POST-OIL ECONOMIES:
OPPORTUNITIES AND THREATS

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EXECUTIVE SUMMARY

Diversification is central to the economic development of all member-states of the Gulf Co-operation Council (GCC). The United Arab Emirates (UAE) has led the way through early recognition and acknowledgement that oil dependency is neither socially desirable nor economically sustainable over the long term.

The UAE has forged a programme of economic reform that aims to utilise the near-term benefits of oil revenues to stimulate the development and expansion of new and ultimately more sustainable streams of economic activity. This is now being followed by other Gulf states – most obviously Saudi Arabia’s ‘Vision 2030’ post-oil strategy.

The leadership of the UAE long ago recognised that the abundance of its oil wealth can be a ‘double-edged sword’: a source of immense public wealth but also the cause of potential societal complacency and economic stagnation.

The UAE’s ‘Vision 2021’ was launched in 2010. The strategy set six national priorities intended to consolidate a sustainable and wealth-generating economy with reducing dependence on oil. These are:

- Cohesive Society and Preserved Identity
- Safe Public and Fair Judiciary
- Competitive Knowledge Economy
- First-Rate Education System
- World-Class Healthcare
- Sustainable Environment and Infrastructure.

The Knowledge Economy pillar of UAE Vision 2021 focuses on: “the UAE becoming the economic, touristic and commercial capital for more than two billion people by transitioning to a knowledge-based economy, promoting innovation and research and development, strengthening the regulatory framework for key sectors, and encouraging high value-adding sectors.”

Both the UAE and Saudi Arabia have embraced the World Bank’s concept of a Knowledge Economy as the foundation for long-term economic growth. This concept is founded on the four pillars of: education, innovation, information and communication technology.
The UAE has also taken a leading role in enhancing the position of women in society and in the workplace. Over the past two decades, women have become increasingly prominent at the highest levels of power and the UAE Cabinet presently includes nine women out of a total of 32.

In the UAE, leaders have placed particular emphasis on the importance of education in so-called STEM (Science, Technology, Engineering and Mathematics) subjects. Alongside this, innovation and the development of an entrepreneurial private sector is manifest in the development of new, high-tech industries, including: renewable energy, nuclear, aerospace, defence manufacturing and the UAE’s ambition to become the first Arab nation to mount a space mission to Mars.

Of particular note, the UAE is providing a leading example to the region in developing strong tourism and cultural sectors in its post-oil diversification. As the recent opening in Abu Dhabi of the first branch of the Louvre Museum outside France has illustrated, the UAE not only sees its cultural development as an important component of its national heritage but also as a means of bridging international understanding of the Islamic Gulf to the wider world.
OPPORTUNITIES

- For Gulf populations, greater economic diversification should increase the sense of shared investment in local, regional and national communities. In turn, this will strengthen nationhood and encourage pride in Gulf Arab achievements while at the same time reducing still further, residual sectarian tension.

- It is recognised that the Gulf region’s ‘youth bulge’ – 54 percent of the region is under 25-years old – will require employment opportunities that are fulfilling and encourage the sense of investment in community. To focus on this issue, in 2016, the UAE appointed its first Minister of Youth to develop a Youth Empowerment Strategy.

- The shift over the past decade towards knowledge-based economic development has required the development and evolution of Gulf education systems and the expansion of research – particularly within the region’s higher education sector. This has been exemplified by the UAE, and particularly Abu Dhabi’s, investment in education development and the transformation of its systems of public and private education.

- For the UAE and other GCC states, the most important consequence of post-oil economic reform will be long-term stability and continuing focus on future opportunities rather than remaining dependent on the region’s hydrocarbon legacy.

- The UAE predicts that growth in the post-oil era will encourage the region’s private sectors. This is likely to incentivise the pursuit of increased entrepreneurial enterprise and a greater appetite for taking and accepting commercial risk.

- There is no suggestion that post-oil diversification will reduce the importance of Islam in the GCC region, but it is accepted that the process should encourage societies to become more open and more tolerant of other faiths and other cultures.
CHALLENGES AND THREATS

- UAE leaders acknowledge the process of change must be approached sensitively and with the support of ordinary people – not just nationals but also the significant populations of expatriates who also contribute to the UAE economy.

- While the economic benefits of hydrocarbon production have provided the basis of individual prosperity in all GCC countries for the past two generations, the UAE and other leaders have anticipated some pushback from older generations grown used to generous public subsidy and immunity to the economic impact of global cycles.

- It is also recognised that it would be imprudent not to plan for some discontent amongst younger generations of whom more is being expected, in terms of educational and academic achievement, and on whose shoulders is being placed the responsibility of delivering economic diversification.

- The UAE has recognised the challenges of economic change and adopted a strategy of change that, for the most part, has been perceived to impact as much, if not more, on non-nationals and expatriate communities rather than nationals alone.

- At a macro-economic level, post-oil diversification may encounter more direct challenges for the future economic well-being of the GCC. As Gulf countries look to move into high-tech and service sector provision, so they will encounter increased competition and even pushback from global competitors.

- International opposition is already evident in the form of efforts to raise tariff barriers to Gulf competition and to argue that the UAE airlines are breaching Open Skies agreements through alleged reliance on undisclosed public subsidies.

- International competition also implies ready markets for the GCC’s non-oil economic production. The Gulf states will have to accept that they will not only be in competition with each other but also with the global community.

- As the GCC moves towards increased economic openness, it seems likely that Iran’s leadership will sense opportunities to further its influence and to meddle in pursuit of its hegemonic ambitions in the region.
As the events of the 1970s and 1980s showed, the Gulf’s capacity to exert influence over the US and with Europe – what some called its ‘oil weapon’ – granted the region an exceptional status in the conduct of global affairs.

As the GCC moves into the post-oil era, the combination of reducing demand for hydrocarbons and the Gulf’s increasing reliance on developing areas of economic activity in competition with the rest of the world suggests that its ‘exceptional status’ will start to diminish.

Within the GCC, the post-oil era will favour those with the education and mindset to benefit from new economic opportunities. This is why the UAE continues to prosper even as the process of economic reform accelerates. But the process also risks leaving some people behind: perhaps the old, the religiously conservative, the less well-off, the less well-educated – and those who simply dislike change. These sectors of society could present a longer-term challenge for Gulf leaderships.

There remains the risk that economic diversification will not entirely deliver its current promise. Not only does it require a shift away from the current sense of Gulf economic confidence and well-being, but it also requires people – nationals and expatriates alike – to embrace change; never easy in the smallest of organisations and always immensely challenging for whole economic communities.
POST-OIL ECONOMIES: OPPORTUNITIES AND THREATS - INTRODUCTION

Economic diversification away from reliance on oil is now central to the economic development of all member-states of the Gulf Co-operation Council (GCC). The United Arab Emirates (UAE) has led the way through early acknowledgement that oil dependency is neither socially desirable nor economically sustainable over the long term. Through the visionary leadership of HH Sheikh Mohammed bin Zayed al-Nahyan, Crown Prince of Abu Dhabi, and HH Sheikh Mohammed bin Rashid al-Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, the UAE has forged a programme of economic reform that aims to utilise the near-term benefits of oil revenues to stimulate the development and expansion of new and ultimately more sustainable streams of economic activity.

Building on the early vision and understanding of their fathers, HH Sheikh Zayed bin Sultan al-Nahyan and HH Sheikh Rashid bin Saeed al-Maktoum, the leadership of the UAE has long recognised that the abundance of oil beneath the Emirati desert is a ‘double-edged sword’ – both a source of immense, near-term public wealth but also a potential source of societal complacency and economic stagnation. Critics of the UAE and other Gulf states have sometimes portrayed them as ‘rentier economies’ – leveraging control over something that already exists, such as land, knowledge, oil or money, to increase your wealth. “You produce nothing, yet profit nonetheless”. However, first the UAE and more recently every other GCC leadership has accepted that over-reliance on oil is economically self-defeating. Not only is this unlikely to be sustainable beyond the next 50 years but it also discourages the kinds of social vibrancy and vigour that are essential both for national well-being and national security.

The structure of the economies of the Gulf Co-operation Council (GCC) member states continues to be widely misunderstood by many in the international community. For the most part, general observers, and even some economists, continue to regard the Gulf states as overly-dependent on the production of hydrocarbons – oil and gas – for their economic well-being. International commentators also continue to describe – and even to dismiss – the GCC states as

2 Rutger Bergman, The Guardian: No, wealth isn’t created at the top. It is merely devoured there 30 Mar 2017: https://www.theguardian.com/commentis-free/2017/mar/30/wealth-banks-google-facebook-society-economy-para sites
‘rentier economies’ because of their perceived reliance on revenues derived from production by largely foreign-owned energy producers which fail to contribute to wider societal well-being. In this analysis, the Gulf states are not seen as contributors but merely as the fortunate beneficiaries of geographic accident. The Gulf states are also perceived being both vulnerable to the swings of international energy markets and still capable – albeit to a diminishing extent – of using control over energy production as leverage over international policy and a key tool in international engagement – the so-called “oil weapon”³.

At the end of 2017 it is still the case that all six members of the GCC continue to benefit significantly from the proceeds of energy production and the associated services required to produce and export energy to international markets. As a glance at the contributions that energy production makes to GCC economies makes clear, this remains a significant component both of overall GDP and export earnings for all six member-states.

<table>
<thead>
<tr>
<th>Country</th>
<th>2015 ($Bn)</th>
<th>2016 ($Bn)</th>
<th>2017 ($Bn) (Predicted)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bahrain</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP Total ($Bn)</td>
<td>31.1</td>
<td>31.9</td>
<td>33.9</td>
</tr>
<tr>
<td>Value of Exports</td>
<td>16.5</td>
<td>12.8</td>
<td>13.9</td>
</tr>
<tr>
<td>Export Hydrocarbons</td>
<td>7.7</td>
<td>6.1</td>
<td>6.9</td>
</tr>
<tr>
<td>Export Hydrocarbons as % Of GDP</td>
<td>19%</td>
<td>16%</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Kuwait</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP Total</td>
<td>116.9</td>
<td>95.5</td>
<td>101.1</td>
</tr>
<tr>
<td>Value of Exports</td>
<td>55.3</td>
<td>44.9</td>
<td>53.7</td>
</tr>
<tr>
<td>Export Hydrocarbons</td>
<td>48.8</td>
<td>37.9</td>
<td>46.2</td>
</tr>
<tr>
<td>Export Hydrocarbons as % Of GDP</td>
<td>42%</td>
<td>40%</td>
<td>46%</td>
</tr>
</tbody>
</table>

³ Brookings, 2017: https://www.brookings.edu/blog/markaz/2017/06/05/the-1967-war-and-the-oil-weapon/
That stated, all GCC leaderships have acknowledged the underlying economic truths that failure to diversify and restructure the GCC’s economies will both fail to take advantage of the member countries present economic heft and leverage, and likely render member states increasingly vulnerable to the long-term decline in global demand for oil and gas.

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP Total</th>
<th>Value of Exports</th>
<th>Export Hydrocarbons</th>
<th>Export Hydrocarbons as % Of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oman</td>
<td>69.7</td>
<td>35.7</td>
<td>21.2</td>
<td>30.5%</td>
</tr>
<tr>
<td>Qatar</td>
<td>164.6</td>
<td>84.5</td>
<td>72.8</td>
<td>44%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>652</td>
<td>203.2</td>
<td>151.3</td>
<td>23%</td>
</tr>
<tr>
<td>UAE</td>
<td>358.2</td>
<td>300.5</td>
<td>61.5</td>
<td>17%</td>
</tr>
</tbody>
</table>

Emirates NDB Data: 2016 data
POST-OIL DIVERSIFICATION

In some GCC states, notably in the UAE and more recently Saudi Arabia, leaderships have recognised the wider political, strategic and societal benefits that derive from pursuit of economic diversification. This has led the UAE and Saudi to adopt policies that aim to harness the benefits to be derived from economic diversification: in the UAE’s ‘Vision 2021’ and Saudi Arabia’s more recently announced ‘Vision 2030’.

By 2011, the percentage of non-oil elements to the Gross Domestic Product (GDP) of the UAE economy had reached 71%. As then Minister of Foreign Trade, HH Sheikh Lubna al-Qasimi used a speech to mark the opening of that year’s Malaysia Services Exhibition in Abu Dhabi to emphasise: “Our foreign trade sector in particular is playing an important role in this regard with a 15 per cent contribution alone to GDP.”

The Minister went on to explain that the UAE’s post-oil diversification strategy is crucial to future economic development, by putting emphasis on the expansion of non-oil commercial activities and encouraging the expansion of new industries including: renewable energy, nuclear power, advanced technologies and logistic services. In addition, the UAE is fostering the development of a strong financial services sector, global aviation and port operating services.

The UAE’s ‘Vision 2021’\(^5\) was launched in 2010 – 2021: 2021 being the year in which the UAE will mark the Golden Jubilee of the country’s independence. The strategy has set six national priorities intended to consolidate a sustainable and wealth-generating economy with reducing dependence on oil. These are:

- Cohesive Society and Preserved Identity
- Safe Public and Fair Judiciary
- Competitive Knowledge Economy
- First-Rate Education System
- World-Class Healthcare
- Sustainable Environment and Infrastructure.

The Knowledge Economy pillar of Vision 2021 focuses on: “the UAE becoming the economic, touristic and commercial capital for more than two billion people by transitioning to a knowledge-based economy, promoting innovation and research and development, strengthening the regulatory framework for key sectors, and encouraging high value-adding sectors. These will improve the country’s business environment and increase its attractiveness to foreign investment.”

This UAE Vision has influenced Saudi Arabia’s Vision 2030, published in 2017\(^6\). In its introduction HRH Prince Mohammed bin Salman writes: “We are determined to reinforce and diversify the capabilities of our economy, turning our key strengths into enabling tools for a fully diversified future. As such, we will transform Aramco from an oil producing company into a global industrial conglomerate. We will transform the Public Investment Fund into the world’s largest sovereign wealth fund. We will encourage our major corporations to expand across borders and take their rightful place in global markets.”

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5 https://www.vision2021.ae/en/our-vision
6 http://vision2030.gov.sa/en
Both the UAE and Saudi Arabia have embraced the World Bank’s concept of a Knowledge Economy as the foundation for long-term economic growth. This concept is founded on the four pillars of: education, innovation, information and communication technology. In 2010, the World Bank published a key paper authored by Derek Chen and Carl Dahlman which argued that “a conducive economic and institutional environment will lead to increases in the use and creation of knowledge in economic production, and consequently result in sustained economic growth.” The leadership of the UAE in particular, have embraced the concept of knowledge creation and development as the key to building a long-term, sustainable economy that leverages the country’s present oil-wealth in pursuit of a future that is no longer dependent to any degree on the proceeds of oil. HH Sheikh Mohammed bin Zayed al-Nahyan and HH Sheikh Mohammed bin Rashid al-Maktoum have made many speeches emphasising the importance of the UAE’s young generations and the importance of education – not oil. As an example, in March 2017, Sheikh Mohammed bin Zayed told an audience at the Abu Dhabi Mahlis for Future Generations: “You are the hope of this nation, you are the future of this nation, not the barrels of oil.”

The UAE and Saudi leaderships have a clear vision of a post-oil future for their countries and are now taking steps to restructure, incentivise, encourage and even coerce institutions to implement necessary change.

In the UAE, leaders have placed strong emphasis on the importance of education in so-called STEM (Science, Technology, Engineering and Mathematics) subjects. Alongside this, innovation and the development of an entrepreneurial private sector is manifest in the development of new, high-tech industries, including: renewable energy, nuclear, aerospace, defence manufacturing and the UAE’s ambition to become the first Arab nation to mount a space exploration to Mars.

Also of note, the UAE is providing a leading example to the region in developing strong tourism and cultural sectors to its economy. As the recent opening in Abu Dhabi of the first branch of the Louvre Museum outside France has illustrated, the UAE not only sees its cultural development as an important component of its national heritage but also as a means of bridging international understanding of the Islamic Gulf to the wider world.

Underpinning these ambitions to evolve the UAE’s economy has been recognition of the need to build on what is now seen as the nation’s most valuable resource: its people. This has led to change over the last decade, not only in driving change in the education sector but also in the continuing development of the highest quality health and social care programmes. It has continued to embrace the empowerment of women and to encourage women into work. The same ambition is now observable in Saudi Arabia, albeit developing from a lower baseline.

The UAE has also taken a leading role in enhancing the position of women in society and in the workplace. Over the past two decades, women have become increasingly prominent at the highest levels of power and the UAE Cabinet presently includes nine women out of a total of 32\(^9\). In September 2017, the UAE adopted the OECD Gender Balance Guide, setting out a road map for the UAE and both public and private organisations and institutions to harness the “untapped potential that women represent.”\(^{10}\)

For post-oil UAE, the pursuit of renewable energy has been especially important. Today, Abu Dhabi hosts the UN’s International Renewable Energy Agency (IRENA) and the UAE has taken a leading role, not only in pursuing research into renewables but through investment in the major experiment of Masdar – a planned city in Abu Dhabi which is not only powered almost exclusively by energy from renewable sources but has been designed to maximise energy efficiency. This includes transport which uses a mix of electric vehicles and other clean-energy vehicles for mass transit inside the city.

\(^{10}\) http://www.oecd.org/gov/gender-balance-guide-actions-for-uae-organisations.ht
Underlying this shift towards a post-oil world, the UAE, Saudi Arabia and increasingly other GCC member states have recognised the importance of shaping and encouraging communities that are tolerant of other nationalities, other faiths and other customs. To this end, in 2017 the UAE government created a Minister of State for Tolerance, since October 2017 this post has been filled by one of the most senior and respected members of Abu Dhabi’s ruling family: HH Sheikh Nahyan bin Mubarak al-Nahyan. At the same time, HH Sheikh Mohammed bin Rashid al-Maktoum saw the need to create of Minister of Happiness declaring: “Happiness and positivity are a lifestyle and government’s commitment and a true spirit that unites the Emirati community.”

11 UAE Ministry of Happiness website: https://www.happy.ae/en
The opportunities afforded by the GCC’s embrace of post-oil futures must be considered and understood not only from an economic perspective but also through the prism of all the principal levers of national power.

Political. Economic diversification offers many political opportunities for the Gulf region. Most obviously the process is aimed at increasing the likelihood of economic and therefore political partnership. Notwithstanding present differences with Qatar, over the long term, observers foresee greater chances for Gulf unity so that the GCC becomes better able to function as an integrated political bloc in a world in which globalisation is reducing the significance of national boundaries.

For Gulf populations, greater economic diversification should increase the sense of shared investment in local, regional and national communities. In turn, this will strengthen nationhood and encourage pride in Gulf Arab achievements while at the same time reducing residual sectarian tension.

By 2020 the GCC population is forecast to reach 53.5m, a 30% increase over the level in 2000. This means a requirement for increased employment opportunities and a growing national workforce able to replace the GCC’s historic reliance on imported expertise and labour.
Economically prosperous individuals tend to support political stability and invest to maintain their well-being, as well as pursuing future opportunities. Historical example suggests that this increased sense of investment in society produces not only political stability but also blurs divisions between leaderships and ‘the led’. From an international perspective, commentators therefore perceive the gradual expansion of representative government with concomitant benefits for issues such as human rights and the evolution of political accountability across the region.

It is recognised that the Gulf region’s ‘youth bulge’ – 54 percent of the region is under 25-years old – will require not only larger numbers of employment opportunities but also jobs that are fulfilling and encourage the sense of investment in community. Many believe this process should ensure that that fewer people are attracted to religious extremism in all its violent and non-violent forms. To focus on this issue, in 2016, the UAE appointed its first Minister of Youth to develop a Youth Empowerment Strategy. As the UAE Government website makes clear: “The UAE Government attaches great importance to the role of youth and their empowerment in order to enable them to shoulder responsibilities, innovate and contribute to the welfare of the UAE's community.”

Linked to its youth agenda, the UAE also strives to be a beacon of tolerance in the region. The UAE government policy states: “Tolerance is a virtue and an intrinsic part of the Islamic culture. It is observed at all levels: individual, organisational and national. With more than 200 nationalities living peacefully and successfully in the UAE, the UAE society has been an undisputed example of being a tolerant and inclusive country. Now, the Federal Government is keen to promote acceptance and understanding as core values of the society.”

Economic. Economic diversification also demands a knowledge platform and investment in advanced education. The UAE and Saudi governments now accept that in the past, they relied too heavily on external actors and gave insufficient attention to transferring the skills and knowledge required to enable Gulf nationals to pursue this type of sophisticated, knowledge-based work for themselves.

The shift over the past decade towards knowledge-based economic development has required the development and evolution of Gulf education systems and the expansion of research – particularly within the region’s higher education sector. This has been exemplified by the UAE, and particularly Abu Dhabi’s, investment in educations development and the transformation of its systems of public and private education.

For the UAE and other GCC states, the most important consequence of post-oil economic reform will be long-term stability and continuing focus on future opportunities rather than remaining dependent on the region’s hydrocarbon legacy. Young Gulf nationals should be able to look forward to rewarding employment opportunities which at the same time will generate new wealth for the region, no longer dependent on the vicissitudes of global energy markets.

In turn, economic stability will enable reformed Gulf economies to become better integrated with other advanced economies of the world. Historical experience elsewhere in the world suggests that this trend of growing economic alignment will pay synergistic dividends in terms of increased economic influence and relevance with society at large better invested in the future of their countries.

Finally, most of the predicted growth in the post-oil era seems likely to come in the development of the region’s private sectors. This is likely to encourage the pursuit of increased entrepreneurial enterprise and a greater appetite for taking and accepting commercial risk. The expansion of the private sector will create wider employment opportunities for all – particularly if the shift towards more advanced and demanding systems of education produces individuals with the skills and knowledge to take maximum advantage of newly emerging opportunities.
Social and Cultural. Social and cultural opportunities are predicted to develop as a result of the Gulf region’s shift towards more diversified, less hydrocarbon dependent economies. Analysts argue that these developments are most likely to emerge in the form of less overtly religious societies which are therefore better able to integrate and assimilate with an increasingly globalised world.

At the same time, this expansion of Arab cultural influence should engender improved understanding and tolerance of Islamic culture and greater acceptance of Muslims across the world in general. The Saudi leadership’s role as Custodian of the Two Holy Mosques seems likely to be especially important in this process as the Kingdom opens up to the wider world.

While there should be no suggestion that post-oil diversification should or will reduce the importance of Islam in the GCC region, it is believed that the process will encourage societies to become more open and more tolerant of other faiths and other cultures. The UAE has led the way in this from the first day of its independence in 1971.
PRESSURE ON OIL MARKETS

The pressures on the future production of oil and gas are various and well-understood by Gulf leaders and economic planners. First, while GCC energy production still fulfils 39.5 per cent of global demand, other factors suggest that this percentage is likely to diminish to lower levels by the mid-point of the 21st century. Oil and gas are self-evidently ‘fossil fuels’ generating carbon emissions that are widely, but not universally, accepted as the principal cause of global warming. Despite the denials of the present US administration, it seems likely that the 2015 Paris Agreement on Climate Change will continue to be pursued by most advanced and emerging nations around the world – with likely consequences for overall demand for both oil and gas. At the same time, the opportunities afforded by alternative energy sources, mostly in the form of renewable energy – wind, solar, tidal, etc – mean that the costs of alternative energy are reducing to a point in the future when it is likely to be as cost effective, if not cheaper, to source energy from non-carbon sources than from oil and gas.

Oil Earning as Percentage of GDP in GCC 2014:

<table>
<thead>
<tr>
<th>Country</th>
<th>Non-oil as% of GDP</th>
<th>Oil as% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>78</td>
<td>22</td>
</tr>
<tr>
<td>Kuwait</td>
<td>48</td>
<td>52</td>
</tr>
<tr>
<td>Oman</td>
<td>53</td>
<td>47</td>
</tr>
<tr>
<td>Qatar</td>
<td>47</td>
<td>53</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>53</td>
<td>47</td>
</tr>
<tr>
<td>UAE</td>
<td>67</td>
<td>33</td>
</tr>
</tbody>
</table>

Researchgate 2014
In addition, alternative sources of oil and gas continue to be developed, both from fracking of shale in North America, and further discovery and development of newly discovered sources of oil and gas. While energy economists point out that these alternative sources are more expensive to develop and exploit than the readily accessible and relatively ‘clean’ output from the GCC, as the decline in oil prices over the past three years has shown, the expanding availability of hydrocarbons is now perceived to be acting as a regulator on previously high values of oil and gas returns. Today, energy economists assess that an oil price of around $60 per barrel represents the break-even point for North America’s frackers. With fracked production relatively easy to calibrate to meet market demand, it has therefore become accepted wisdom that the global price of oil is unlikely ever to return to its $130 per barrel levels achieved in 2014.

Over the past 15 months, OPEC members together with 11 non-OPEC energy producing countries have implemented self-imposed limits on overall oil production with the aim of lifting prices through constraints on supply. While this has had the desired effect of reducing the glut of stock-piled oil around the world and lifting prices to above the $60 per barrel threshold, the effort has not been without pain to producer economies. Moreover, it has reinforced wider understanding that OPEC’s former near-monopoly of supply no longer exerts the economic leverage it once did. The combination of expanded availability of supply and the gradual shift to carbon-free energy means that, even if the Gulf producing states wanted to, it will be imprudent to remain economically dependent on the proceeds of oil and gas production alone.
CHALLENGES AND THREATS

As set out above, UAE leaders have been proactive and visionary in recognising the opportunities deriving from increasing economic diversification. They also acknowledge that the process of change must be approached sensitively and with the support of ordinary people – not just nationals but also the significant populations of expatriates who also contribute to the UAE economy. To an extent, the Gulf region as a whole is fortunate in having relatively small national populations so that the potential threats that might emerge from the strains of economic change can be mitigated or ameliorated through the parallel strategy of ‘gradualism’ so that there have been no sharp economic shocks or sudden changes to prevailing ‘social contracts’.

Economic. The expansion of Gulf economies away from oil dependency cannot be guaranteed to deliver all the benefits that those responsible for the GCC’s various ‘Vision’ strategies anticipate. First, and perhaps most obviously, there are likely to be losers as well as winners as the result of change. Economic planning tends to emphasise the benefits of change while ignoring the potential downsides.

It should be recalled that when Europe and North America embraced the opportunities inherent in global capitalism in the post-industrial shifts of the 1980s, many of those previously employed in manufacturing sectors found themselves ill-equipped or simply unable to adjust to the rapid onset of new ways of working. Without adequate planning, this resulted in previously prosperous industrial areas losing employment with consequences for societies that relied on jobs and the previous cohesion provided by employment and shared experience. The consequences of this failure to plan cast a long shadow and, even today, is seen contributing to the rise of populism in both the US and Europe.

A similar challenge is discernible across the Gulf region – particularly in the dominant and relatively populous Kingdom of Saudi Arabia. The economic benefits of hydrocarbon production have provided the basis of individual prosperity in all GCC countries for the past two generations. In particular, it would be foolhardy not to anticipate some pushback from older generations of Gulf nationals who have grown used to systems of generous public subsidy and relative immunity to the economic impact of global economic cycles.
Moreover, it seems unrealistic not to plan for a measure of discontent amongst younger generations of whom more is being expected, in terms of educational and academic achievement, and on whose shoulders is being placed the responsibility of delivering economic diversification. While many will doubtless enthusiastically embrace the new opportunities that are emerging, there will also be a sector of the younger generation who will be angry that they are not being granted the same benefits and public support enjoyed by their parents and grandparents.

To date, GCC governments have been careful to recognise the inherent challenges of economic change and have largely adopted a strategy of change that, for the most part, has been perceived to impact as much, if not more, on non-nationals and expatriate communities rather than nationals alone. For example, the increased living costs associated with the elimination of fuel subsidies in both Saudi and the UAE over the past three years are perceived to have been borne by majority expatriate communities equally with nationals – and governments have been careful to explain the change before introduction. Similarly, the planned introduction of VAT in the UAE and Saudi in January 2018, was carefully planned – and explained to the wider public.

**Macro-Economics.** At a macro-economic level, post-oil diversification may encounter more direct challenges for the future economic well-being of the GCC. As Gulf countries look to move into high-tech and service sector provision, so they will encounter increased competition and even pushback from global competitors. An early example of this is the manner in which the emergence of the UAE’s national carriers, Etihad and Emirates, has prompted determined international resistance, not only from US carriers but also from across Europe.

This economic opposition has come in the form of efforts to raise tariff barriers to Gulf competition and to argue that the UAE airlines are breaching Open Skies agreements through alleged reliance on undisclosed public subsidies. The now 3-year tussle between the US aviation industry and its Gulf rivals should probably been seen heralding similar economic resistance in other areas – notably high-tech engineering, aerospace, space exploitation – and perhaps even in the financial service sector.
While the GCC perceives many economic opportunities emerging from China’s ‘One Belt One Road’ initiative, it again seems likely that this will encourage more determined competition, particularly for knowledge-based economies, that may serve to thwart the GCC’s ambitions for economic diversification.

International competition also implies ready markets for the GCC’s non-oil economic production. The Gulf states will have to accept that they will not only be in competition with each other but also with the global community. There can be no guarantee that GCC production will be able to thrive in what are already, congested and highly competitive markets.

Finally, while the GCC may look to Abu Dhabi and Dubai as models for what can be achieved in a post-oil environment, it is important to acknowledge that in many ways, the UAE is a singular model – arguably more comparable with other ‘entrepot’ cities such as Singapore and Hong Kong than with their closer Gulf neighbours. The UAE’s blend of openness, geographic position and commercial acumen seems unlikely to be easily replicated in other Gulf states.

**Political and Social.** The political and social threats that may emerge from the process of diversification are also manifest. As both the UAE’s ‘Vision 2021’ and Saudi’s ‘Vision 2030’ attest, implicit in the strategy of diversification is the requirement to open up further to foreign influence and involvement. For Saudi Arabia it remains unclear how a religiously conservative establishment will respond to this initiative.

Uncertainty and potential instability almost always accompany periods of change. Observers only need look to the UK’s negotiation of its exit from membership of the EU for a current example. While the political upheaval that underscored the events of 2011 – commonly referred to as the Arab Spring – has receded, there can be little doubt that even in the most stable part of the Middle East – the Arabian Gulf – political challenges remain. As the existential crisis between Qatar and the rest of the GCC also shows, the challenge of political Islam and Islamist extremism more generally continue to challenge the polity of the Gulf region as a whole.
Moves towards economic diversification have also been accompanied by an increased desire to reduce reliance on foreign nationals in the workplace and to effect a gradual transfer of knowledge and skills so that nationals can take on specialist roles with the confidence to continue the process of building new business and the new economies. This process, often termed ‘Emiratisation’ or ‘Saudi-isation’ is not without inherent risks; particularly in terms of speed of implementation, confidence building, acceptance of change, international willingness and trust to accept nationals in international organisations, and determination and resolve amongst locals themselves to accept the inherent risks and challenges that the most senior and specialist positions require.

As the GCC moves towards increased economic openness, there seems little doubt that Iran’s leadership may sense further opportunities to increase its influence, to meddle, particularly amongst Shia communities in the Gulf, and to pursue hegemonic ambitions in the region.

The process also suggests that the era of economic change risks creating a two-speed GCC with UAE and Saudi Arabia at its core and countries such as Oman and Kuwait on the periphery. Again, as the example of the EU illustrates, this poses challenges for the political stability of the whole and perhaps brings new challenges for Gulf states less willing to embrace international modernity and economic reform.

**Strategic.** A key theme of the Gulf oil era was the leverage and heft that control and ownership of oil gave the GCC in the conduct of the region’s international relations. As the events of the 1970s and 1980s showed, the Gulf’s ability to shape and form its international influence with the US and with Europe – what some called its ‘oil weapon’ – granted the region an exceptional status in the conduct of global affairs. The world needed access to Gulf hydrocarbons – it still does – but arguably the leverage this buys is diminishing over time – both because of shifting demand and because the West in particular has developed ways to reduce its inherent vulnerability to Gulf uncertainty.
As the GCC moves into the post-oil era, the combination of reducing demand for hydrocarbons and the Gulf’s increasing reliance on developing areas of economic activity in competition with the rest of the world suggests that its ‘exceptional status’ will start to diminish.

While there is no doubt that the Arabian peninsula will remain of key strategic importance for all states – both East and West – there will be a challenge for the GCC states in terms of their strategic standing and influence in the future global order.

The long-standing assumption of American security guarantees to the region should no longer be regarded as a ‘given’. And while US Pres Trump has won praise in the Gulf region for his much tougher stance towards Iran’s assertiveness across the Middle East, it seems less certain that the US should be automatically relied upon to come to the aid of a Gulf state in peril – as it did Kuwait in 1990 and 1991. This may not be a direct result of post-oil diversification, but it does signal that the Gulf states generally can no longer bank on ‘exceptionalism’ because of their oil and gas in a future hour of need.

Social. Within the GCC, the post-oil era will favour those with the education and mindset to benefit from new economic opportunities. This is why the UAE continues to prosper even as the process of economic reform accelerates. But the process, also risks leaving some people behind: perhaps the old, the religiously conservative, the less well-off, the less well-educated – and those who simply dislike change. These sectors of society could come together to challenge leadership visions for the future. While it seems implausible to suggest some form of counterpoint to the overall process of change, it certainly seems likely that economic progress will encourage social resistance and possible unrest if societies feel excluded from the benefits of change.

Finally, there is the risk that economic diversification into a post-oil era will not deliver its current promise. Not only does it require a shift away from a still prevailing sense of economic confidence and well-being, but it also requires people – nationals and expatriates alike to embrace change – never easy in the smallest of organisations and always immensely challenging for whole economic communities.
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