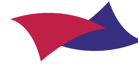


المنتدى الاستراتيجي العربي
ARAB STRATEGY FORUM

SOCIO-ECONOMIC OUTLOOK FOR THE ARAB GULF COUNTRIES FIGURES & FORECASTS

ARAB STRATEGY FORUM

The Arab Strategy Forum Platform, enables leaders in the private and public sectors to make strategically informed decisions, navigate risks and exploit opportunities. The Platform performs that mandate by developing pioneering, short-term forecast thought leadership and insights. The forum provides a premier platform to world leaders and global shapers to discuss geopolitical and economic trends, insights and impactful strategies to impact the world.

Arab Strategy Forum
Dubai, United Arab Emirates
Tel: 800273 971+
E-mail: info@arabstrategyforum.com
Website: http://arabstrategyforum.org

EMIRATES POLICY CENTER

The Emirates Policy Center is an independent think tank established in Abu Dhabi, United Arab Emirates on September 1, 2013. EPC's research focuses on the UAE and its foreign relations, as well as the affairs of the broader Arabian Gulf region and its international interactions. The Center seeks to issue regional and international policy forecasts, identify related trends, and assess the impact of various geopolitical influences on the region.

CONTENT

EXECUTIVE SUMMARY 04

INTRODUCTION 08

THEME 1: THE REALITIES OF THE GULF ECONOMIES 10

Recovering from the 2014 oil price collapse 13
Debt 14
The non-oil sector's contribution to the budgets of the GCC countries 14
Other sectors 15

THEME 2: CHALLENGES FACING THE GULF ECONOMIES 16

The demographic challenge 16
More women to joian the work force 18
Localizing labor 19
Increasing productivity in the private sector 19
Education and innovation 20
Other challenges 22

THEME 3: A GENERAL ASSESSMENT OF DEVELOPMENT STRATEGIES AND MEGA PROJECTS IN THE GULF 24

Will the aims and visions of these development plans be implemented? 26

THEME 4: ECONOMIC PROSPECTS OF THE GULF TO 2025 28

Oil price outlook 29
Contribution of the non-oil sector to the budgets of the Gulf countries 30

CONCLUSION AND RECOMMENDATIONS 31

REFERENCES 32

APPENDIX 1: POPULATION PYRAMIDS FOR THE GCC COUNTRIES 34

EXECUTIVE SUMMARY

The six states of the Gulf Cooperation Council (GCC) – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE) – have largely weathered the effects of the 2014 oil price collapse. The economic outlook for the region is relatively positive for the coming five years, providing some relief from the austerity policies applied in 2015. This positive outlook also provides an opportunity to pursue structural and fiscal.

In their current development plans and visions, the governments of the region aim to shift their economies to a new growth model that promotes diversification and private sector development; this report will focus on this restructuring process.

This report is divided into four sections that discuss current realities in the Gulf economies and the challenges they face, and provide a general assessment of the development strategies and mega projects being implemented in the region. It concludes with a review of the Gulf region's economic prospects to 2025.

The first section analyzes the close relationship between oil prices and economic performance in the Gulf states. While the countries of the region are among the richest in the world, income from oil and gas has largely crowded out growth in other income sources. Even though emphasis has been placed on promoting economic diversification over the years, the Gulf economies remain dependent on oil and gas when it comes to export earnings, state budgets and GDP. This makes them highly vulnerable to fluctuations in oil prices. The highly negative impact of the 2014 oil price collapse serves as a stark reminder of this.

The GCC states reacted to the oil price collapse with a variety of ad hoc measures that aimed to trim government budgets and – especially from 2016 when the longevity of the crisis became clear – achieve fiscal consolidation through the implementation of measures such as reducing subsidies on fuel, water and electricity, coupled with direct budget cuts for both recurring costs and development projects. Saudi Arabia and the UAE introduced value-added tax (VAT) in January 2018, and the other GCC countries are set to follow suit. Some have also initiated changes to pension and social security systems, including revisions to retirement age and benefits.

The above-mentioned measures, in combination with increasing oil prices from 2017, form the foundation for positive short-term growth projections.

The significant state budget deficits witnessed since 2014 have largely been covered by asset drawdowns – where possible – but also by issuing sizeable debt to the international market. While debt levels remain manageable, over the next decade an estimated $71 billion will be required each year to service this debt.

The non-oil sectors (e.g. non-oil manufacturing, tourism, real estate, transportation, ports and the financial sector) are making significant employment and revenue contributions to the economies of all GCC states. In Saudi Arabia, it is estimated that these sectors account for 50 percent of GDP, which is likely also to be the case in the other GCC countries. Tourism is a key sector, with more than 53 million tourists visiting the region each year, providing a total of $137 billion in income and 2.2 million jobs.

The second section of the paper discusses the region's complex demographic challenge in detail. Fundamentally this stems from the fact that the national population in each GCC country is very young, which results in fast growing populations.

Rapidly growing populations mean significant increases in demand for schools, secondary education, universities, housing, utilities, overarching infrastructure and ultimately health services and pensions. Above all, a rapidly growing population places pressure on societies to create large numbers of new jobs in order to accommodate the many new working-age entrants to the labor market. It is generally understood that a lack of jobs (i.e. involuntary unemployment – particularly among younger generations) is a destabilizing factor in any society.

Approximately 500,000 young people will reach working age each year in the GCC throughout the decade to come.

The Saudi Vision 2030 estimates that 4.5 million new jobs will be needed before 2030 to meet this challenge, while in Kuwait 384,000 jobs are required before 2030.

Not only are populations growing fast, but larger portions of those populations are expected to take up salaried work – especially women – increasing the urgency of job creation.

This problem is particularly acute in Bahrain, Oman and Saudi Arabia, where both current unemployment rates and the number of new entrants to the labor market necessitate immediate action by governments. Programs of Bahrainization, Omanization and Saudization have been enacted with the dual purpose of freeing up jobs for nationals in the private sector and encouraging more nationals to seek employment in general.

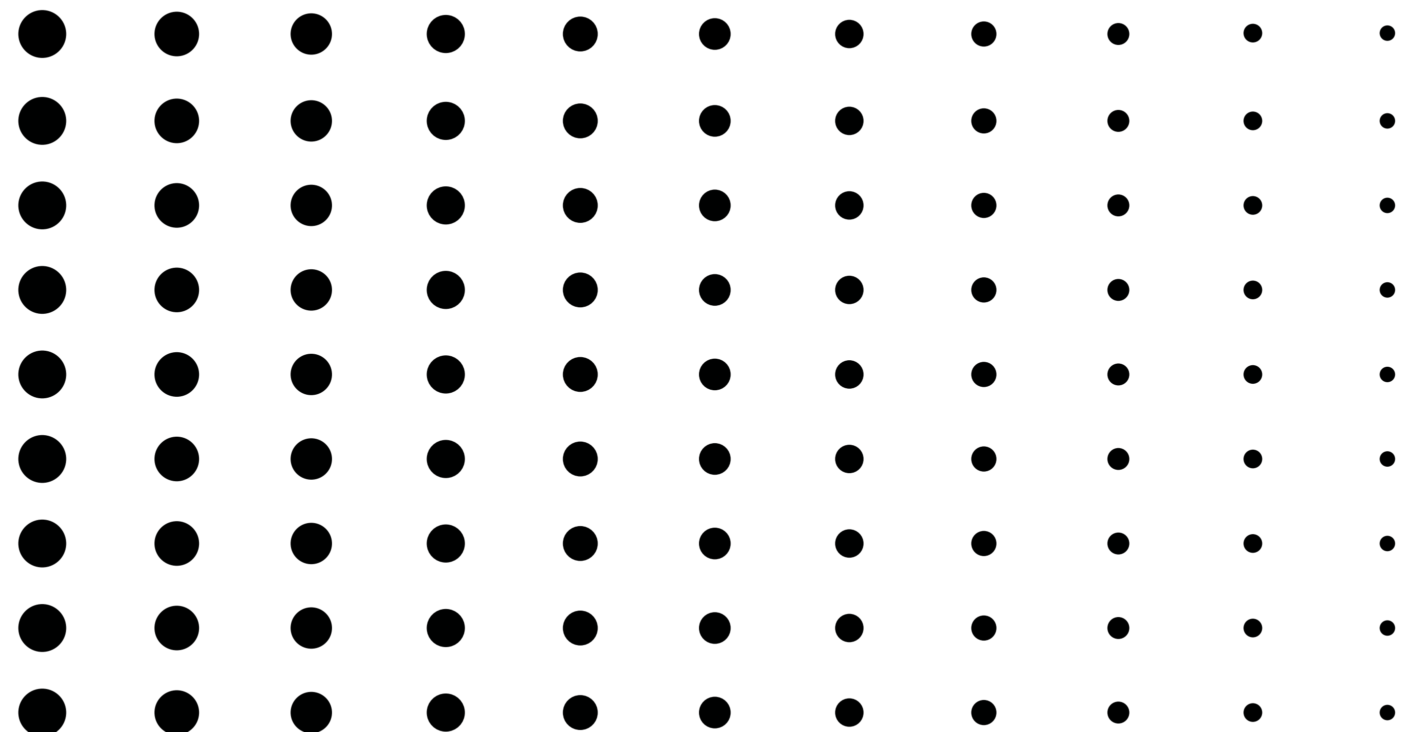
In all the visions and development plans issued by GCC governments, it is the private sector which is given the main responsibility for job creation. This report finds that with significant unemployment or under-employment, especially among young people, it makes extremely good sense both from a political and an economic point of view if the national population increasingly take over jobs now occupied by imported labor.

The major challenge lies in the ability and willingness of the national population to take up private sector jobs, which presently are characterized by low skills and thus low pay. They must therefore gradually be transformed into more productive jobs in higher value-added sectors in order to become attractive to nationals. As such, the policy focus must shift from "hiring more hands" to increasing productivity per worker.

Such a policy furthermore implies that the qualification levels of nationals must be raised through improvements in the education system, and not least by aligning the curriculum with the needs of the job market.

Since the world economy places increasing emphasis on high-tech-content goods and services, it is imperative that the GCC economies target production in the higher end of the value chain, given their resource endowments (small populations, minimal agriculture, much oil). Among other benefits, such a transformation is expected to increase the level of knowledge and entrepreneurship among national populations, enabling them to tap into foreign knowledge and adapt and create new knowledge to their own countries' specific needs.

Finally, this section touches upon some day-to-day challenges, namely regional geopolitical crises, declining integration among Gulf economies, the growing risk of international protectionism, the challenges facing the banking system, and fiscal adjustment programs.



The third section of the report provides a general assessment of the development strategies and mega projects being undertaken in the Gulf. The published strategies and plans of the Gulf countries are in near total agreement in their analyses of the barriers to the future development of the GCC societies.

Foremost among these is the rapid depletion or technical obsolescence of hydrocarbon reserves. The second is fluctuating oil prices and their effects on the performance of the GCC economies. Third is the inability of the current economic model to create sufficient income and, not least, a sufficient number of the right kind of jobs for rapidly growing and increasingly well-educated national populations. Fourth is a combination of the above – future difficulties in securing high living standards for the national population, since the governments in all the GCC states lack the financial means to act as the sole sponsor of the vast welfare societies they have established over the last half century.

A fifth and final barrier to growth, explicitly or implicitly noted in the plans, involves "motivational and capability" problems related to the national workforce. It is understood that nationals are neither motivated nor capable (despite increasing education levels) of taking jobs outside the protected environment of the public sector. All plans address these five issues and aim to bring larger shares of their national populations into high-knowledge-content jobs in the future.

Diversifying the economy away from dependence on oil and gas is seen as a means to solve these problems. Foremost among these efforts is the goal to introduce new sectors, industries or activities with high growth potential. This implies a focus on high growth sectors of the globalized economy, e.g. aviation, tourism/hospitality, real estate, logistics, business services, manufacturing and "high-technology-content products" like smart or green technologies.

But what is the likelihood that these development plans and strategies will be implemented? This report discusses the technical and institutional issues surrounding their implementation – including data availability and the organizational capacity of institutions – and concludes that while it is evident that the capability exists to implement specific projects (within the context of construction, for example), the implementation of complex economic, financial, regulatory or social reforms spanning several ministries and actors at various institutional levels will be more difficult. These institutions are young and were established during an era characterized by substantial oil income. Owing to the absence of taxation systems in the GCC states – or, more precisely, an absence of information concerning society and economic flows – the ability of GCC governments and decision makers to intervene in complex ways in the economy is much reduced.

A second and obvious point is that such reforms require significant commitment from rulers and decision makers in order to be implemented successfully. While it is evident from the 2014 oil price collapse that reforms and ad hoc interventions can be seen through, the question remains whether such reforms will remain in place now that the crisis has largely been weathered.

The fourth and final section of the report discusses the economic prospects for the Gulf to 2025. The GCC countries are integrated with the world economy both in terms of supply and demand. As such, the region is highly susceptible to fluctuations in the global economy. In addition, as argued above, due to the high dependency of national budgets on oil and gas incomes, the prices of oil and gas have a direct impact on the economic performance of these economies.

Real GDP growth in the GCC region is expected to remain moderate – at 1.9 percent for full-year 2018 – and is projected to rise to 2.6 percent in 2019. Among analysts these forecasts reflect the understanding that slow growth is becoming "the new normal" for the region. Three sets of risks, however, can alter this growth outlook:

- Tighter financial conditions, which implies higher global interest rates as monetary policy continues to normalize in advanced economies, suggesting higher servicing costs for the debt incurred by the GCC states after the 2014 oil price collapse, and lower capital investment growth.
- Increasing economic protectionism, which may result in escalating import tariffs or a shift toward inward-looking policies, and which could harm international trade, reduce global growth and dampen commodity prices, including for oil.

- Heightened geopolitical tension in the Middle East region – notably between players such as Iran, Saudi Arabia, Qatar, Turkey and the UAE, hampering interstate trade, decreasing inflows of FDI, escalating defense budgets and, more generally, reducing economic opportunities.

The oil price outlook up to 2025 remains uncertain too, largely reflecting both demand-side and supply-side uncertainties.

However, the IMF and the World Bank do not expect prices to rise in the medium term, but rather to stabilize around the current level or even decrease. However, many uncertainties surround this forecast.

The vast inventories of oil in the OECD, which in 2014 triggered the price collapse, have since reduced. In combination with declining output from Angola and especially Venezuela, and the new sanctions on Iran, this implies an increasing call on OPEC oil. However, the shale oil industry in the US is now producing larger and larger quantities, nearing 8 million barrels per day. Technological progress has brought production prices down, which implies that shale oil can be produced profitably in the $37–66 range, i.e. the same range as OPEC's target price. As such, shale oil will remain a significant contributor to the oil market over the medium term, placing downward pressure on prices.

A second often quoted challenge to oil prices – in the medium and especially the long term – comes in the form of green technologies and climate considerations. This report argues, however, that in the short and medium term, the effects on oil prices will be minimal; first, because demand for energy is growing globally, and second because the share of renewables in the global final energy consumption remains low, at around 11 percent (rising to 12.4 percent by 2023). As such, there is no evidence to support the claim that renewable energies and electric cars will radically transform the energy market in the short or medium term.

Finally, While recognizing the differences and similarities between the six GCC countries, the report concludes that in order to achieve this, the following measure are required:

• Governments must allow more opportunities for the private sector to expand and to accelerate job creation.

• Labor market reforms must be undertaken to incentivize greater participation by national populations in the labor force, and to make private sector jobs more attractive to nationals.

• Reforms are required to increase private sector productivity in order to move production up the value chain beyond simple production processes and products, thereby creating jobs with higher knowledge content and remuneration.

• Further education system reforms are needed, not only to better prepare young people to become competitive and productive members of the workforce, but also more broadly to enhance the incentives for educational attainment and professional qualifications.

• Fiscal reforms are necessary to ensure more sustainable economic performance.

• Institutional reforms are required to strengthen the capacity of the public sector to undertake planning and the implementation of development strategies.

INTRODUCTION

The six GCC countries are slowly emerging from the fiscal shock of the 2014 oil price collapse. They have weathered the crisis by applying sharp reductions in spending combined, sizeable drawdowns of fiscal reserves and issuance of debt, as well as through negotiating an agreement with OPEC and Russia – the so-called OPEC+ agreement – to implement supply cuts which have led to a gradual rise in oil prices throughout 2017 and 2018. Forecasts provide positive prospects and modest short-term growth for this group of countries.

While the situation at the surface looks relatively stable, in fact it is not. The drastic drop in oil prices in 2014 and its impact on state revenues is a stark reminder that the Gulf economies, despite decades of diversification efforts, continue to depend heavily on oil incomes and to experience fundamental problems in their economies.

The grand vision behind the current development plans and visions published by the Gulf states – the Abu Dhabi Economic Vision 2030; Bahrain Vision 2030; Kuwait Vision 2035; Oman Vision 2040; Qatar National Vision 2030; Saudi Vision 2030; and UAE Vision 2021 – is to transform their economies from oil dependence to advanced, technological post-oil economies with more solid and economically sustainable foundations.

The fundamental understanding behind these visions and reforms is that the "allocation" model applied during the era of plentiful oil income is no longer viable. Firstly, because that income faces significant challenges in the long term, resulting from issues related to global overproduction and concerns regarding carbon emissions from fossil fuels, as well as from the challenge posed by technological transformation and the ongoing fall in the cost of energy production from green energy sources. Secondly, the economic diversification traditionally created by investments and growth in manufacturing has not really materialized, largely owing to the fact that the economic policies and size of these home markets have not encouraged the growth of a substantial manufacturing sector. Thirdly, this model has failed to create sufficient jobs for these states' young, fast-growing populations.

The understanding is that the "old model" – where governments through sizeable oil incomes were able to secure high incomes and a comfortable lifestyle – are no longer sustainable.

From an economic viewpoint, the "oil era" must be considered an anomaly in the development of the Gulf countries. The overall political and economic challenge facing the countries today is to redirect their societies, by and large disrupted over the past half century by high and easily acquired oil incomes, back to an ordinary type of economy where societal wealth is based on the skills, talent and hard work of the population. The current structural and fiscal reforms, labor market reforms, diversification efforts, education reforms and emphasis on private sector growth all serve to meet this aim.

What is at stake is the long-term livelihoods of Gulf populations, especially for the large generations of young people who will be left with few economic options if governments fail to create sustainable economies.

Having weathered the 2014 oil price collapse, it is now time to accelerate the structural reform agenda and move toward this new growth model that promotes diversification and private sector development. This include deep reforms of the labor market and within the education system in order to boost productivity and create opportunities for the population at large. While important steps have been taken over the past decades, more is needed.

Growth in the GCC economies has so far largely been characterized not by increased productivity but by the increasing use of low-skilled labor. If the national population is to be effectively incentivized to enter private sector employment, there is a need to move production up the value chain beyond simple production processes and products, i.e. by creating jobs with a higher knowledge content that yield higher salaries. This, however, requires that the younger generation of Gulf Arabs possess both the qualifications and the motivation to undertake such jobs.

These broader structural and fiscal challenges are the focus of this report; the interest lies less in the day-to-day challenges and world market fluctuations which all governments must face, and more with the larger issues addressed in all visions and development plans and proclaimed by all rulers and governments – namely to transform the GCC countries into more economically sustainable societies.

THEME 1: THE REALITIES OF THE GULF ECONOMIES

The GCC economies have grown rapidly over the past 15 years (i.e. from 2000–2014), with an annual real GDP growth rate of 4.9%. However, the oil price collapse in 2014 stunted growth, leading to sizeable deficits in state budgets and corresponding build-ups of debt (IMF 2018a, p.19).

Over the past 50–60 years, revenues from oil and gas production have facilitated the significant development and transformation of these societies. The modern Gulf states, their state apparatuses, bureaucracies and – not least – policies have developed and taken shape during this "oil-rich era." As such, their economic and fiscal policies have been developed and aligned to handle the allocation of the vast revenues from hydrocarbons.

Internationally, the GCC countries are indeed prominent players. The combined size of the GDP of the GCC countries is approximately that of Brazil, the 8th largest economy in the world and an emerging economy with 207 million inhabitants. Of this, Saudi Arabia makes up half. Measured in GDP per capita terms, the countries of the region rank among the 37 richest countries in the world. Notable is Qatar, which is the second richest country in the world per capita thanks to large gas reserves and a tiny population.

While their GDP per capita is comparable with advanced economies like in US, Germany and small European countries like Denmark (5.3 million inhabitants), the numbers conceal the structure of their economies, and in particular the fact that while the GDP of the latter group of countries generally originates from productive activities, the GDP of the Gulf states largely originates in the exploitation of raw materials that are exported with little processing.

Three features characterize income from hydrocarbons: they are finite, they fluctuate and if not managed properly, they tend to crowd-out other economic activities, and as such have a tendency to become the main notable source of the wealth in oil economies (Hvidt 2013, p. 2). The share of manufacturing in GCC countries is small, making up a mere 4.7 percent of GDP (Cammett et al. 2015, p. 59). Other sources (e.g. GOIC) hold this figure closer to 9 percent, and as will be seen below, for Saudi Arabia non-oil manufacturing accounts of around 7 percent GDP.

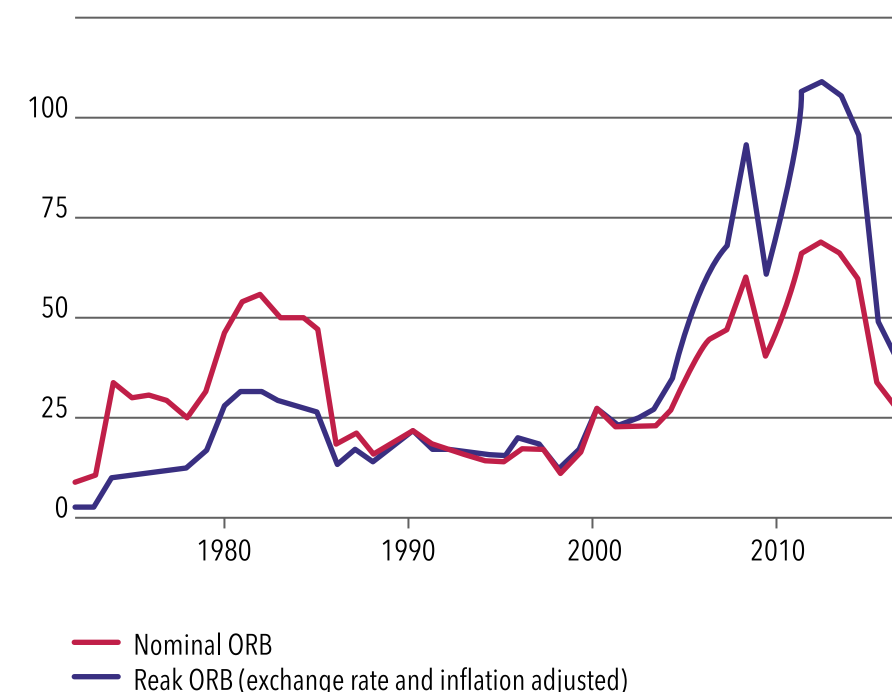
Historically the oil price has fluctuated significantly (Figure 2), especially in nominal terms, but this has been most notable in the recent oil price collapse that commenced in 2014. From a yearly average of $96 per barrel (pb) in 2014 to $40 in 2015. Since then, and especially following the OPEC+ agreement to restrain output in 2016, the price has experienced an upward trend. In 2016 the price ended on a yearly average of $52 pb and currently the average price of the OPEC Basket for 2018 is expected to settle at $70 pb. closer to 9 percent, and as will be seen below, for Saudi Arabia non-oil manufacturing accounts of around 7 percent GDP.

Figure 1: GDP and GDP per capita, USD (PPP), 2017

Rank GDP		GDP USD billion (ppp)	GDP/capita USD (ppp)	Rank GDP/capita
16	Saudi Arabia	1,775	54,500	22
32	UAE	696	68,600	13
52	Qatar	340	124,100	2
58	Kuwait	290	65,800	15
67	Oman	190	46,000	37
100	Bahrain	71	49,000	33
	GCC total GDP	1587		
Reference	**Countries**			
1	China	23,210	16,700	105
2	US	19,490	59,800	22
3	India	9,474	7,200	156
5	Germany	4,199	50,800	27
6	Russia	4,016	27,900	74
8	Brazil	3,248	15,600	108
9	UK	2,925	44,300	39
60	Denmark	288	50,100	30

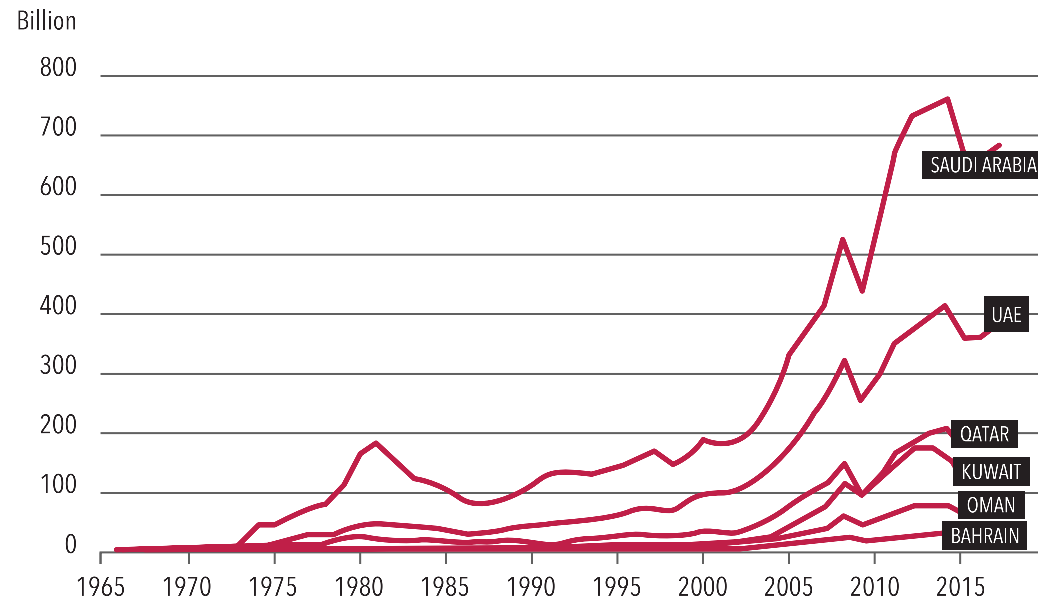
Source: CIA, The World Factbook, excerpts of data. Accessed 21 November 2018.

Figure 2: OPEC Reference Basket in nominal and real terms, 1972-2017
(Base 2001, $/b)



Source: OPEC Interactive Charts, "Oil prices," available at: https://asb.opec.org/index.php/interactive-charts/oil-prices; accessed October 22, 2018.

Figure 3: GDP (current $US) of the GCC countries, 1965–2015



Source: World Bank Database, available at: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2015&locations=QA-SA-OM-AE-KW-BH&start=1965&view=chart.accessed October 4, 2018.

Oil is a significant factor in shaping the economic growth of the GCC states. Oil and gas revenues dominate the export earnings and the state budgets of the Gulf countries, as depicted in Figure 4. This renders the Gulf countries vulnerable to fluctuations in oil and gas prices, which have a significant and direct bearing on their economies. The political drive toward economic diversification aims to mitigate this vulnerability by placing the Gulf economies on a more solid and sustainable footing (Hvidt 2013).

Figure 4: Oil in the economic indicators in the Gulf countries, 2010

Country	% of export earnings	% of state budge	% of GDP
Bahrain	69	86	24
Kuwait	90	93	45
Oman	65	77	41
Qatar	91	80	46
Saudi Arabia	85	85	50
UAE	69	77	32

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

Over the past five decades, however, the GCC states have taken a number of important steps to diversify their economies away from dependence on oil and gas. Infrastructure has been built, education and health systems have been created and a range of manufacturing industries aimed both at satisfying domestic demand but primarily servicing international markets have been established. Since the early 2000s, important economic reforms have been undertaken in most of the GCC countries to make investments in manufacturing attractive to both nationals and foreigners. The data in Figure 4, however, shows the continuing dominance of the oil sector in their economies. The most successful diversification has taken place within the oil sector; as such, few of the industries and services established are expected to survive in a post-oil era. In other words, the GCC states continue to sell their hydrocarbons on the world market and use the proceeds to import almost all of their living requirements and large parts of their labor force. Viewed in this manner, the diversification is progressing only slowly (Hvidt 2013, p. 16).

RECOVERING FROM THE 2014 OIL PRICE COLLAPSE

The steep rise in the oil price which occurred between the late 1990s and 2014 made way for high growth rates in the GCC states, despite the effects of the 2008 financial crisis. However, an oversupplied marked led to a drastic drop in oil prices during 2014. The effects of this on the growth rates, current account balances etc. are clearly illustrated in the figure below.

Figure 5: GCC region – Selected economic indicators, 2000–2019 (% of GDP, unless otherwise indicated)

	Average				Projections	
	2000-14	2015	2016	2017	2018	2019
Real GDP (annual growth) of which non-oil growth	4.9 6.9	3.6 3.5	2.1 1.6	-0.2 1.8	1.9 2.7	2.6 2.7
Current account balance	16.5	-2.4	-3.4	2.1	4.3	3.1
Overall fiscal balance	9.7	-8.4	-10.8	-5.5	-3.4	-1.9
Inflation (yearly average, percent)	2.8	2	2.1	0.2	3.6	2.5

Source: IMF, "Regional Economic Outlook: Middle East and Central Asia." October 2018, p. 19.

The GCC states reacted to the crisis with a variety of ad hoc measures that aimed to trim government budgets and – especially from 2016 when it became clear that the crisis was more permanent – achieve fiscal consolidation through the implementation of fiscal reforms, e.g. by reducing subsidies on fuel, water and electricity coupled with direct budget cuts in both recurring costs and development projects. Saudi Arabia and the UAE introduced value-added tax (VAT) in January 2018, and the other GCC countries are set to follow. Some have also initiated changes to pension and social security systems, including revisions to retirement age and benefits (IMF 2018a, p. 5). However, the reforms implemented so far have not touched upon the deeper structures of the economies.

The Gulf states have not implemented fiscal policies or procedures to counteract fluctuations in oil incomes, besides ad hoc allocations to sovereign wealth funds and savings in cash reserves. Generally, their institutional set up is pro-cyclical, meaning that government spending, bank lending etc. is increased when oil prices are high and reduced when they are low. Counter-cyclical fiscal policies would make a lot more sense when facing the magnitude of fluctuations the Gulf economies face as a result of their exposure to the oil market, as they would help to even out such fluctuations over the years. As pointed out by Young (2018b, p. 5), the lack of such a mechanism is a formal institutional weakness. While counter-cyclical measures are largely absent as formal policy tools, the GCC countries have on an ad hoc basis transferred sizeable yearly surpluses into various types of reserves. These include sovereign wealth funds that provide them with economic leverage. Approximately 2.7 trillion dollars was held in GCC SWFs as of June 2018.

Figure 6: Holdings by GCC sovereign wealth funds, June 2018

Country	Name of fund	US Billion
Abu Dhabi	Abu Dhabi Investment Authority Mubadala Investment Company	683 226
Dubai	Investment Corporation of Dubai	230
UAE	UAE Federal	34
Kuwait	Kuwait Investment Authority (KIA)	592
Saudi Arabia	SAMA Foreigh Holdings Public Investment Fund	516 360
Qatar	Qatar Investment Authority	
Oman	State General Reservce Fund Oman Investment Fund	18 6
Bahrain	Mumtalakat Holding Company	11
Totals holdings by GCC States		2,676

Source: Sovereign Wealth Fund Institute, excerpts of data, available at: https://www.swfinstitute.org/sovereign-wealth-fund-rankings/; accessed October 19, 2018.

DEPT

Due to the close connection between oil incomes and state budget financing, the oil price collapse in 2014 resulted in sizeable deficits in GCC state budgets. These deficits have largely been covered by asset drawdowns where possible but primarily through issuing debt to the international market (IMF 2017, p. 23).

Before the oil price collapse, Saudi Arabia, Kuwait and Oman had never issued debt to international markets. However, with a sizeable $3 trillion pool of reserves and relatively low debt-to-GDP ratios in 2014, the GCC countries have been in a favorable position to weather the situation. In 2016, the UAE, Qatar and Kuwait had debt amounting to less than five percent of their GDP, while Saudi Arabia, Oman and Bahrain reached above 15 percent (IMF 2017, p. 22). Given the need to stabilize budgets, additional debt of around 300 billion will likely be taken on in the coming five-year period. This means that a $71 billion annual amortization, on top of $312 billion of non-government-issued international debt (of which almost 40 percent corresponds to state-owned enterprises) will be due over the next five years (IMF 2018a, p. 6). While servicing this debt is manageable with access to credit, and if the cost of servicing debt does not change significantly, rising interest rates might change this picture. As such, the GCC countries are increasingly vulnerable to a sudden tightening of global financial conditions (IMF 2018a, p. 6).

THE NON-OIL SECTOR'S CONTRIBUTION TO THE BUDGETS OF THE GCC COUNTRIES

Comparable and reliable data for the non-oil sector's contribution to the budgets of the GCC countries are largely unavailable, as each country applies their own categorization and aggregate measures. In addition, drawing a systematic distinction between oil and non-oil activities is problematic when oil revenues circulated through state budgets are responsible for a sizeable part of domestic demand.

Tourism, real estate, transportation, ports and the financial sector are, however, making significant monetary and employment contributions to the economies of all GCC states. The tourism sector is a prime example.

FIGURE 7: Projected tourist arrivals in the GCC countries, 2010–2020 (in 1,000s)

Country	2010	2015	2020
	Projected toursit arrivals(in thousands)		
Oman	1357	1564	2091
Qatar	1591	1892	2126
Kuwait	5074	5473	5860
Bahrain	8568	11459	12198
UAE	9993	12206	14502
KSA	14413	21042	27496
All GCC	40996	53636	64273

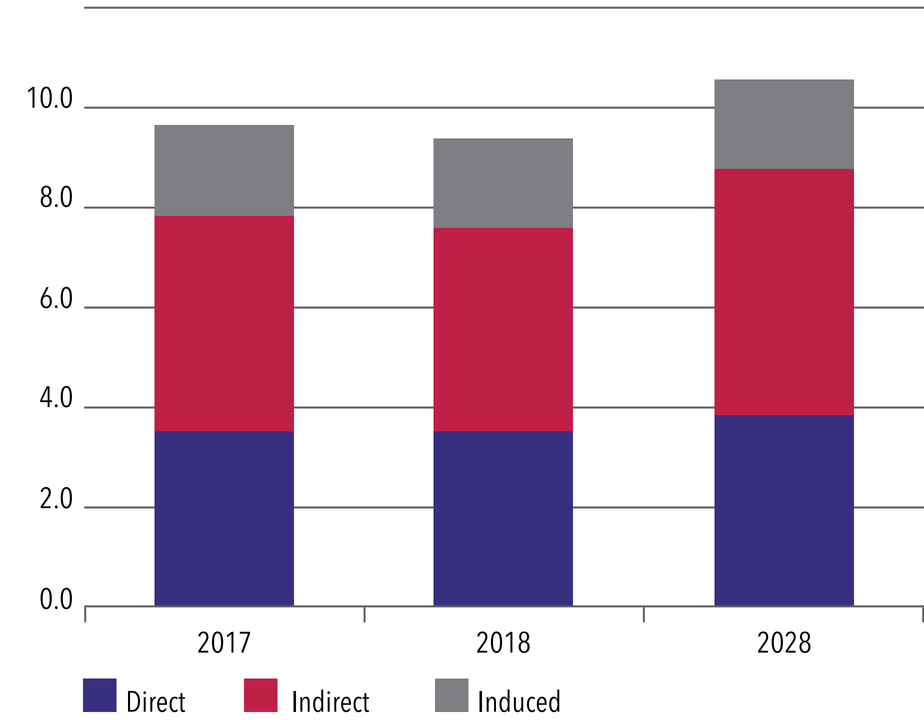
Source: Statista, "Projected tourist arrivals in GCC countries from 2010 to 2010 (in 1,000s)," available at: https://www.statista.com/statistics/202296/projected-tourist-arrivals-in-gcc-countries-since-2010

Nearly 53 million tourists arrived in the Gulf states in 2015, including the large numbers of Hajj and Umrah pilgrims to Saudi Arabia, the weekend tourism to Bahrain by Saudi Arabian citizens and the influx of GCC and international tourists to the UAE.

The tourism sector is growing and has the advantage that the economic effect of activities within the sector is spread widely in society through backward and forward linkages (i.e. when investments in the tourist sector encourages investments in related sectors). Not only does the sector produce jobs in aviation and ports, but also in the hospitality sector and among the services sector more generally. For the UAE, it is estimated that in 2014 nearly 300,000 were employed in aviation and services, while another 400,000 jobs were supported by money spent directly by tourists in the economy. All in all, 11.7 percent of the country's GDP was made up by the air transport sector and foreign tourists arriving by air (Oxford Economics 2016).

For the GCC as a whole, the travel and tourism sector in 2017 provided a total of $137 billion in income, encompassing approximately 2.2 million jobs and contributing 8.7 % of GDP.

Figure 8: GCC countries – Total contribution of travel & tourism to GDP, 2017–2028



Source: World Travel & Tourism Council, "Economic impact 2018, Gulf Cooperation Council," 2018, p. 4.

OTHER SECTORS

In Saudi Arabia the non-oil sector makes up approximately 50% of GDP. The sectoral contribution within non-oil GDP is depicted in the Figure below. Thus, the non-oil sector represents a sizable economic contribution.

Figure 9: Saudi Arabia – Non-oil GDP (% of activity)

Sector	Percentage
Producers of Government Services (incl health)	24.9
Wholesale, Retail & Hotels/Restaurants	16.1
Non-Oil Manufacturing	14.9
Transport & Communication	10.4
Housing Ownership	9.0
Construction	8.5
Finance, Insurance & Business Services	6.3
Agricultur, Forestry & Fishing	4.2
Community & Social Services	3.5
Electricity, Gas & Water	2.3
Non-oil mining	0.7

Source: Bhatia, "Saudi Arabia: Non-oil GDP Economic Sector Analysis 2017," p. 4.

**Note that for Saudi Arabia, the non-oil manufacturing account for nearly 15 percent of the non-oil GDP which implies that it is approximately 7.5 percent of total GDP.*

THEME 2: CHALLENGES FACING THE GULF ECONOMIES

This section discusses the major challenges facing the Gulf economies. In keeping with the overall emphasis of this report, the focus is on structural issues, namely on restructuring the economies so they may meet future challenges, including how they will cope with absorbing the growing number of consecutively better-educated youngsters into the labor force over the coming years. In addition, current issues such as the geopolitical crisis concerning the sanctions imposed on Iran, the declining integration among Gulf economies, and the growing risk of protectionism in the global economic system will be discussed.

THE DEMOGRAPHIC CHALLENGE

The most noteworthy features in Figure 10 are that approximately half of the current population are non-nationals, and that the size of the national population varies considerably among the six countries. Saudi Arabia has 20 million, while the national populations in the remaining five countries are diminutive. Among the many consequences this has for the smaller GCC states is that it makes it difficult at any time to attain economies of scale in economic undertakings.

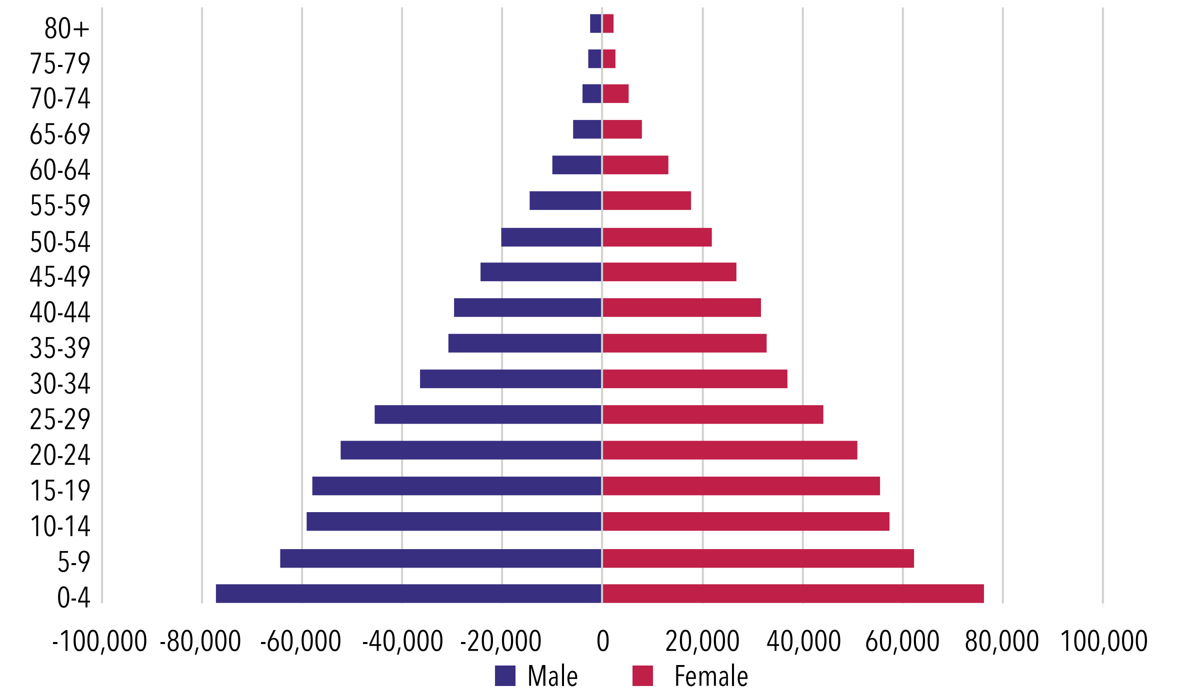
Figure 10: GCC population, nationals and non-nationals, 2010 and 2017

Country	Nationals	Non-nationals	Total Population	% Non-Nationals
Bahrain	664,707	759,019	1,423,726	53.3
Kuwait	1,337,693	3,073,431	4,411,124	69.7
Oman	2,488,755	2,110,296	4,599,051	45.9
Qatar*	243,073	1,456,362	1,699,435	85.7
Saudi Arabia	20,064,970	11,677,338	31,742,308	36.8
UAE**	947,997	7,316,073	8,264,070	88.5
Total	**25,747,195**	**26,392,519**	**26,392,519**	**50.6**

** World Development Indicators set total population at 2,639,211.*
*** Data from 2010. World Development Indicators set the total population at 9,400,145 in 2017.*
Source: GLMM Demographic and Economic Data base, table titled: "GCC: Total population and percentage of nationals and non-nationals in GCC countries (national statistics, 2010-2017)," available at http://gulfmigration.org; accessed October 1, 2018.

However, populations are set to grow significantly over the coming decades. The population pyramid for Kuwait depicted in Figure 11 is characteristic of the GCC states (see Appendix 1 for all GCC countries). The pyramid is expansive, which characterizes countries with fast-growing populations, in that the size of each age cohort gets larger than the size of the previous year. In the case of Kuwait, there are 50,000 more nationals in the 0–4 year cohort than in the 20–24 year cohort.

Figure 11: Population pyramid, Kuwait, national population only, 2015



Source: GLMM Demographic and Economic Database, table, "GCC national foreign populations sex five-year-age-group, 2015," available at: http://gulfmigration.org/gcc-national-foreign-populations-sex-five-year-age-group-2015/, accessed September 25, 2018.

The median age of the national population falls within the 20–24 year cohort in all Gulf countries. As a reference, in Germany the median age is 47.1 years, Canada 42.2 years, the United Kingdom 40.2 years and America 38.1 years. In other words, the GCC states have a comparatively young population.

Rapidly growing populations mean significant increases in demand for schools, secondary education, universities, housing, utilities, overarching infrastructure, and ultimately health services and pensions. Above all, a rapidly growing population places pressure on societies to create large numbers of new jobs in order to accommodate the many new working age entrants to the labor market. Lack of jobs is generally understood as a destabilizing factor in any society. As such, globally high unemployment rates – particularly among the younger generations – is correlated with social unrest (ILO 2018, p. 58).

Figure 12: Annual number of GCC nationals reaching working age (25 years), 2015

Country	Yearly Number
Bahrain	13,642
Kuwait	28,434
Oman	54,360
Qatar	7,236
Saudi Arabia	402,186
UAE	n.a.
Total	**505,860**

** No Data available for UAE since 2010*
Source: Author's calculations from GLMM Database, available at: http://gulfmigration.org/gcc-national-foreign-populations-sex-five-year-age-group-2015/

Table 12 represents an attempt to estimate the number of new working-age members of the population over the next 15 years and is based on the data employed in the population pyramids. In the GCC countries, approximately 500,000 nationals each year will reach working age over the next decade and a half, and even though not every one of these individuals will seek employment (salaried work) this still represents a formidable challenge. For example, the Saudi Vision 2030 estimates that 4.5 million new jobs will need to be created before 2030 to meet this challenge, while in Kuwait 384,000 jobs are required before 2030 (Tony Blair Associates 2009, p. 199).

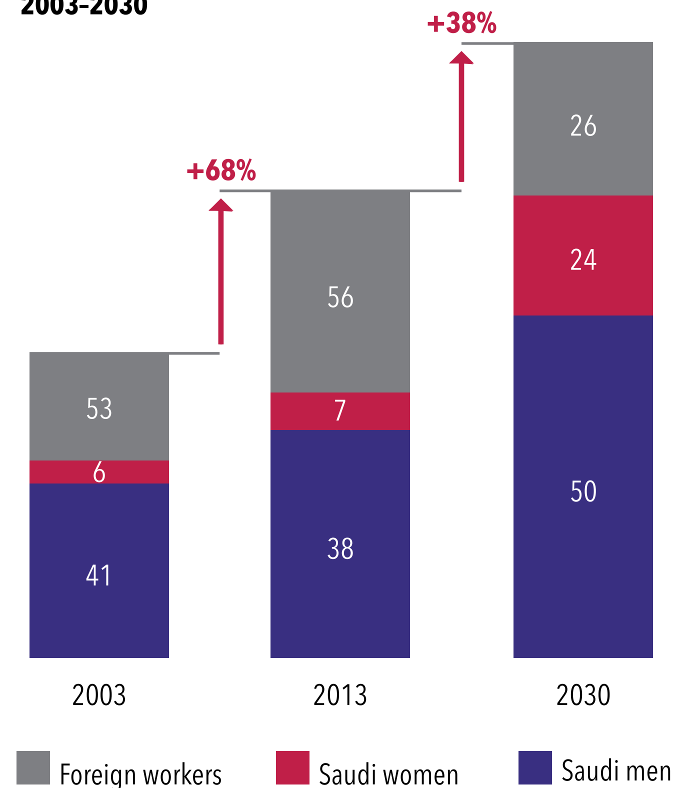
Presently, both male and female labor market participation rates are low. For example, among Kuwaitis in the age group 25 to 54, only 64% work – compared to 83% in the United States, 88% in Russia and 93% in China (Tony Blair Associates 2009, p. 200).

MORE WOMEN TO JOIN THE WORK FORCE

The actual number of nationals that will enter the labor force is influenced by the social reality in Gulf societies. First, women as a group are currently joining the labor force in larger numbers than before. Labor market participation rates for women have been very low by international standards (ILO 2018, p. 19), and given that women make up the largest category of students in universities and generally study more years than their male counterparts, more women are expected to seek employment in the future. Second, all Gulf governments have implemented active policies to bring more women into their labor forces. Both factors lead to the expectation that a higher percentage of young women will seek salaried work in the years to come. A third factor likely to bring more women into the labor force is economic reality. As the social and cultural organization of households changes from extended families living together toward nuclear, city-based families that require double incomes to provide a decent standard of living for their members.

While data related to female labor force participation rates are generally hard to come by for the GCC countries, the country with the lowest participation rate is Saudi Arabia. As seen in Figure 13, in 2013 just seven percent of the total labor force was made up of Saudi women. Recalculated, this number implies a labor force participation rate of around 15 percent for all Saudi women above 25 years of age.

Figure 13: Saudi Arabia – Employment by segment, 2003–2030



Source: McKinsey Global Institute, "Saudi Arabia Beyond Oil: The investment and Productivity Transformation," 2015, p. 14.

Saudi Arabia's Vision 2030 specifically encourages women to enter the labor force and the Kingdom has recently initiated policies to achieve this goal. These include the general relaxation of the religious hold on women in society, the opening up of public sector jobs especially targeting women, a cautious relaxation of the male guardianship system, and the lifting of the ban on women driving in June 2018 (Hvidt 2018a). In 2030 Saudi Arabia plans to have 15 million jobs of which 11 million are to be held by nationals, and among them 3.6 million jobs held by women.

Bringing a larger proportion of the national population – both men and women – into the workforce carries significant economic potential. The millions of jobs in the GCC economies that today are occupied by expatriate or migrant workers imply that a sizeable portion of wages leave the Gulf countries as remittances, and as such do not contribute to strengthening the local economy. Furthermore, with significant unemployment or under-employment, especially among young people, it makes extremely good sense both from a political and an economic point of view if the local population increasingly take over jobs now occupied by imported labor.

The major challenge relates to the willingness and ability of the national population to take jobs currently held by non-nationals, which are generally low-skilled and low-paid. It is thought that national women, in contrast to men, will be more inclined to accept such jobs – possibly in the health sector or other service sectors – upon their first entry to the job market. Society will benefit tremendously if educated but hitherto non-employed women – or men – can be channeled into such jobs (Hvidt 2018, p. 4).

LOCALIZING LABOR

All GCC countries have active policies to diversify income sources and localize labor. These policies (which go under the name of Saudization, Emiratization, Kuwaitization, Bahrainization, Omanization) aim to increase the percentage of nationals that participate in the labor force and to raise the percentage of jobs occupied by nationals.

For some of the GCC states, unemployment has so far not been a pressing issue, since the growth in job opportunities for nationals has been adequate, therefore involuntarily unemployment has been small. However, in Bahrain, Oman and Saudi Arabia, unemployment among nationals poses a significant challenge, inspiring both discontent among the young and active policies to mitigate the problem by government. In these countries quotas for employing nationals exist for various categories of private sector firms (e.g. the Saudi Nitaqat system). Other policies restrict certain job functions to nationals only. For example, in January 2018 the Saudi government announced it would add to its growing list of Saudi-only jobs by including the sale of watches, eyewear, medical equipment and devices, electrical and electronic appliances, auto parts, building materials, carpets, cars and motorcycles, home and office furniture, children's clothing and men's accessories, home kitchenware, and confectionery (Young 2018b, p. 15). In addition, the Saudi Vision 2030 aims specifically to increase Saudization in the oil and gas sector from 40 to 75 percent and to localize 50 percent of defense spending, by producing defense equipment domestically, not only to reduce spending but also to stimulate growth in other industrial sectors such as industrial equipment and information technology (Govt. of Saudi Arabia 2017, 47-8).

In all development plans and visions published by the GCC governments, it is the private sector which is given the main responsibility for job creation. However, serious labor market reforms are required to ensure national populations are willing and capable to take over jobs in the private sector.

The labor markets of the GCC countries are of a dual nature wherein nationals, as a part of the social contract, primarily seek employment in the public sector, which is better paid, and offers both a higher level of job security and shorter working hours than jobs in the private sector. Private sector employment not only entails lower pay, longer working hours and less job security, but is also more competitive, meritocratic and takes place in a gender mixed environment which might present a cultural challenge to segments of the national population (Ulrichsen 2018, p. 12ff).

INCREASING PRODUCTIVITY IN THE PRIVATE SECTOR

At present, private sector employment is less attractive to nationals than public sector employment. In a report titled The Jobs Agenda for the Gulf Cooperation Council Countries, the World Bank argued that "to increase private sector employment of their citizens, governments have to increase the attractiveness of private sector jobs while at the same time ensure that citizens are willing and able to accept private sector jobs" (World Bank 2017, p. vii).

They argue that salaries must be increased in the private sector, and that this should be done through reforms that increase the productivity of the private sector by shifting economic activity to higher value-added sectors, more technology-intensive production, diversified and more sophisticated exports, and technology-driven foreign direct investment (FDI). Increased productivity is the long-term driver of growth and increased living standards. The existing development model in the GCC countries has favored employment of low-wage foreign workers in the private sector instead of productivity-enhancing technologies. As documented by IMF, relative to other countries, productivity gains in the GCC countries have contributed little to growth since 1970. Rater, growth has been attributable to "hiring more hands" and thus neither to capital or total factor productivity (IMF 2017, p. 26).

As such, there is an urgent need for the jobs in the private sector to be transformed to encompass higher skill levels and a higher technology content.

EDUCATION AND INNOVATION

Viewed in a broader historical context the Gulf states have not – so far – been forced to invent or to innovate, but have been able to base their development on imitation; that is, by using their favorable financial situation to import technologies, know-how and manpower readily available elsewhere (Hvidt 2015, p. 24).

A review of the available indicators of educational achievement in the GCC countries highlights structural problems within and around the educational system that lower the quality of teaching, minimize research outputs and lessen the usefulness to society of the education provided. In this respect, it is questionable how well the educational system prepares its graduates to play an active role in a future knowledge economy (Hvidt 2015, p. 34). Even though the GCC countries have come far in building an education system, by international comparison the GCC countries fall behind in translating their economic wealth into human development and education (Hvidt 2015, p. 31). At the international level, a link between high incomes from natural resources and lower political emphasis on education is proven (Gylfason 2001). The Gulf economies furthermore remain behind when it comes to innovation. The latest issues of the Global Innovation Index (GII) testify to that. This index ranks the Gulf countries as follows: UAE (number 38), Qatar (51), Kuwait (60), Saudi Arabia (61), Oman (69) and Bahrain (72), among the 126 countries which had their innovation systems assessed in this edition of the index. However, all Gulf countries are categorized as "underperformers" when their GII rank is considered against their GDP, leading to the conclusion that the Gulf countries have not yet managed to translate their economic wealth into innovative practices or – more precisely – to equate their economic wealth with innovative strength (Cornell University, INSEAD, and WIPO 2018, p. xx).

Another indicator normally used to depict the innovative capacity of a given country is the number of patents obtained. Over the past decade approximately 223,000 patents have on a yearly basis been registered worldwide at the US Patent and Trademark Office (USPTO).

The Gulf countries have acquired a total of 2,230 patents since 1963 and the current yearly rate is 116. By comparison, the best performing country on the Knowledge Economy Index, Sweden, with a population of just 9.5 million and a GDP only one fourth of the combined GDP of the GCC countries, has produced approximately 54,487 patents over the same period, and their current rate of patent registration is around 1,700 a year.

Figure 5: GCC region – Selected economic indicators, 2000–2019 (% of GDP, unless otherwise indicated)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Yearly Average 2006-15	Total Patents 1963-15
KSA	19	20	30	22	58	61	170	237	294	360	91	1512
Kuwait	7	6	15	15	14	24	32	84	98	64	30	434
UAE	8	2	9	9	7	10	20	18	54	45	18	219
Qatar	2	0	1	2	0	1	4	7	5	6	3	29
Oman	0	0	5	1	1	3	3	3	2	4	2	24
Bahrain	00	0	0	0	1	0	1	2	3	1	1	12
Sum GCC	36	28	60	49	81	99	230	351	456	480	145	2230
World	173772	157282	157772	167349	219614	224505	253155	277835	300835	298407	233037	6122266
Sweeden	1243	1061	1060	1014	1434	1710	2081	2271	2767	2633	1727	54 487

Source: US Patent and Trademark Office (USPTO), "Patent Counts by Country, State and Year: Utility Patents (December 2015)," available at: http://www.uspto.gov/web/offices/ac/ido/oeip/taf/cst_utlh.htm; accessed October 12, 2018

It may be hypothesized that the meager performance in terms of innovation in the Gulf countries not only relates to the short history of their modern development and the current teaching-oriented emphasis at universities, but most likely relates to the lack of production-oriented experience, skills, and work-related discipline gained by societies during the industrial age. As Stiglitz points out, scientific achievements in today's societies are closely linked to the experiences gained in the industrial phase:

The scientific revolution of the past century has resulted in the systematization of change itself: the very process of producing new innovations has been altered, from isolated and independent inventors like Thomas Edison to huge research laboratories. Knowledge and information is being produced today like cars and steel were produced a hundred years ago (Stiglitz 1999, p. 1).

Closing the innovation gap would currently be an unrealistic and maybe unnecessary aim for the GCC states. However, since the world economy places increasing emphasis on high-tech-content goods and services, it is imperative that the GCC economies target production in the higher end of the value chain, given their resource endowments (small populations, little agriculture, much oil). Among other virtues, such a transformation is expected to increase the level of knowledge and entrepreneurship among national populations, so that they may successfully tap into foreign knowledge and adapt and create new knowledge for their own countries' specific needs.

Thus, the challenge for the GCC states related to education and innovation lies in improving the education level of the national population so that they are better able to compete successfully for jobs in the high-value segment of the private sector. A second but equally important challenge is to change incentive systems so that broader segments of young nationals – not least the males – feel motivated to pursue educational aims.

But what could the proper structure of the GCC labor markets look like? From a strict neoliberal point of view, the most efficient labor markets, would be the ones where demand for labor is solely based on the market and the hiring based on merits, implying that the employer selects the person with the best combination of skills for the salary he or she is willing to pay.

However, to pursue such a strategy might not be the ideal approach given the current structure of the labor market and the educational status of nationals in the GCC states. As mentioned above, the labor market is highly segmented with low-paying jobs in the private sector mainly undertaken by migrant labor and highly-paying jobs in the public sector held mainly by nationals.

In line with World Bank thinking, this report suggests a more gradual approach toward a market based labor market. The World Bank suggests to pay all nationals a so-called 'unconditional cash grant', keep up the social services and in addition pay so-called 'in-work benefits' that rewards people that take private sector jobs. The cash grants and social services would ensure a basic guaranteed minimum income and adequate access to social services for the national population, while in-work benefits would be conditional on having a job and would ensure that GCC citizens can, at least in some sectors, compete with foreign workers and still reap income comparable to current levels (World Bank, 2017, p. ix)

This strategy could be implemented immediately and would initiate a focus on employment as such, especially on private sector employment. However, in the mid and longer term perspective, the abovementioned upgrading of the skills of the nationals, in combination with policies that encourage increases in private sector productivity would be needed.

OTHER CHALLENGES

In addition to the overarching challenges related to job creation, diversification and localization, there are several more specific challenges which may impact the GCC economies to a greater or lesser extent.

Impact of regional geopolitical crises

The Syrian civil war has had little effect on the Gulf countries. The tense regional relationship between Iran and the Gulf states (especially the UAE and Saudi Arabia), however, has spurred the war in Yemen. While trade through UAE ports (primarily re-exports to Iran) is likely to have suffered from this, the primary economic consequence thus far has been confined to the escalating cost of weapons purchases, e.g. Saudi Arabia in 2017 made arms deals with the US worth $110 billion, with $350 billion more to come over the next 10 years.

The US is to restore sanctions on Iran in two phases, on August 7, and more importantly on the November 4, 2018, when sales of oil, gas and refined petroleum products will be restricted. Iran, therefore, will have less money to spend on imports and will suffer significant restrictions in terms of the goods and services it can import. Companies worldwide will be forced to choose between the Iranian market and the American market (Cohen 2018). The Gulf countries are not likely to be affected seriously by this, however. The restrictions on sale of oil will imply that around 1.6 million barrels per day (mbpd) of oil will be required from other sources. Saudi Arabia, which still holds excess capacity, will most likely supply a good share of this, leading to improved income.

The growing risk of protectionism internationally

For the GCC countries that survive and strive in an open trade environment, increased protectionism is a source of concern. The trend toward protectionism may be summarized by the Trump administration slogan "America First." While this is not likely to harm the GCC countries directly in the short term – since the GCC countries primarily export oil and gas and only very few manufactured goods – in the longer term, increasing economic protectionism may result in escalating import tariffs or a shift toward inward-looking policies which could harm international trade, reduce global growth, and dampen commodity prices including for oil. There is, however, no doubt that should a more severe international trade war be enacted e.g. between US and China, the GCC economies would suffer, since they are major trade partners with both nations.

Declining integration among Gulf economies

The Gulf Corporation Council, founded in 1981, has only to a limited extent played its envisaged role. Attempts to foster a closer relationship among the members through a regional economic union have never come to fruition. While a common customs system was implemented in 2005, neither the anticipated free trade area nor the common currency union has materialized. The GCC states agreed on a unified implementation of VAT during 2018 but so far, the UAE and Saudi Arabia are the only states to have implemented it.

While Saudi Arabia has the opportunity to exploit economies of scale in its production due to its size, that it not the case for the small Gulf states; this is highly detrimental to diversification efforts, at least within traditional manufacturing. An efficient means of regional cooperation among the GCC states could have been the establishment of an economic area in which the smaller states could move goods, people and money freely and efficiently over state borders. This, however, is not the case today. The limited size of their home markets have meant that these countries have refrained from diversifying into manufacturing, but rather into types of goods and services meant for international consumption, e.g. aviation, tourism and advanced business services.

One especially important role the GCC could have played is as a coordinating entity for interregional infrastructure projects – most notably the GCC rail link. With significant delays, this project however, seems to be on track for completion in two stages in 2021 and 2023.

The Qatar crisis means a further decline in integration among the Gulf economies. Today, one and a half years after the diplomatic rupture between the GCC states, there are no solutions in sight. While the effects of the crisis in economic terms are relatively small for the other GCC states, Qatar is reported to be suffering considerably despite its favorable economic situation, both due to foregone income (e.g. from Qatar Airways and others) and owing to higher transport costs for the building materials etc. needed to prepare for the FIFA 2022 football World cup.

Challenges facing the fiscal adjustment programs

Fiscal adjustment programs have been undertaken in all GCC states since the 2014 oil price collapse out of shear necessity. These programs have been quite similar cross GCC when it comes to relieving the state coffers of financial burdens (e.g. removal of subsidies on fuel, electricity and water) and of making new income sources (e.g. excise taxes on tobacco and sugary drinks (Kuwait, Qatar, Saudi Arabia, UAE), fees on expat property rental (UAE), fees on alcohol (UAE, Bahrain), aviation fees (Oman), company taxes (Kuwait, Oman), real estate taxes (Saudi Arabia) and several other types of taxes. Two states; i.e. Saudi Arabia and UAE have implemented VAT of 5%, the remaining countries are expected to follow during 2018. No aggregated number is available to highlight the fiscal effects of these measures.

The fiscal necessity to implement reforms have varied among the GCC countries and so has the severity of the reforms. In Qatar, by far the richest economy per capita, reforms have been less severe and less pressing than in the remaining five states, especially Bahrain and Oman. As will be highlighted below, none of the taxes or removal of subsidies seriously affected the household economies of the national populations (except in Saudi Arabia where public sector salaries were cut and later returned to the previous level). Day to day living expenses have certainly risen, but not to the extent that it seriously influences consumption. The most important outcome of the fiscal reforms so far, has been that mechanisms to finance the states outside oil have been brought in place, and secondly that the populations have been exposed to the fact that in the future they will have to bear a larger part of the actual costs of living themselves.

The most pertinent issue is what will happen if the GCC economies move into a period with decent oil prices and stable growth. Will the reforms initiated so far be rolled back, partly or in full or will the reforms be upheld and become stepping stones to more comprehensive reforms that will place the economies on sounder footing? If the long-term aims announced in the current visions and development plans published in the region provide a bearing for the future, then the fiscal reforms implemented are to be seen as stepping stones in the process of transforming the GCC states into more diversified, productive and sustainable economies.

Challenges facing the banking system

Even though the 2014 oil price collapse has largely been weathered, there are looming challenges facing the banking sector in the GCC region. Major private sector companies, especially in the construction sector, have suffered from the steep cut in spending by the governments since 2014. As such, their financial status is weak, and if they should default on their loans, this could bring the banking system into a very difficult situation. However, a KPMG report on the banking sector in GCC dated April 2018, indicated that "Banks are well positioned to weather the current political and economic challenges, given the expectation of continued government support, rising oil prices and committed infrastructure spend, which will help maintain stability in the sector." (KPMG, 2018, p. 18) The question is if these three elements can, in fact, be taken for granted. As this report argues, increases in oil prices are less likely.

THEME 3: A GENERAL ASSESSMENT OF DEVELOPMENT STRATEGIES AND MEGA PROJECTS IN THE GULF

While GCC states have carried out formal development planning since the mid-1970s, current planning in the these countries is mostly of the "new-style," which establishes visions, sets aims and identifies priorities, while leaving room for actors both within the public and private sectors to pursue development aims in a flexible manner. The idea is to promote cumulative change in the chosen direction; as such, it departs from the "old type" of comprehensive planning, where detailed lists of investments and projects were implemented in order to meet developmental targets (Hvidt 2012, p. 192).

Of all the current development plans published by the GCC countries, the Saudi Vision 2030 announced in 2016 is in many ways the most radical in its approach (e.g. aiming to sell off 5% of Aramco to finance the plan), but they are all in near total agreement in their analyses of the barriers to the future development of the GCC societies:

First among them is the rapid depletion or technical obsolescence of hydrocarbon reserves. The second is fluctuating prices in oil, affecting the performance of the GCC economies. Third is the inability of the current economic model to create sufficient income and not least a sufficient number of the right kind of jobs for rapidly growing and increasingly well-educated national populations. Fourth is a combination of the above – future difficulties in securing high living standards for the national population, since the governments in all the GCC states lack the financial means to act as the sole sponsor of the vast welfare societies they have established over the last half century. A fifth and final barrier to growth, explicitly or implicitly noted in the plans, involves "motivational and capability" problems related to the national workforce. It is understood that "nationals" are neither motivated nor capable (despite increasing education levels) of taking jobs outside the protected environment of the public sector. As carefully described in the Bahraini 2030 plan, nationals are not "the preferred choice" for employers in the private sector (Government of Bahrain 2008, p. 7). Likewise, the Kuwait Vision 2035 calls for reform of the education system to "better prepare youth to become competitive and productive member[s] of the workforce" (Government of Kuwait 2017). All plans address these five issues and aim to bring larger shares of their national populations into high-knowledge-content jobs in the future.

Diversifying the economy away from dependence on oil and gas is seen as a means to solve these problems. The term diversification is rarely defined in these plans, but is understood both as further processing of natural gas and crude oil (e.g. petrochemicals) or utilization of gas and crude in as input in production processes (e.g. for aluminum smelting) or that the revenues from the hydrocarbon sector are used as stimulus for growth of non-oil related manufacturing and particularly service industries. Diversification is also closely linked to the expansion of the private sector. 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, are more moderate in their call for the speed of the process, while Qatar with its vast gas reserves and long-term gas supply contracts deliberately aims for a "slow" diversification process. The Saudi Vision 2030 expresses urgency in the transformation process spurred primarily by the challenge of job creation.

In these plans, diversification is to be achieved through a three-step approach: first, the highest priority in countries with sizable hydrocarbon reserves is to diversify into oil and gas related activities e.g. by using crude oil or gas output either to produce downstream products such as LNG, petrochemicals, fertilizers and chemicals (Saudi Arabia, Abu Dhabi, Oman); or to use it as cheap fuel in energy-intensive industries such as aluminum or steel production (Bahrain, UAE). Both strategies aim to reap a larger part of the value addition associated with their endowment.

The second step is to seek further diversification within sectors or activities in which each country has already been successful: such as banking or raw aluminum processing in Bahrain; logistics, ports and the trade sector in Dubai; the trade sector in Kuwait; and the LPG industry and steel mills in Oman.

The third step is the effort to introduce new sectors, industries or activities that hold high growth potential. Not surprisingly, the choice of such activities are those high growth sectors of the globalized economy, e.g. aviation, tourism/hospitality, real estate, logistics, business services, manufacturing and "high-technology-content products" like smart or green technologies. The massive investment in airports, aircraft and flight service facilities by the likes of Etihad (Abu Dhabi), Emirates (Dubai), and Qatar Airways (Qatar) are examples of such investments. The Saudi Vision 2030 takes the diversification process a step further, by planning to sell off five percent of Aramco and place the proceeds from the sale in its Public Investment Fund (PIF), which will then act as investor in productive businesses in Saudi Arabia (50% domestic. 50% foreign investments). The IPO, however, has been delayed, and it is uncertain if and when it will happen.

In addition to the plans that are society-wide in their reach, the GCC governments announce and carry through isolated development projects (so-called "mega projects") that contribute to the overall realization of their visions.

Two such projects are NEOM in Saudi Arabia and the Silk City/ Boubyan Seaport in Kuwait. NEOM was announced on October 24, 2017 and aims to create a state-of-the-art technological city to boost capacity in Saudi Arabia. It is located in the North West corner of the country bordering Jordan and Egypt and intends to showcase a "post-industrial" lifestyle. In order to build the city more than $500 billion in state and private funds is to be allocated. Construction of basic infrastructure has begun.

The Silk City project in Kuwait is a large residential complex, providing housing for 700,000 inhabitants and the utilities, hotels, etc. to service them. When fully completed in 2036 it is expected that a total of 450,000 jobs will have been created within the project. It is located on the opposite side of the bay from Kuwait city, and the two cities will be connected by a 36 km low bridge. The total cost of the project is expected to reach $150 billion, of which China will invest a portion. The project also includes the Boubyan Seaport, a deep-water port that aims to establish itself as a cheaper and faster shipping hub than Basra for goods from the East to Iraq and Turkey. Construction has been ongoing for more than a decade, and both the fundamental infrastructure, the seaport and the low bridge are nearing completion.

Will these projects be successful? First, we must assume that the planners behind the projects have done qualified work. Furthermore, contrary to broader planning goals which involve structural and fiscal reforms, projects like these are delimited in time and space, and are relatively easy to plan and build, as long as financing is readily available.

Uncertainties, however, surround private investors' interests in the projects, both in the medium and long term, but also the willingness of private persons to purchase housing in these areas. Furthermore, Kuwait has a quite questionable track record of getting its infrastructural projects carried through (Tony Blair Associates 2009, p. 153).

More fundamentally, the effects of the projects relate to the backward and forward linkages the projects might have with the broader economy. While the Silk City project primarily solves a housing problem (reducing the current backlog of around 120,000 houses in Kuwait City while also catering for a rapid population increase) and adds significantly to job creation, and the Boubyan Seaport has a clear economic logic in an increasingly connected world, the success of the NEOM project depends on its ability to test and apply high tech solutions and disseminate the lessons learned within the business world and educational system and in Saudi society. The latter might be a significant challenge, where the benefits will only be visible in the long run. NEOM is like all stand-alone projects, in risk of becoming irrelevant before potential benefits prove themselves.

WILL THE AIMS AND VISIONS OF THESE DEVELOPMENT PLANS BE IMPLEMENTED?

Development plans mirror the historical epoch in which they are created and are therefore a reflection of dominant ideas and ideologies, the global financial situation and, more broadly, perceived threats and possibilities. Furthermore, plans are political documents, which signal the intentions of a leadership to its citizens, potential investors, financial analysts and the international community. The current plans in the GCC countries originate from an historical context of neo-liberalism, free trade and globalization.

Here follows a number of considerations concerning the likelihood that these development plans and visions will form the "future growth trajectory" of the GCC states.

In order to transform plans into practice, first, state planning requires reliable data reflecting the structure and dynamics of society. Second, it requires capable institutions to draft plans and more importantly, implement them. Implementation necessitates that planning authorities have delegated powers to oversee or intervene in decision-making in the relevant ministries. This might be less of a problem for specific reforms which fall within the portfolio of just one ministry, whereas implementation is much more challenging for broad economic, financial, regulatory or social reforms such as the fiscal or labor market reforms within the current plans. Such reforms are exceedingly complex and span several ministries and actors at various institutional levels and thus necessitate political agreement and commitment at the top level, but also willingness and the capacity to implement the reforms at the state, regional and local levels.

While the capacity to conduct planning and implementation has been strengthened in recent decades, and varies among the countries in the region, the GCC states generally possess a weak administrative and regulatory capacity that is primarily geared at solving immediate demands and ad hoc crises. This situation arises partly out of young bureaucracies that lack administrative traditions for appropriate implementation; e.g. a lack of willingness to share data among entities (Hertog 2010, 217ff).

An additional structural problem with regard to planning arises from the fact that state bureaucracies have largely been shaped by the task of distributing oil wealth, which among other things, implies that taxation has not taken place, which in turn significantly weakens the breadth and depth of the data and information that each government processes about its people and society.

A final factor which challenges the proposed reforms is that it has a direct impact on people's lives. Cutting back or reforming government services, privileges or pensions and exposing the population to higher levels of uncertainty in the job market are difficult for any government, but especially for the GCC governments due to the notion of the social contract between the state and the citizens.

To tackle the problems mentioned above, in Saudi Arabia King Salman, after assuming the throne in 2015, established a new centralized body to oversee economic planning and development, namely the Council of Economic and Development Affairs, which has 20 ministries as members and is headed by Crown prince Muhammed Bin Salman. Whether this council can in fact solve the coordination problems among the ministerial "fiefdoms" of Saudi Arabia is unknown. Other attempts in the region to create strong units for the implementation of plans are the Economic Development Board (EDB) in Bahrain and the Departments of Economic Development (DED) in Abu Dhabi, Dubai and other emirates in UAE. A recent survey of Gulf experts sums up the above understanding as follows:

There was […] broad consensus among experts that political and economic support and institutional capacity are key to successful policy reform, but that gaps in governance structures and the difficulty in dislodging entrenched vested interests may have a diluting effect on the rollout of specific measures (Ulrichsen 2018, 11)

If recent experiences of the implementation of plans and visions in the GCC can be a guide to the future, then there are reasons to believe that development plans will suffer both delays and derailment.

First, the reactions to the Arab uprisings in 2011 showed that in time of crisis, ad hoc measures take precedence over plans. Even more seriously, governments not only abandoned their long-heralded policies of diversification and private-sector-led development, but implemented measures that directly contradicted them, such as increasing salaries and creating jobs on a large scale in the public sector (Hvidt 2013, p. 43).

Secondly, as expected, it has proved difficult to undertake painful cut backs or reforms which have negative consequences for the population. In 2016, Crown Prince Mohammad bin Salman announced his Vision 2030 and on October 1 of this year he cut public sector salaries by 20–30 percent and reduced benefits etc. in order to weather the crisis. However, already in April 2017, these reforms had been revoked, allegedly due to better economic conditions caused by higher oil revenues. By mid-October 2018, the remaining public sector allowances were reinstated (Young 2018a).

Third, on the positive side, all governments in the region have successfully removed subsidies on fuel, electricity and water and in Saudi Arabia and the UAE implemented a VAT of five percent. These are noteworthy achievements that testify to the acceptance by the population in the region of such changes, at least as long as they hold limited economic consequences.

However, the aim of diversification through strengthening of the private sector continues to be the most notorious example of a failure to solve an urgent policy problem. The likely reason is the pervasive government hold over the economy. In all the GCC states, the state remains the driver of the economy through its substantial development budget and ownership of firms, while the private sector operates in a niche position where the state has chosen not to invest, e.g. in trading, retail, or construction (Hvidt 2013, 37). This provides overwhelming incentives for the private sector to focus on doing business with the government, and to become service providers to consumers – in other words, an economy where the private sector is not incentivized to engage in production (World Bank 2017, p. 2).

There are no indications in current development plans that this state dominance of the economy will significantly decrease. If the private sector comes to play a more vibrant role in the economy in the future, this presupposes that the public sector is willing to retreat and thus leave room for the private sector to develop (Young 2018b, p. 3).
A final issue related to planning implementation is that both private sector growth and public sector privatization are closely linked to the availability of FDI. The current issues related to the Qatar crisis and the war in Yemen are expected to negatively affect the availability of FDI for the region.

THEME 4: ECONOMIC PROSPECTS OF THE GULF TO 2025

In this final section an attempt will be made to foresee the future of the Gulf economies up to 2025. The Gulf countries are integrated in the world economy both on the supply and demand sides. On the supply side, as suppliers of oil and gas and basic products (polymers, chemicals etc.) to the international market and on the demand side for goods, services, finances and manpower to satisfy demand in the GCC states. As such, the region is highly susceptible to fluctuations in the global economy. In addition, as argued above, due to the high dependency of national budgets on oil and gas incomes, the prices of oil and gas have a direct impact on the economic performance of their economies.

According to the latest forecast from the IMF, global growth has gradually strengthened since 2016, which should impact the GCC region positively (IMF 2018a, p. 2). However, real GDP growth in the GCC region is expected to remain moderate – namely at 1.9 percent for the full year of 2018 – and is projected to strengthen further to 2.6 percent in 2019 (see Figure 5). These forecasts are lower than anticipated in 2017 and testify to the understanding that slow growth is becoming "the new normal" for the region (ILO 2018, p. 5). Three sets of risks, however, can alter this growth outlook:

- Tighter financial conditions, which implies higher global interest rates as monetary policy continues to normalize in advanced economies, suggesting higher debt servicing costs to the GCC states of the debt incurred after the 2014 oil price collapse, and lower capital investment growth.

- Increasing economic protectionism, as discussed above, which may result in escalating import tariffs or a shift toward inward-looking policies, and which could harm international trade, reduce global growth and dampen commodity prices including that of oil.

- Heightened geopolitical tension, also discussed above, in the Middle East region – notably between players such as Iran, Saudi Arabia, Qatar, Turkey and the UAE, hampering interstate trade, decreasing inflows of FDI, escalating defense budgets and, more generally, reducing economic opportunities.

OIL PRICE OUTLOOK

The outlook for oil prices up to 2025 remains highly uncertain, largely reflecting both demand-side and supply-side uncertainties. As highlighted in the first section above, oil prices have increased strongly since 2017 and are currently around $65 per barrel, while the average price for 2018 is expected to settle at around $70 per barrel.

However, the IMF and the World Bank do not expect prices to rise in the medium term, but rather to stabilize around the current level or even decrease. However, many uncertainties surround this forecast.

While the situation triggering the 2014 oil price collapse was a substantial stock of oil combined with a general oversupply to the market caused by shale producers, the OPEC+ agreement successfully curbed production and brought down oil stocks. OPEC estimates that the excess oil inventories in the OECD have shrunk to just nine million barrels. This compares with 340 million barrels when the OPEC+ agreement was concluded in 2016.

Currently, the oil market has returned to a situation wherein supply and demand directly influence prices. In June 2018, the OPEC+ even agreed to increase its member's output by 0.7 mbpd to offset declining output from Angola and especially Venezuela. The US implementation of sanctions on Iran will place a demand of 1.6 mbpd on producers, a demand that most likely will be satisfied by two key sources – Saudi Arabia, which still has spare capacity, and Russia.

The American shale oil industry has been a game changer for the oil market. Over the last decade production has increased from close to nothing to a level that places them among the biggest producers worldwide. Before the end of the current year, the industry is set to break a new record with a production of 7.59 mbpd (Slav 2018). In combination with the conventional oil industry in US, this implies that the US economy is self-sufficient both today and in the medium term.

Shale oil production has experienced massive technological advances that have lowered the cost of production significantly. Today oil can be produced profitably in some fields with oil prices as low as $31 a barrel. The average well break-even price in the US ranges from $37 to $66 (BloombergNEF 2018). Just five years ago, few fields would be profitable with an oil price below $75 a barrel; but the notable change is, that today the shale oil industry is profitable within the same price range as OPEC producers. This implies that the oil from the US shale industry will continue to have an impact on the oil market in the medium term, placing a downward pressure on prices.

A second often quoted challenge to oil prices – in the medium and especially the long run – comes in the form of green technologies and climate considerations.

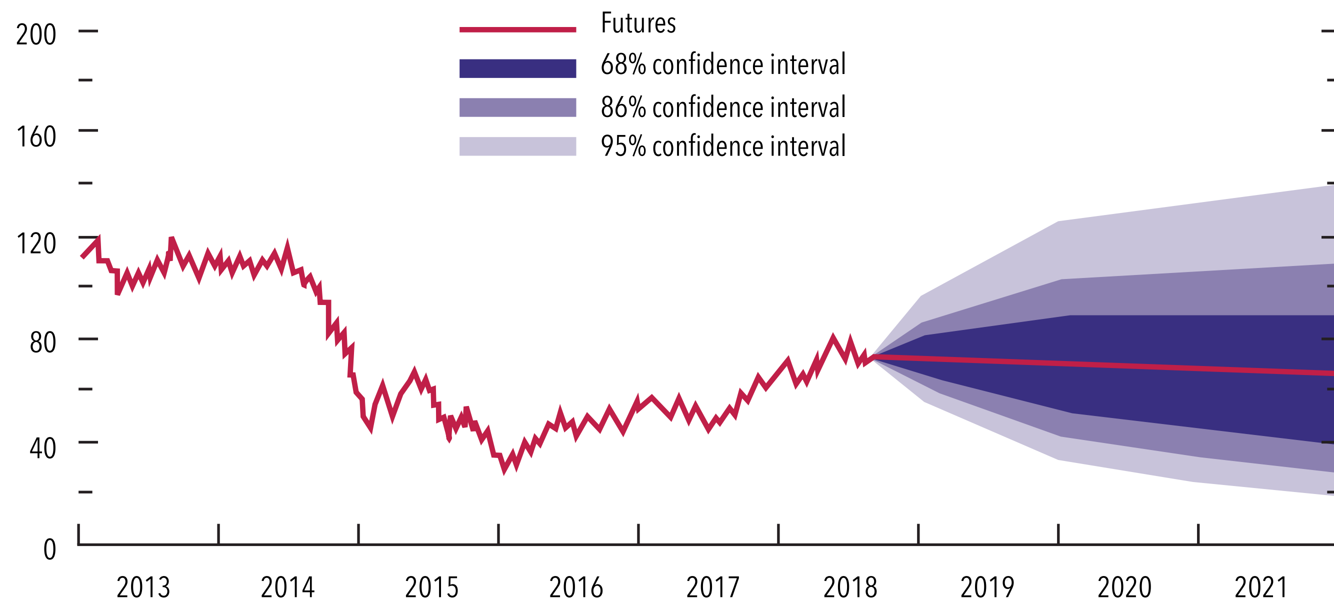
Renewable energy is at the center of the transition to a less carbon-intensive and more sustainable energy system. Experts agree that to meet long-term climate and other sustainability goals, renewable energy development in the heat, electricity and transport sectors must accelerate. While the share of renewables has grown rapidly in recent years, accompanied by sharp cost reductions for solar photovoltaics and wind power in particular, the share of renewables in total final energy consumption remains low, at around 11% – this is expected to grow by one-fifth in the next five years to reach 12.4% in 2023.

As such, there is no evidence to support the claim that renewable energies and electric cars will radically transform the energy market in the short or medium term. Green technologies continue to be expensive, at least more expensive that conventional technologies, and thus are likely first and foremost to be implemented in developed countries. However, the largest growth zones for energy worldwide currently lie in emerging or developing economies. As such, the penetration of green technologies into the everyday lives of ordinary citizens the world over will most likely be a long and slow process. Implementation of green technologies, therefore, will not radically alter the demand for fossil fuel in the medium term. At best, higher implementation rates of green technologies will have a dampening effect on the growth rate for fossil fuels.

At the fundamental level, moderate growth in the world economy balanced with a ready supply of both conventional oil and nonconventional sources, e.g. shale industry and the Canadian oil sands is likely to keep the oil market adequately supplies maybe even oversupplied leading to a slight downward pressure on prices.

The implementation of green technologies – for example, electric cars or substantial increases in solar panels as sources of electricity generation – might place a slight downward pressure on demand, but most likely this effect would only kick in at a later stage.

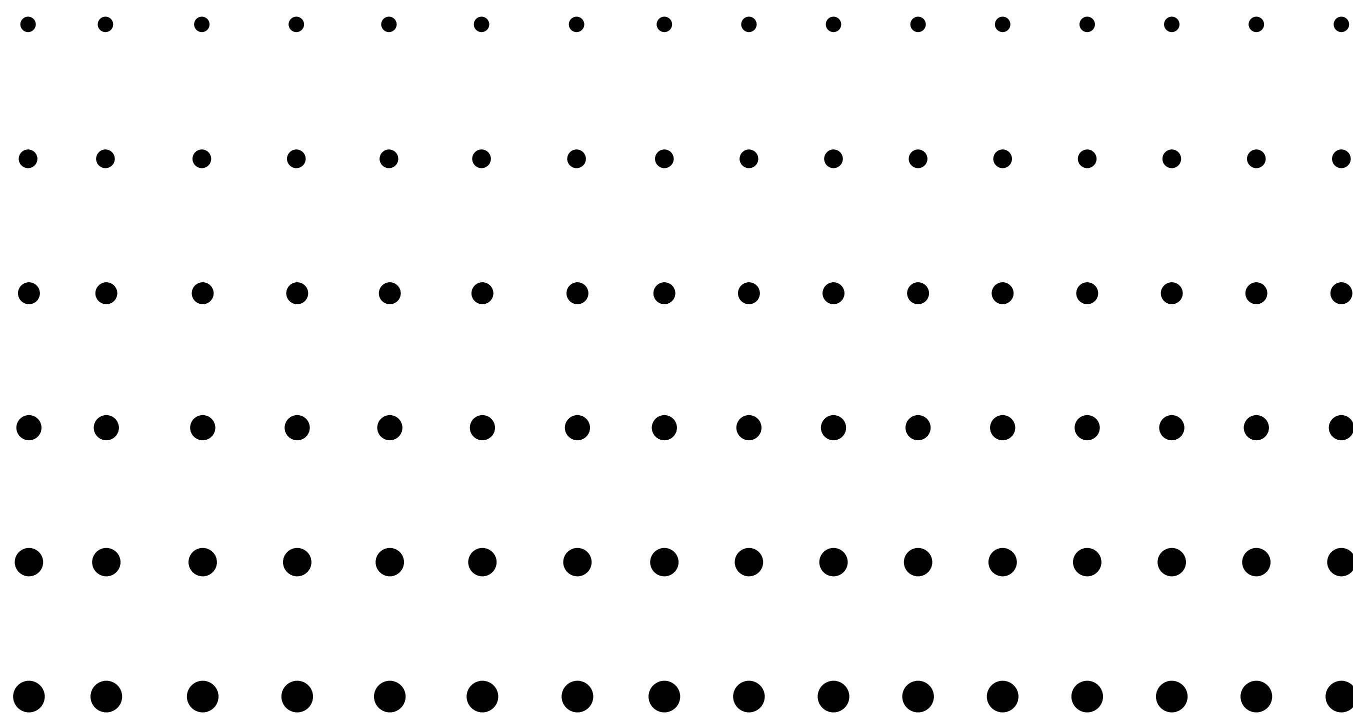
Figure 15: Outlook for oil prices in the medium term (Brent, US dollars per barrel)



Source: IMF, "World Economic Outlook: Challenges to Steady Growth," October 2018, p. 52.

CONTRIBUTION OF THE NON-OIL SECTOR TO THE BUDGETS OF THE GULF COUNTRIES

Figure 5 above showed that growth in non-oil sectors was stronger than that of the economy as a whole for all GCC countries. It was furthermore highlighted that these sectors (e.g. manufacturing sector, tourism, real estate, transportation, ports and the financial sector) contributed substantially to GDP and job creation. Detailed studies of each sector are necessary in order to assess exactly how these sectors will grow, as well as how vulnerable each of them are to fluctuations in the global economy, crises in the region, etc. It is, however, evident from the events of the past decade, how an economic upswing and later an economic crisis (2008–2009) and finally an economic downturn (2014–) in the region can spill over to cause either drastic increases or decreases in demand within these sectors. Here it is sufficient to note that the GCC economies are open and very much intertwined with the world economy and world politics; as such, they will experience cyclical upswings and downturns in parallel with corresponding fluctuations in the global economy.



CONCLUSIONS &RECOMMENDATIONS

The current outlook for the GCC countries is positive: oil prices have risen in recent years, providing substantially better prospects for balancing state budgets. Furthermore, international financial institutions such as the World Bank and IMF forecast growth to be modest but still noticeable in the next five years.

The most immediate effects of the 2014 oil price collapse have been weathered through a combination of trimming government budgets, drawing down assets and raising substantial debt in international markets. In addition, active policies (notably the OPEC+ agreement) have curbed oil supplies and facilitated a reduction in inventories and thus an increase in prices.

The trimming of state budgets has, however, been achieved through ad hoc measures like cuts in actual spending across public sectors, and even within key service areas such as health and education, and not least by postponing planned development projects. In addition, fiscal reforms have been pursued which have removed subsidies on fuel, electricity and water; assigned fees on various items like sweets, sugary drinks and tobacco; and have raised fees on employing expat labor. Finally, two of the GCC countries have implemented VAT, with the others due to follow. VAT and fees are important to create an alternative channel of income for government and thus reduce direct dependence on oil.

Each of the GCC countries have long-standing aims to diversify their economies and to increase the role of the private sector. The 2014 oil price collapse and its effects on these economies have once again proven these aims both relevant and significant.

Even though much has been done over the years to prepare for and to promote diversification, the Gulf economies cannot be characterized as diversified economies at present. Structural issues related to the oil-driven economies are at play. Foremost among them is the dominant role of the public sector in these economies, and secondly the segmentation of the labor market. In combination, these structural issues effectively counteract both further diversification and private sector growth.

The current economic model has run out of steam and the focus of the GCC states must now be on accelerating the structural reform agenda and moving toward a new growth model that promotes diversification and private sector development. This includes significant reforms of the labor market and within the educational system in order to boost productivity and create opportunities for the population at large.

Integrating larger and successively better educated nationals in the economy is a stated aim for all GCC states. First, to tackle the youth bulge by creating approximately 500,000 jobs annually over the coming decade and a half, and secondly, to improve economies by making better sustainable economic use of the national labor force. In order to make the private sector more attractive to the national population its productivity must be increased so that jobs are transformed from low-skilled and low-paid to those with higher knowledge content and higher salaries. This, however, presupposes that the young generation of Gulf Arabs possesses the qualifications and motivation to undertake such jobs.

Even if the appropriate structural reforms were to be implemented today, the effects would take years to materialize. It is no easy task to foster a private sector that undertakes a more prominent role in the economy, and is equally difficult to build incentives and encourage nationals to undertake high-knowledge and higher-paying jobs in the private sector. However, facing the challenges of fluctuating oil revenues, fiscal unsustainability and strong demographic growth, the GCC states must act now in order to prevent deeper and more severe crises in the future. On the positive side, the austerity policies – and not least the reforms leading to the removal of subsidies on fuel, electricity and water – have shown that citizens are in fact tolerant of such reforms.

While recognizing individual differences and similarities between the six GCC countries the report argues that:

- Governments must leave more economic space for the private sector to become larger and stronger and accelerate job creation, e.g. through privatization of public entities.
- Labor market reforms must be undertaken to incentivize larger parts of the national population to participate in the labor force, and secondly to make it attractive to nationals to pursue jobs in the private sector.
- Reforms are required that increase productivity in the private sector in order to move production up the value chain beyond simple production processes and products. This would provide jobs with higher knowledge content and higher pay.
- Reforms to the education system are needed not only to better prepare young people to become competitive and productive members of the workforce, but also more broadly to change incentives to educational attainment and the acquisition of professional qualifications.
- Fiscal reforms must be undertaken to make the economic performance of the GCC countries more sustainable.
- Institutional reforms must be carried through in order to strengthen the capacity of the public sector to undertake planning and implement the resultant plans and development strategies.

REFERENCES

المراجع

Bhatia, Rima (2017). Saudi Arabia: Non-Oil GDP Economic Sector Analysis. Manama, Bahrain: Gulf International Bank (GIB).

BloombergNEF. "Economics of U.S. Shale Oil Production." BloombergNEF, accessed October 16, 2018; https://about.bnef.com/blog/economics-u-s-shale-oil-production/.

Cammett, Melani, Ishac Diwan, Alan Richards and John Waterbury (2015). A Political Economy of The Middle East. Boulder, Colorado: Westview Press.

Cohen, Ariel. "Iran's Oil Exports Plummet 600,000 b/d As U.S. Sanctions Force Key Buyers to Seek Alternatives." Forbes, August 29, 2018.

Consultancy.uk. "Saudi Arabia a lucrative battleground for management consultants." Consultancy.uk; https://www.consultancy.uk/news/12082/saudi-arabia-a-lucrative-battleground-for-management-consultants.

Cornell University, INSEAD and WIPO (2018). The Global Innovation Index 2018: Energizing the World with Innovation. Ithaca, Fontainebleau, and Geneva.

Government of Bahrain (2008). "Our Vision: The Economic Vision 2030 for Bahrain." Manama: Bahrain Economic Development Board.

Government of Kuwait (2017). "New Kuwait: Vision for a New Kuwait and National Development Plan." Kuwait City: Government of Kuwait.

Government of Saudi Arabia (2017). "Saudi Arabia: Vision 2030." Riyadh.

Gylfason, Thorvaldur (2001). "Natural Resources and Economic Growth: From Dependence to Diversification." Paper prepared for the Expert Group Meeting on Economic Diversification in the Arab World organized by The United Nations Economic and Social

Commission for Western Asia (UN-ESCWA) in cooperation with the Arab Planning Institute (API) of Kuwait, held in Beirut, Lebanon, September 25–27, 2001.

Hertog, Steffen (2010). Princes, Brokers and Bureaucrats: Oil and the State in Saudi Arabia. Ithaca: Cornell University Press.

Hvidt, Martin (2012). "Planning for Development in the GCC States: A Content Analysis of Current Development Plans." Journal of Arabian Studies 2(2), pp. 1–19.
____ (2013). Economic Diversification in the GCC Countries: Past Record and Future Trends, Research Paper No. 27: Kuwait Programme on Development, Governance and Globalisation in the Gulf States. London: London School of Economics and Political Science (LSE).
____ (2015). "The State and the Knowledge Economy in the Gulf: Structural and Motivational Challenges." The Muslim World 105 (1), pp. 24–45.
____ (2018a). "The real reason Saudi Arabia lifted its ban on women driving: economic necessity." The Conversation. London.
____ (2018b). "The United Arab Emirates: Modernity and Traditionalism in Petroleum Sector Management." Public Brainpower: Civil Society and Natural Resource Management, edited by Indra Overland, pp. 311–28. Cham: Palgrave Macmillan.

ILO (2018). "World Employment and Social Outlook: Trends 2018." Geneva: International Labour Office.

IMF (2017). "Regional Economic Outlook: Middle East and Central Asia. October 2017, World Economic and Financial Surveys." Washington D.C.: International Monetary Fund.
____ (2018a). "Regional Economic Outlook: Middle East and Central Asia. October 2018, World Economic and Financial Surveys." Washington D.C.: International Monetary Fund.
____ (2018b). "World Economic Outlook: Challenges to Steady Growth." October 2018. Washington D.C. : International Monetary Fund.

KPMG (2018). "GCC liested banks results: Shifting horizons, Year-ended 31 December 2017", Geneva: KPMG International

McKinsey Global Institute (2015). "Saudi Arabia Beyond Oil: The investment and Productivity Transformation." Riyadh: McKinsey Global Institute/McKinsey&Company.

Oxford Economics (2016). "The Importance of Air Transport to the United Arab Emirates." London: Oxford Economics.

Slav, Irina. "U.S. Shale Oil Production Beats Estimates Again." OilPrice.com; https://oilprice.com/Energy/Energy-General/US-Shale-Oil-Production-Beats-Estimates-Again.html.

Stiglitz, Joseph E. (1999). "Public Policy of a Knowledge Economy." London: Department for Trade and Industry and Center for Economic Policy Research.

Tony Blair Associates (2009). "Vision Kuwait 2030: Final Report." Kuwait City: Tony Blair Associates.

Ulrichsen, Kristian Coates (2016). "Economic Diversification Plans: Challenges and Prospects for Gulf Policymakers." The AGSIW Visions of Change Series. Washington: The Arab Gulf States Institute in Washington.
____ (2018). "Economic Inclusion in Gulf Cooperation Council (GCC) states: Findings from an expert survey." Washington D.C.: James A. Baker III Institute for Public Policy, Rice University.

World Bank (2017). "The Jobs Agenda for the Gulf Cooperation Council Countries." Washington D.C.: World Bank Group.

WTTC (2018). "Travel & Tourism: Economic impact 2018, Gulf Cooperation Council." London: World Tavel & Tourism Council.

Young, Karen E. (2018a). "After Khashoggi, Saudi Arabia's economic future is uncertain." The Washington Post. Washington D.C.
____ (2018b). "The Difficult Promise of Economic Reform in the Gulf." Washington D.C.: James A. Baker III Institute for Public Policy of Rice University.

APPENDIX 1:
POPULATION PYRAMIDS FOR THE GCC COUNTRIES*

الملحق
الهرم السكاني لمواطني دول مجلس التعاون الخليجي