,600 per citizen and providing free essential food items for 18 months. In Qatar, the ruler announced a 60 per cent increase in public sector salaries in general and a 120 per cent increase for military staff of officer rank, and in addition improved pensions, amounting to about 3 per cent of GDP. In Saudi Arabia, King Abdullah pledged two financial packages worth a total of US$130 billion to the Saudi population, encompassing cash hand-outs worth two months’ salary to all the employed and to students, public sector pay rises of 15 per cent, the introduction of a minimum salary, increases in unemployment benefits, the building of 500,000 affordable housing units etc. These packages represented a value equivalent to 19 per cent of GDP (IMF 2011a: 16; LHV Persian Gulf Fund 2011).

In Bahrain and Oman – the two countries most affected, judging by the severity of demonstrations – the response followed the same pattern. Given their limited financial means, each country was granted US$10 billion from the other members of the GCC to fend off the storm. In Bahrain, this was translated into the creation of 20,000 public sector jobs, and in Oman, the response included not only the creation of 41,000 jobs in the public sector, increased payments for pensions and housing for students, but also the removal of twelve ministers (including Ahmed Macki, the minister of national economy), the abolition of the Ministry of National Economy, and the granting of legislative powers to the Council of Oman – a package worth 3–4 per cent of GDP (MEED 2011c).

Most of these large expenditures were not planned in the current development plans. Hence the most obvious lessons that can be deduced from the responses to the Arab Spring uprising in relation to planning are the following.

First, in time of crisis, the decision makers resorted to the traditional means used by allocation states, namely appeasing the population by pampering them with economic gifts.

Second, besides being financially unsustainable, the creation of tens of thousands of jobs in the public sector, salary increases in the public sector and not in the private, better pensions and the introduction of minimum wages etc. directly contradict the intentions laid down in the diversification strategies, such as job creation in the private sector, levelling out wage differences between the private and the public sector, redressing the work–reward relationship and, more generally, expanding the role of the non-oil sector.

Third, the sheer size of the responses to the unrest reflects the fact that the regimes in the GCC countries perceive themselves as vulnerable. This implies that the governments will also be reluctant to provoke the anger of the citizens in the future.

So, while the regimes succeeded in deflecting the unrest and remaining in power, the lessons that emerge from the response to the Arab Spring uprising concerning planning are not encouraging. They suggest that, in time of crisis, ad hoc measures take precedence over plans, and, even more seriously, governments are not only ready to abandon their long-heralded policies of diversification, but willing to implement measures that directly contradict them.

It is not quite fair, however, to use the Arab Spring as a litmus test of the political commitment to the diversification process, or of how genuinely meaningful development planning and plans are in the Gulf region. The Arab Spring represented probably the most serious challenge the regimes in the Gulf have ever faced. The rulers had witnessed the turmoil in Yemen, the Tunisian president being forced out of office and the resignation of President Mubarak in Egypt just before the first demonstrations surfaced in Bahrain and Oman. These events sent a clear message to the Gulf leaders: first, that the uprising should be taken seriously because it could result in the downfall of their regimes, and second, that the messy political and economic situation in Bahrain resulting from the application of significant violence to curb the demonstrations should be avoided, at nearly any cost. As such, the Arab Spring uprising should be conceived as a national emergency situation in which all normal practices were set aside.

Thus it can be argued that in this situation of extreme threats to the regimes posed by the Arab Spring, the policies and plans aiming at economic diversification were momentarily sidelined, and if and when these societies return to a more normal situation, the emphasis on

pursuing the plans will be resumed. Thus the Arab Spring uprising does not foretell a complete abandoning or derailing of the diversification effort in the coming decade. There is only one certain conclusion at present, namely that the lavish spending undertaken to quell the Arab Spring has made the task ahead related to diversification considerably more difficult. As summarized by Ulrichsen (MEED 2011b),

> They can probably get away with [higher spending] for a few more years, particularly if oil prices remain high, but in the longer term it's going to be fiscally unsustainable. It's going to be extremely hard to roll back these measures, especially in times of unrest, so it's just going to lock in government spending at incrementally higher levels. That just increases the eventual cost of coming to a reckoning.

A final issue concerning the likelihood of implementation of the planned diversification in the future relates to the status of the political actors who carry the plans and the reforms through the political system. It seems likely that the Arab Spring has boosted the arguments and political position of the pro-reform individuals, groups or coalitions within each regime. If this is so, the current plans stand a better chance of implementation, and the formulation of new plans will come to act as an important political battleground in the process of clarifying the policy aims related to diversification in the post-Arab Spring uprising period.

6.3. Future research

This research project raises at least two questions which would benefit from further research. First, there is a surprising uniformity not only in the assessment of the challenges facing the GCC economies, but also in the recommendations for means to meet these challenges. Are there really no alternative pathways for these economies? The dominant discourse seems to be that 'world class' infrastructure, education, health service, culture and leisure activities etc. necessarily attract and foster the emergence of a 'creative class' of citizens and private sector entrepreneurs. Is it in fact so?

Second, and in relation to the above, where do the meta ideas concerning the current comprehension of development and diversification originate, and what role do the international consultancy firms play in creating such ideas or transferring them to the GCC countries?

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