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ECONOMIC DIVERSIFICATION IN GCC COUNTRIES AS A MEAN OF SUSTAINABLE DEVELOPMENT: THE LESSONS LEARNED FROM INTERNATIONAL EXPERIENCES

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ABSTRACT

Economic thinking recognizes the requirement for diversification in most (if not all) exports while considering it to be more diversified than GDP. Diversification in domestic output means only diversification in targeted products to cover domestic demand. The diversification of exports involves covering domestic needs and adapting to the requirements of international markets, which indicates the importance of foreign trade, particularly in economic thinking. Additionally, it recognizes the need for diversification in most, if not all, exports, which is greater than the diversification of GDP. Diversification in domestic output concerns only diversification in targeted products to cover domestic demand while diversifying exports refers to covering internal needs and adapting to the requirements of international markets. This is an indicator of the performance of foreign trade, particularly in countries that have a rightful economy whose export activity is based on the natural resources available to it. Economic diversification refers to the development of policies that reduce dependence on a single industry or sector (such as oil) and its contributions to GDP, export revenues, government revenues, and the development of non-hydrocarbon sectors (including services, manufacturing, tourism, and agriculture). The creation of new sources of government revenue is a complex and protracted process that requires significant structural changes to the economy. Diversification within the same sector is one such practice. For example, the energy sector can transfer resources and investment from higher industries to lower industries in the oil and gas sector or provide new opportunities for non-fossil energy products (such as renewable or alternative energy diversification) via the creation and development of non-hydrocarbon economic sectors such as services, finance, tourism, and the media. Diversification can be established by transferring investment from one sector to another - often from the primary to the secondary and tertiary sectors - to increase value (Mishrif & Al Balushi, 2018, p.4).

KEYWORDS: Economic Diversification, GCC Countries, Sustainable Development.

1. INTRODUCTION

Economic thinking recognizes the requirement for diversification in most (if not all) exports while considering it to be more diversified than GDP. Diversification in domestic output means only diversification in targeted products to cover domestic demand. The diversification of exports involves covering domestic needs and adapting to the requirements of international markets, which indicates the importance of foreign trade, particularly in economic thinking. Additionally, it recognizes the need for diversification in most, if not all, exports, which is greater than the diversification of GDP. Diversification in domestic output concerns only diversification in targeted products to cover domestic demand while diversifying exports refers to covering internal needs and adapting to the requirements of international markets. This is an indicator of the performance of foreign trade, particularly in countries that have a rightful economy whose export activity is based on the natural resources available to it (156-157).

Economic diversification refers to the development of policies that reduce dependence on a single industry or sector (such as oil) and its contributions to GDP, export revenues, government revenues, and the development of non-hydrocarbon sectors (including services, manufacturing, tourism, and agriculture). The creation of new sources of government revenue is a complex and protracted process that requires significant structural changes to the economy. Diversification within the same sector is one such practice. For example, the energy sector can transfer resources and investment from higher industries to lower industries in the oil and gas sector or provide new opportunities for non-fossil energy products (such as renewable or alternative energy diversification) via the creation and development of non-hydrocarbon economic sectors such as services, finance, tourism, and the media. Diversification can be established by transferring investment from one sector to another - often from the primary to the secondary and tertiary sectors - to increase value (Mishrif & Al Balushi, 2018, p.4).

1.1. *The Importance of Research*

Primarily, the Arab Gulf States depend on oil for economic wealth, and this dependency makes economic diversification a key issue, a primary goal for the government of each country, and a fundamental requirement for innovation. Therefore, governments have undertaken several diverse initiatives to promote innovation (with varying degrees of success). Economic diversification has become increasingly important to the states of oil and is fundamental for their continued development: it aims to reduce dependence on a specific sector, expand investment opportunities, and strengthen interdependence in the economy. In recent years, the move towards economic diversification in oil states, particularly in the Gulf, has gained increasing momentum. This approach has become the cornerstone of the strategic plans and policies of several countries such as Saudi Arabia, Bahrain, and Qatar (Vision 2030); Kuwait (Vision 2035); Sultanate of Oman (Vision 2040); and the United Arab Emirates (Vision 2050). The importance of economic diversification in Gulf Cooperation Council (GCC) countries is one of several considerations, the most notable of which concerns the robust correlation between diversification and long-term and volatile sustainable growth. The degree of economic diversification is one indicator of the economic stability of a country and is one of the drivers of productive employment opportunities in the Gulf's private sector (Balama, 2021, p.336).

1.2. *Research Problem*

With the ongoing crisis of depleting oil reserves and the subsequent decline in oil prices, GCC countries are endeavoring to transform from a point-based economy to a diversified economy to increase productivity, create additional well-paid jobs for citizens, improve education systems, and fortify the role of the private sector.

Over the past fifty years, the need for economic diversification has increased significantly. Following the surge in oil revenues (caused by significant increases in the price of oil in 1974), economic diversification has become an increasingly appealing approach to economic policy in the Gulf States; however, the underlying motives of economic diversity have evolved over time. Initially (in the 1970s), this approach was driven by an increasing awareness of the limitations and nature of oil reserves and the potential to bring an end to the oil boom; therefore, economic diversification was viewed as a guarantee for creating a sustainable economy in the aftermath of the oil age.

1.3. *Research Objectives*

Based on these points, this study has identified the following research objectives:

1. To recognize and summarize the emergence of economic diversification in GCC countries and highlight its reality.
2. To reveal the political methods of international experience in the pursuit of monetary

diversification.
3. To analyze the strategic options available to GCC countries.

1.4. Research Questions

The current research attempts to answer the following questions:

1. What is the summary of the emergence of economic diversification in the GCC countries?
2. What international policies have been put in place to achieve economic diversification?
3. What is the reality of economic diversification and what are the strategic options for achieving economic diversification in the GCC countries?

2. Theme 1: Summary of Economic Diversification in the Gulf Arab States

In the early 1930s, oil was discovered in the GCC region (Kuwait, Qatar, Bahrain, UAE, Oman, Saudi Arabia) which resulted in the transformation of these communities (from Bedouin and illiteracy) into economically advanced countries with a significant level of energy consumption. Following the decision to convert control of the oil industry in the GCC States, the major capitals set energy prices at low levels which increased oil revenues and strengthened authoritarian regimes that considered oil to be the foundation of economic prosperity. However, these countries relied heavily on financial support. Currently, the GCC countries face challenges concerning global fluctuations in the price of oil; therefore, they need to diversify their economies to sustain and counter economic and political volatility (Al Naimi, 2022, p.1) .

The past decade represents a major period of economic transformation for the members of the Gulf Cooperation Council (GCC) which has resulted in increased diversification of their economies (away from the oil sector) due to the non-renewable nature of oil resources and the increasing volatility of oil resources in conjunction with the increasing pattern of population growth which has reinforced the importance of developing an economic diversity policy.

Economic diversification in the GCC region began in the 1970s during a surge in the price of oil. Although the price of oil was escalating, Saudi Arabia introduced its diversification plans, which focused on financial revenue, and were designed to generate income from sources other than oil. However, these policies can be criticized because no tangible results were achieved despite the existence of "The longest and most sophisticated planning tradition among the GCC countries." These diversification plans were organized by the Ministry of Economy and Planning, and, during this period, the UAE and Kuwait adopted a similar approach; however, there is a significant duration between these early diversification efforts by the GCC countries, and the latest diversification attempts in the region. This gap indicates that GCC countries are slow to implement diversification strategies because of their dependence on inconsistent oil revenues. It can be concluded that the early steps of diversification were adopted by some GCC countries; however, other countries have elected to focus on the hydrocarbon industry (Al Naimi, 2022, p.3) .

Three primary factors that promote the application of economic diversification in the GCC countries:

1. Public Sector: GCC countries (unlike most Middle Eastern and North African countries) have created a new generation of dynamic and rapidly growing publicly run enterprises which have achieved success in the manufacturing and service sectors and contradict politicized and ineffective public enterprises in other oil-producing countries (such as Venezuela, Iran, and Russia). However, the success of public institutions in the Gulf States does not necessarily mean that these countries must not develop private sector enterprises: public enterprises could focus on key processes in the production process while private companies could manage the substantial number of support services (especially SMEs).
2. Private Sector: When considering economic activity, this sector is in a significantly weaker position than the public sector. Due to the nature of the resource allocation model, only a small percentage of the population is involved in economic activities which has negatively impacted the skilled and qualified workforce base; therefore, most private enterprises rely on overseas workers to fill these positions. The private sector possesses the potential to become the driving force for diversification: because the oil sector does not provide many jobs, the public sector is significantly overcrowded and cannot accommodate significant numbers of workers. The allocated states have not focused on creating a productive base which has resulted in the systemic underdevelopment of the production sector (which is an emerging trend throughout

the Gulf region). To develop private sector enterprises as a means of employment and engines of growth, the GCC member States must consider direct fiscal investment and develop a methodology for recruitment (to transfer technology, knowledge, capital, and the desired management features) which can support GCC countries in creating a knowledge-based economy.

3. Sovereign Wealth Funds (SWFs): The economies of GCC countries depend on a range of key factors which include infrastructure, finance, banks, Islamic finance, technology, transport, telecommunications, education, construction, and real estate. To achieve capital mobility, the GCC countries have made significant investments in these financial instruments during major infrastructure projects. To achieve economic diversity at the national, regional, and global levels, the real estate investment by SWFs in the Gulf Cooperation Council has increased significantly: from US $1.1 billion (2005) to US $12 billion (2014) with peaks in 2008 (US $9.3 billion) and 2013 (US $9.6 billion). The decline in oil prices in late 2014 affected the real estate sector which resulted in a significant reduction in SWF fund investments by almost half (to US $6.6 billion in 2015).

Economic diversification is vital for the GCC countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates). Given their strong dependence on the oil economy, economic diversification aims to achieve a comprehensive shift in these countries: from their current significant dependence on oil and gas to more diversified and sustainable economic bases. Economic diversification strategies in the GCC States encompass several aspects such as the strengthening of non-FMCTs in large sectors (such as industry and trade) to develop and enhance their competitiveness at the global level.

Theme II: International Examples of Economic Diversification Strategy

South Africa

South Africa's economy is based on three main axes: Industry (which is the primary driver of the country's economic growth), Mining, and Trade. South Africa is undergoing significant technological advancement in several industrial and service sectors, the most important of which are energy, fuel, mining (iron and steel), and information technology. Furthermore, it has modernized its infrastructure to become the largest and most advanced on the African continent which has resulted in it becoming Africa's strongest economy. South Africa's economic growth reached record rates in the 1990s (after initially exhibiting negative growth); however, in 2006, it began to decline (estimated at 5.6%) and the economy in South Africa exhibited other indicators of the economy (like foreign investment). Of South Africa's 500 leading African companies, more than 127 are, and the latter represents 62% of these 500 companies.

South Africa's experience is one of the most successful examples of economic diversity, both in Africa and at a global level. It has reduced its dependence on natural resources as a major source of income despite the diversity of these resources and, in 2000, South Africa's economy experienced steady growth and achieved a growth rate of up to 3% until 2007. However, the South African economy suffered a downturn initiated by the power crisis caused by the State electricity company (Eskom). The company's reliance on outdated infrastructure resulted in prolonged power cuts to populated areas, major cities, and industrial facilities and has adversely impacted domestic electricity production. Additionally, South Africa's declining economic growth rates increased the impact of the 2008 global financial crisis, and the growth rates experienced negative numbers (reaching -2% in 2009). However, South Africa's diversification strategies have successfully generated huge income ratios, and the 2010 FIFA World Cup played a crucial role in recovering the country's GDP (which grew to 4% in 2011) from decline.

Africa faces significant barriers concerning any political development priorities designed to promote effective economic growth because it must consider international trade variables. Researchers indicate that the region has lost its share in the global market for primary commodity exports. & This can be attributed to a decline in the price of primary commodities caused by volatility (rather than the economic variables of value-added goods) which has profound consequences for the stability of macro-economic variables. These factors have driven the region to try to achieve economic diversification via exports: instead of relying heavily on primary commodity exports, the country must rely on the export of value-added products and new market potential. This approach was adopted at the African Union Summit and a Study of the Implementation of Agenda 2063 by the African Union (AU) in Collaboration with China to promote sustainable economic growth in the region (UNECA) by relying on export diversity as a powerful policy tool to protect Africa from global economic events (such as the global financial crisis) and promote economic growth.

The African continent, in alignment with other regions, has been severely impacted by multiple overlapping global events such as the tightening of global finances, supply chain disruptions, weak global growth, the aftereffects of the pandemic, the impact of climate change, and changing weather events. In 2021, South Africa's growth was recorded as 4.4%: by 2022, this figure had dropped to 2.7% and in 2023, it had fallen further to 1.6% (followed by a slight upturn to 2.7% later the same year) (Semenya & Ogujiuba, 2024).

3. CONSEQUENTLY, THE STATES OF SOUTH AFRICA HAVE ADOPTED A RANGE OF ECONOMIC DIVERSIFICATION POLICIES (DETAILED AS FOLLOWS):

South Africa's Export Diversification Strategy

In South Africa, intensive economic diversity is focused on facilitating incidental growth, increasing production, and diversification policies. The export of raw materials accounts for the majority (52%) of total exports to African countries among which South Africa's exports are the most diversified. South Africa has undergone several structural transformations since 1996 and its structure now relies on more than one source of income (instead of an economy founded on large industries such as the mining sector) to increase its domestic product (Meyer, 2020, p.183).

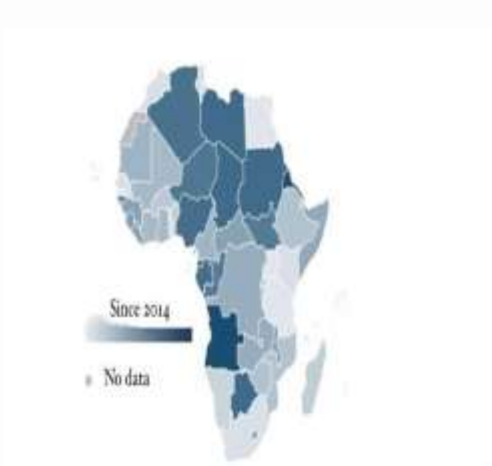

Figure 1: South Africa's Export Rate Distribution Map (Usman & Landry, 2021, p.9).[1]

Figure 1 illustrates the scale of distribution of exported goods and services from South Africa to other African nations countries and reflects economic information regarding South Africa's foreign trade (which increased to 6,213 in 2014).

Diversification Strategy for South Africa's Domestic Product Components

South African States attach immense importance to the overall diversification of national income components. To implement economic diversification and achieve sustainable development, manufacturing (such as heavy industries, metals, chemical products, and electronic products) is a key area for development and expansion. Via the promotion of these industries, the country can create new jobs and increase its domestic value added. Additionally, the service sector (financial services, insurance, tourism, hospitality, transport, and telecommunications) plays a critical in diversifying Africa's economy by providing a major source of employment and revenue, contributing to enhanced economic growth, and improving the quality of life in the country. Additionally, South African countries have sought to develop the agricultural sector and increase the productivity of local agriculture. Moreover, they are keen to promote newly created and innovative sectors such as Technology, Energy, and Rural Infrastructure Improvement (World Bank, 2018, p.7).

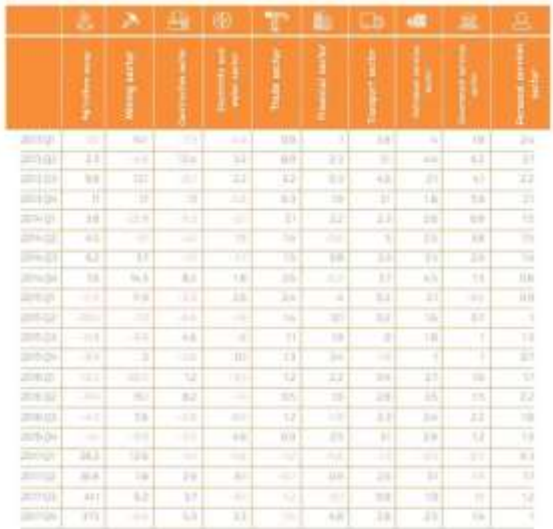

Figure 2: The Growth of GDP of South Africa's Productive Sectors (World Bank, 2018, p.8).[2]

Figure 2 indicates that South Africa has relied on a variety of activities (such as agriculture, mining, construction, electricity, trade, financial, transport.

[1] Usman, Z., & Landry, D. (2021). Economic diversification in Africa: How and why it matters. *Available at SSRN 3842228*.

and government services) to increase the rate of domestic output. Matezo et al. (2021, p.843) identified a set of modalities regarding the States of South Africa's attempts to achieve economic diversity:

1. Focus on human capital: Human capital affects domestic income growth by focusing on material investments.
2. Foreign Investment in Africa: South African States are increasing the scope of the foreign investment movement in Africa and applying a range of strategies to stimulate FDI.
3. Export diversification: South African countries' plan includes export diversification to increase the per capita GDP growth rate.
4. Political stabilization: Repeated government changes reduce growth. Conversely, it may be the case that low growth increases the likelihood of government change while government development is anticipated to have a noticeable impact on government changes in dictatorships and democracies.

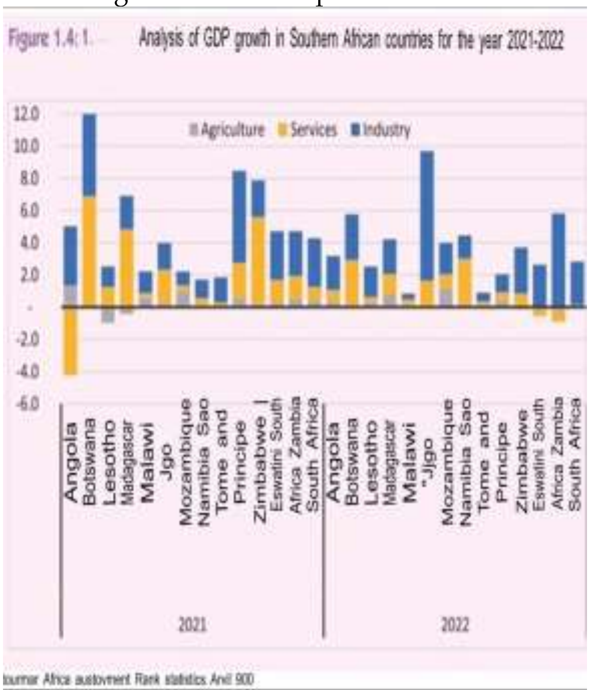

Figure 3: South African GDP growth analysis for 2021-2022 (African Union Commission., 2023).[3]

Figure 3 illustrates the size and distribution of GDP in South Africa, reflecting economic information regarding production and economy-specific activities in South Africa in different sectors such as agriculture, industry, and services during 2021-2022. It should be noted that most countries exhibited an increase in the rate of GDP following the diversity of different services.

India's Experience

India is a leading model in the shift towards a knowledge economy in which growth is driven by traditional factors of production (such as capital and work) and where qualified human resources with advanced skills are the most asset. This approach has enabled India to diversify its economic structure by expanding competitive high value-added productive activities and the diversification of exports to foreign markets. The primary advantage of economic diversification lies in protecting the economy from shocks resulting from specialization in the production and export of only one commodity. India has succeeded in overcoming the fragility of the national economy via economic diversification. Over the last four decades, the country has played a leading role in the private sector, and its financial sector reforms have supported its role as a driver of growth and development, increased its levels of integration into the world, and diversified its export base via the liberalization of foreign trade and the opening up of direct foreign investment (Abdou, 2022, p. 1, p.150).

Over the past three decades, India's economic model has been characterized by an accelerated shift from a dependence on the traditional agricultural sector to a relatively sophisticated industrial and service economy which contributes approximately 60% of India's GDP and employs approximately 28% of its workforce. Additionally, the industrial and construction sectors have seen their share of Indian GDP rise markedly since the country's independence, and their importance has increased significantly from the beginning of the new millennium to 2008 (when their share in India's GDP reached approximately 31.1%). India's industry and construction sectors have performed contrary to their declining global significance. This can be explained by India's strategy to exploit its untapped national resources free market economy via its implementation of reforms and the adoption of a free market economy. Since 2010, the share of industrial and construction in India has increased to approximately 26.5% (2017). Additionally, the Indian government has provided robust support to the industrial sector (primarily via Prime Minister Narendra Modi's 2014 Made in India program)

[3] African Union Commission. (2023). *Africa's Development Dynamics 2023 Investing in Sustainable Development*. OECD Publishing.

which aims to make India the largest destination for Foreign Direct Investment in the world and ensure that it outperforms the United States and China (Lutfi, 2023, p. 239).

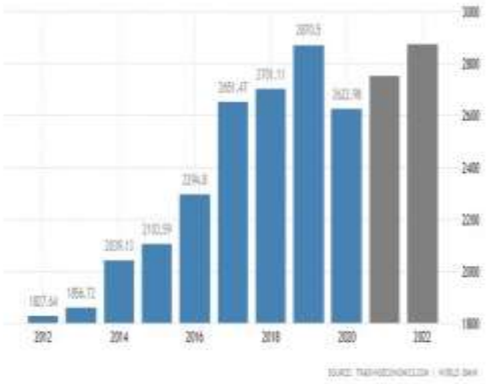

Figure 4: India's GDP (World Bank).

Figure 4 demonstrates that India's economy has achieved economic diversification via the recent introduction of several notable policies such as: implementing a goods tax, introducing long-awaited services, and opening the country to foreign investment. It is anticipated that the country's economic growth will accelerate by 7.3% for the fiscal year 2018/19 (from April 2018 to March 2019) compared to 6.7% the previous year. Simultaneously, the rate of inflation has increased due to the low economic gap. To maintain and strengthen these policies, and to invest in the demographic dividend associated with the increasing number of employed workers (which constitutes about two-thirds of the total population), India needs to reinvigorate its reform efforts to keep the engine of growth and jobs together: this is a critical element in a country with a per capita income of about US $2,000 which is significantly below per capita incomes in other large emerging economies (Singh, 2024).

India has become a significant economic power that poses a threat to the traditional world powers after surpassing the economic growth of other countries such as China. By focusing on economic growth at a rapid rate, India is now ranked as one of the twenty largest global economies by the World Trade Organization: It has the seventh highest global GDP and is a member of the BRICS Group of Countries alongside China, Brazil, Russia, and South Africa.

India has diversified its production by providing far-reaching services and undertaking a range of reforms, especially in the stock market. Varghese (2018, p.35) noted that the Government of India has developed Strategy 2035 to achieve economic diversity.

- The government is working to expand its trading partners' base by promoting exports and inward investment. India continues to negotiate free trade agreements with other States and regions to promote additional trade opportunities.
- The government is investing in improving airports, logistics networks, and other infrastructure.
- The government is endeavoring to improve the quality of education and provide inclusive educational opportunities. Additionally, the government is focusing on the development of skills and the workforce to address changing labor market needs.
- The government provides support and facilities for startups and innovators and promotes a culture of innovation and legitimacy.

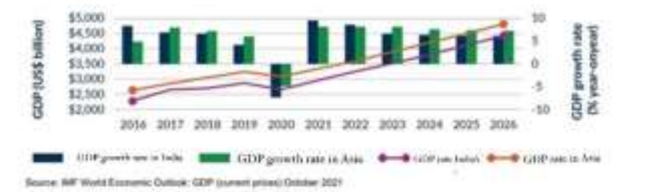

Figure 5: India's GDP growth rate (Varghese, 2018, p.15).[4]

Figure 5 shows that India achieved the highest GDP growth rate in 2021, and the rate will continue to grow until 2023.

Based on the aforementioned information, it is evident that India presents a new development model for a steadily progressing economy. After its early 1990s economic transformation, the country achieved the world's fastest economic growth rates thanks to its reliance on market mechanisms which provided the private sector with a leading role in the economic development process. This approach (combined with the liberalization of foreign trade and the reduction of restrictions on foreign investment) has increased access to international markets for a variety of services and enabled the

[4] Varghese, P. (2018). An India economic strategy to 2035.Australian Government Department affairs and trade.1-54.

country to transition away from exporting raw materials to other diverse economic activities with high productivity and value-added. India has become a preferred destination for foreign investment: the Government's facilitation has enhanced its position and investment attractiveness at the regional and international level by streamlining its existing procedures to improve business practice (Abdou, 2022, p. 20).

4. MALAYSIA'S EXPERIENCE

Malaysia's experience as a country rich in natural resources is a successful one: It has successfully diversified its economy and achieved high rates of growth via its shift towards industrial production and the diversification of its exports. Malaysia has successfully diversified its economy over the past forty years of post-independence and post-development growth. The country's economy has shifted from agriculture and the exportation of agricultural goods and tin to one that is more industrial; therefore, the export of goods represents a significant share of its total exports. Additionally, diversification and economic growth have contributed to the reduction of extreme poverty in Malaysia: it is currently the third economic force in the Association of Southeast Asian Nations (ASEAN) after Indonesia and Thailand - and is being considered as a member of the Club of Developed Countries.

Malaysia is a unique example and provides a model for developing countries to emulate as they move towards progress. It has shifted from a country dependent on agriculture and exporting a selection of raw materials to an industrial state and a source of technical and electrical materials. Due to its government's reliance on distinctive development plans, Malaysia has experienced an economic boom and rapid development during the twentieth century and is now ranked 29th among the world's largest economies. The shift from its dependence on mining and agriculture to industry (particularly heavy industries) has taken place with the assistance of Japan whose exported machinery has become Malaysia's primary growth mechanism (Khalid, 2021, p. 158).

Malaysia's economic success can be explained by the preconditions for development: visionary leadership, political stability, sound planning, and the availability of natural resources. Since its independence in 1957, Malaysia has witnessed five prime ministers, each of which has influenced its economic diversification efforts by creating preconditions for industrialization, integrating social aspects, increasing people's basic finances, and the judicious implementation of policies. Additionally, these measures created an appropriate investment climate. For example, the economic planning initiated by the first 1956-1960 Plan (which began Malaysia's rise the development ladder) made considerable efforts to promote infrastructure projects, integrate technology, and make innovative changes to its economic system. In the 1980s, Malaysia adopted a new diversification strategy aimed at transforming its agricultural dependence into resource dependence. Following the announcement of the privatization program, the private and public sectors were viewed as a single business organization. Following this, the manufacturing industrial sector recorded the majority growth rate of 22.6% in the 1980s, with a strong trend towards diversification of exports (consisting of oil, gas, and chemicals) and the country experienced an economic upturn via its national industrial policy.

Under the leadership of Prime Minister Mahathir Mohamad (1981 – 2003), several innovative steps were taken to diversify the economy. From an oil and commodity exporter, Malaysia became prosperous via its diversified export base (consisting of electrical, electronic, oil, gas, pharmaceutical, machinery, and mineral products). In 2017, Malaysia's total export value was approximately US $216 billion. Products, electrical machinery, and electronics accounted for 46% while oil and gas accounted for 15.3%. Malaysia highlights the fact that an effective diversification policy requires a long-term perspective, alongside a concerted and sustained effort, to channel resources and funds that can build effective institutions. According to the International Monetary Fund (IMF), Malaysia's economy continues to perform aggressively, approaching the ranks of high-income countries (Al-Qasab, 2021, r. 261).

Economic diversity has played a significant role in the high growth rates in the economy: the country's export-driven growth strategy in the manufacturing sector has diversified the country's exports while sectoral policy focus has contributed to the diversification of Malaysia's economy. Over fifty years, the success of the country's diversification efforts has been achieved via macroeconomic stability, low inflation, a stable exchange rate policy, the promotion of trade openness, fee reductions, research, development, innovation, and manufacturing sector developments. To achieve effective diversification, Malaysia has successfully implemented a distinct diversification strategy by allowing value-added production in the mining sector, improving the local logistics industry, and facilitating diversification across all sectors. Additionally, spatial policies have played a vital role in diversifying the economy. The promotion of growth poles and special economic zones in countries such as Malaysia, China and Mauritius have helped Malaysia to diversify its economy by providing effective governance, implementing innovative policies, focusing on export promotion, and achieving value-added production (Meyer, 2020, p.184).

Malaysia has adopted some of the most successful working methods of the past forty years to make tremendous advances in economic and human development. It became the first country to promote industry between Islamic countries and overseas trade via the dramatic development of its infrastructure which has influenced the economic diversity policies of its national income sources: industry, agriculture, minerals, oil, and tourism (Karim & Said, 2024).

Before the 1970s, Malaysia's economy (founded on its diverse natural wealth) was dominated by the primary sector: it was the world's largest producer of natural rubber and tin ore. Primary industries contributed approximately 50% per cent of GDP and 80 per cent of its total exports in the 1960s and 1970s; however, the global collapse in rubber and tin prices in the early 1980s prompted a shift in the production of basic products; therefore, crude oil, natural gas and palm oil are now Malaysia's primary products (Koen, et al., 2017, p.15).

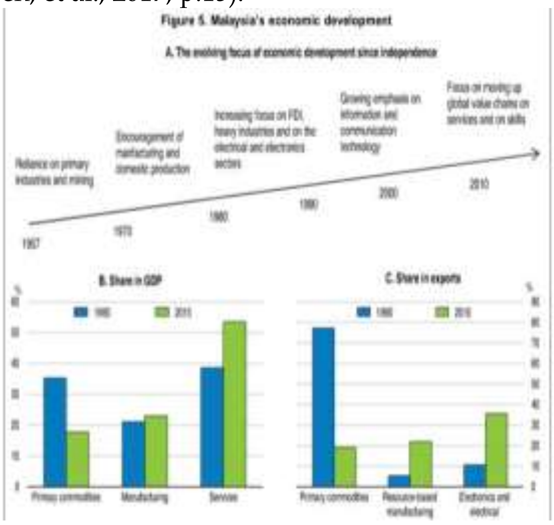

Figure 6: Economic Diversity in Malaysia (Koen, et al., 2017, p.16)[5]*.*

Figure 6 shows that Malaysia has experienced economic diversification across several areas beginning with the primary industry sector (mining) to achieve the economic diversity that transforms the nation towards universality.

Malaysia represents a pioneering example of economic diversification which has been achieved by valuing its natural resources, building a sustainable development model that is not linked to rent resources and fluctuating prices in international markets, and diversifying its economy since gaining independence. It has implemented several development policies that, over time, have demonstrated the positive impact of the diversification of national exports. By focusing on industries which add value to the economy, the effective implementation of policies, and the governance of their resources, the country has diversified its economy and created a pioneering economic model. The development and implementation of many strategies, combined with the expansion of its production base, have contributed to the quantitative progress of the country's economic indicators and its economic and social development (BRAC, 2022, p. 20, p.179).

5. Theme III: The Reality of Economic Diversification in the Gulf

The issue of economic diversification has become a vital issue in the Arab Gulf States due to the emergence of COVID-19 and the slowing global economy which caused the price of Brent crude oil to fall from $64 per barrel at the beginning of 2020 to below $50 per barrel (see Figure 7). With prices expected to remain low until the end of 2022, this situation has put considerable strain on the financial budgets of the GCC countries which are expected to report an average deficit of 9.2% in 2020 and 5.7% in 2021 (Kabbani & Mimoune, 2021, p.2).

Figure 7: Average Monthly Price of Brent Crude Oil from Kabbani & Mimoune (2021, p.1).

[5] Koen, V., Asada, H., Nixon, S., Rahuman, M. R. H., & Arif, M. (2017). Malaysia's economic success story and challenges.

Following the increase in oil prices since 2003, the GCC countries experienced robust growth in their real GDP. For example, the GCC countries benefited from oil prices exceeding $100 per barrel in 2010 and grew by an estimated 6.3% in 2011 (compared to 5.6% in 2010). As illustrated by Figure 8 (below), growth rates in the GCC countries initially increased at flat prices until 2015 and then fell to a negative value in 2016 (due to the decline in oil prices). Subsequently, they increased (from 2.0% in 2018 to 2.1% in 2019) before accelerating to 2.7% in 2020 (FMF reports) (Abdel-Gadir, 2020, p.24).

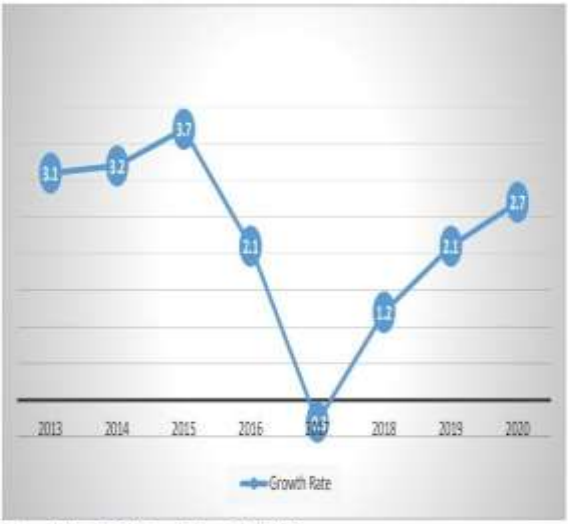

Figure 1: Real GDP Growth Rates 2018 -2020

Figure 8: GCC GDP growth rate (Abdel-Gadir, 2020, p.24).

Since 2011, the macroeconomic performance of the GCC countries has been robust: the GDP growth rate is high, job creation is strong, and public budget surpluses are elevated. This prompted attention from GCC economies, not only because of higher oil prices, but because normal economic growth had taken a vertical path, and reliance was placed on free trade and investment agreements with the European Union, America and China to maintain its access to global markets, leverage widespread foreign interest, develop its economy, and raise the capital rate of oil and gas revenues.

Table 1 Percentage of GCC Exports of Points 2011 (Mishrif & Al Balushi, 2018, p.12).

The state	% GDP rate	% of government revenues	% of export revenues
Bahrain	24	89	69
Kuwait	45	93	90
Oman	41	77	65
Qatar	46	80	91
Kingdom of Saudi Arabia	50	85	85
United Arab Emirates	32	77	69

It is clear from the above table that Kuwait has achieved the highest proportion of export revenues, government revenues, and GDP (when compared with other Member States of the Gulf Cooperation Board) while Bahrain has achieved the lowest proportion.

Although the Gulf States have derived enormous wealth from their petroleum resources for more than seven decades, their economies remain sparsely diversified. With the significant reduction in petroleum prices over the past (8%), the Gulf States have recognized the need to diversify their economies to sustain economic growth. In their development plans, economic diversification has been emphasized to reduce oil dependence and secure sustainable income levels; therefore, in recent decades, the Gulf States have introduced several initiatives which are designed to stimulate growth in the non-oil economy. However, most diversification efforts have focused on establishing heavy, export-oriented, energy-dependent industries, all of which depend on having the energy available at a reduced price as a competitive advantage (Al-Qasab, 2021, p.73).

The COVID-19 pandemic and declining oil prices have increased pressure on Gulf countries to diversify their economies; therefore, policymakers in the GCC countries should avoid the immediate impulse to reduce budgets and should focus on developing robust foundations for a sustainable and dynamic economy. The economic pressures faced by the Gulf States have resulted in Saudi Arabia, the United Arab Emirates, and Bahrain ending their three-and-a-half-year blockade of Qatar. This decision has paved the way for improved regional economic integration: economic pressures have given way to a more open and frank dialogue between citizens and their States regarding financial constraints and economic rents (which are allowed to grow unimpeded). These factors are viewed as essential as they incentivize younger citizens and encourage them to engage in these sectors. Market-based mechanisms can then be allowed to operate more effectively in these sectors by maintaining their separation from rent-seeking behavior. More competitive economic sectors and broader regional economic integration of the GCC's economies can support its efforts to diversify the economy (Al Naimi, 2022).

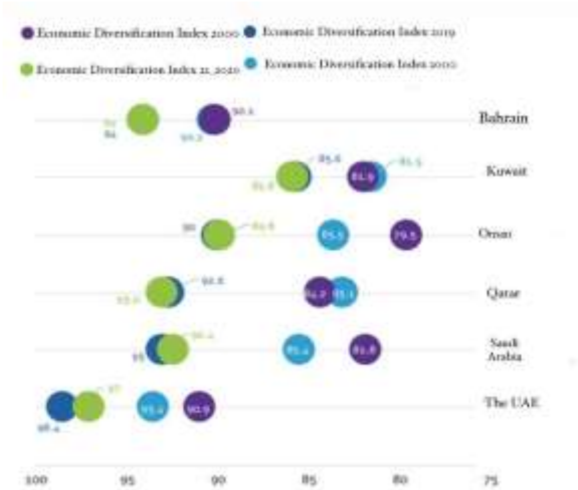

Figure 9: Scores of the Index of Economic Diversification in the GCC Countries (2000-2019) (Prasad et al., 2023, p.67).[6]

According to Figure 9, the GCC region has seen a marked improvement in its economic diversification index scores between 2000 and 2019. With the support of its diversification plans, Bahrain's extremely limited oil resources were already diversified among its regional counterparts in early 2000. However, they have not seen a significant improvement in their grades (unlike the UAE or Saudi Arabia) which have made progress on the scale of the index of Economic diversification. The gains made by the UAE and Saudi Arabia are attributed to policy measures aimed at economic diversification for the non-oil sector. Diversification efforts in the UAE included a comprehensive range of structural changes including the construction and operation of physical and non-physical infrastructure, the establishment and operation of additional free zones, and the expansion of UNIFIL's sub-sectors (such as Transport, Tourism, and New Technology Sectors (Prasad et al., 2023, p. 1& 67).

Economic Diversification in the Gulf States:

(Antwi-Boateng & Al Jaberi, 2022). states that GCC countries are major participants in the hydrocarbon market: they make up about 30% of the world's oil reserves and 20% of its natural gas reserves and this situation has prompted the implementation of economic diversification policies:

- Concerns about the prospects of future oil revenues: GCC oil production could cease by 2025, the reserves will begin to decline from 2055, and this will be followed by a sharp decline by 2100. In terms of oil income available per capita, the survey shows that GCC countries are relatively stable on average.
- The need to create jobs: In countries with a population of less than 1 million (Bahrain, Qatar, and the United Arab Emirates), unemployment is a minor concern: the official unemployment rate is less than 3% of the active population. However, other countries - notably Saudi Arabia and Oman – are facing fundamental unemployment problems created by significant demographic pressure, the reliance of the economic development model on the hydrocarbon sector, and an industrial sector that does not create sufficient employment opportunities.

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