Forum: Arab League (AL)

Issue: Promoting economic diversification in oil-dependent Arab states

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Introduction

Oil has long been at the core of Arab economies, acting as a source of immense, continuous wealth fueling rapid modernization. But as the world shifts to a future powered by renewables, what was once a foundation for these economies now risks becoming a drawback, and a severe one at that. Take the sharp wake-up call between 2014 and 2016: Arab nations found themselves forced into austerity across the Middle East as oil prices dropped heavily, resulting in fiscal deficits that soared to nearly 17% in some cases. Now, as global markets and environmental goals push for a sustainable, carbon-neutral future, the urgency for change grows even sharper. For oil-dependent Arab states, this is not just a matter of economic survival and evolution, rather it's a race to diversify before it's too late to try.

One of the biggest challenges oil-dependent states face is economic vulnerability. When oil prices drop, so do income and revenue, causing budget deficits and economic instability in a region of preexisting political instabilities. We have to consider that most of the world's oil crises from the 1970s onwards have been triggered or relieved by oil-exporting Arab nations. Taking instances from the 1973 Arab Oil Embargo, the 1979 oil shock, and the March 2020 Saudi Arabia-Russia oil price war, the impact and role of Arab nations in stabilizing the global oil economy and relieving energy supplies cannot be understated.

The focus on oil has also stunted the growth of other sectors such as manufacturing and technology. This has resulted in a hindering of job creation, which is a greater concern keeping in mind the rapidly growing youth population in many Arab nations. Unemployment remains a critical issue, with countries like Egypt and Jordan facing unemployment rates exceeding 30%.

Furthermore, Arab economies face pressures from the transition to renewable and sustainable technologies/energies globally. Not only are Arab nations expected to meet sustainability goals, but a transition from the use of oil puts the very basis of these economies at risk if this dependency continues. International agreements like the Paris Accord have pushed for carbon emissions reduction, placing added pressure on countries whose economies are built on fossil fuels.

Although the importance of economic diversification is clear, with several Arab leaders taking ambitious steps to reduce their countries' dependence on oil, Arab states continue to face challenges when it comes to moving away from their dependency on oil. Firstly, the non-oil private sector relies heavily on the government for project funding and subsidies. A significant portion of these states' revenue streams arise from the export of oil. Thus, reducing reliance on oil calls for the establishment of other reliable revenue streams earlier in the timeline to ensure economic stability. Secondly, GCC economies struggle to develop non-hydrocarbon sectors capable of competing in the global market. Social contract expectations, labor market challenges, and regulatory and institutional barriers are all other factors that contribute to the same. Addressing these rather interconnected challenges requires comprehensive, effective reforms across various fields and domains, with the success of diversification efforts relying on carefully designing and implementing reforms sequentially whilst managing socio-economic, political, and regional stability in the modern era.

Overcoming an oil dependency presents a range of challenges. Financially, building up new sectors requires massive investment in infrastructure, education, and the workforce. Many of these changes, such as cutting subsidies or introducing new taxes (which have already been implemented in countries such as the UAE in the form of VAT), may also come with social and political costs. Culturally, the public sector, long sustained by oil revenue, has been the dominant employer in many of these nations. Shifting toward a more entrepreneurial private sector emphasizing business and manufacturing will require both government incentives as well as a potential shift in social perception of certain jobs. Finally, global competition adds another layer of difficulty. Emerging industries in the Arab world will have to compete with well-established international players, meaning that success will require not only investment but support from the government to promote local products.

In conclusion, promoting economic diversification is not just about reducing reliance on oil—it's about future-proofing economies. As the global landscape changes, Arab nations must build resilient, diversified economies to ensure long-term stability and growth. The path forward may not be easy, but opportunities presented by the diversification of economies are vast if Arab nations can effectively transition into new sectors and create sustainable, inclusive growth for their populations.

The journey from oil dependency to economic diversification is, to Arab states, as challenging and daunting as it is revolutionary and transformative. As these states navigate these challenges, a question arises: Can Arab states redefine themselves as a key player on the global stage across multiple fields, or will the weight of oil's historic significance hold them back? It is to be seen whether these states will be able to manage their socio-political spheres whilst tending to expectations from the wider globe. Will the Arab world emerge as a pioneer, redefining resource-driven economies globally, or will the nations face the same economic challenges that other resource-rich countries have struggled to overcome? This pivotal moment asks whether these oil powerhouses can become the architects of a new economic model that prioritizes sustainability, innovation, and resilience, earning themselves a place on the global stage, and leading the way toward a greener future.

Definition of Key Terms

Crude Oil Volatility Index (COV)

The index which measures the volatility of crude oil prices. This index serves as an approximative measure of the market uncertainty and risks associated with investing in the oil sector. It generally spikes during times of international or major civil/geopolitical conflicts, and supply disruptions. For instance, it averaged around 44% in 2020 during the outbreak of COVID-19 accompanied by the Saudi-Russia Price Wars.

OPEC

OPEC, or the Organization of the Petroleum Exporting Countries, and OPEC+, which includes OPEC nations in addition to other major oil producers such as the Russian Federation, play a crucial role in regulating the magnitude of oil trade and in stabilizing prices by coordinating production levels and export/import amongst member states. This provides a more predictable and reliable revenue stream for oil-exporting countries. In times of historical geopolitical crisis in the region, OPEC and similar coalitions of Arab states have played a vital, undeniable role in stabilizing the market and in ensuring the availability of oil as a resource internationally.

Dutch Disease

Oil production tends to impact economies in ways that, aside from not promoting women's participation in the workforce, might actually negatively impact women's labor participation. This phenomenon, known as the ‘Dutch Disease’, causes non-oil sectors such as manufacturing and agriculture to shrink. This becomes an issue when considering that the above-stated sectors play a vital role as entry points for women into formal employment.

Economic Diversification

The process of shifting the dependence of the economy from a single or few revenue source(s) to multiple sources of income. In the case of Arab nations, it generally deals with tackling the dependence on oil exports as their main revenue stream. Diversification intend to create more sustainable growth in the long run, emphasizing economic stability over significant, short-term profits. Generally, it would require active investments from nations to open up new windows for economic development and growth.

Rentier State

A state that attains a significant portion of its revenue from the rent (sale) of its natural resources to foreign states rather than from the taxation of its citizens. Experts consider most Middle Eastern nations to be rentier states due to their dependence on oil exports for national revenue.

Knowledge-based Economy

An economy built on intellectual capability, adeptness, research, innovation, and technology rather that on material resources. The desire to transition to a knowledge-based economy is stated in the national visions and strategies of a number of Arab states (such as Qatar, for example).

Energy Transition

The shift from fossil fuels and non-renewable energy sources to renewable energy sources such as solar and wind. The reasons behind this include an increased concern from the international community towards climate change and carbon emissions. For some Arab states, energy transition may be driven by international pressures, whereas others recognize the economic benefits of the same and its potential contribution to economic diversification.

Key Issues

Volatility of the Global Oil Market

The global oil market is quite evidently a volatile one. The volatility of the market is influenced by a number of factors including geopolitical conflicts (local or global), economic conditions, resource supply, demand, and the energy policies of countries.

Historical Examples

Oil prices have shown extreme fluctuation over the past decade. For example, prices fell to approximately 30$ per barrel during the 2016 crash and proceeded to rebound to 100$ per barrel in 2022. Succeeding this, it began declining again in 2023 due to fears of a global economic slowdown and increased supply from US shale production.

Considering another example, oil prices dramatically skyrocketed from 10$ per barrel in 1998 to over 145$ per barrel in July 2008, then proceeded to drop dramatically in 6 months to 33$ per barrel by December 2008.

Impact on Arab Countries

Oil and gas exports account for 65-90% of government revenues in GCC countries, with Saudi Arabia, Kuwait, and Qatar relying on oil for over 80% of their revenue generated from exports. This dependence makes these economies particularly vulnerable to price fluctuations.

The International Monetary Fund (IMF) warns GCC countries that they could exhaust their financial reserves in the next one and half decades if the current levels of investment/spending continue without stronger efforts for diversification. The region's aggregate net financial wealth is estimated at around $2 trillion, which could turn negative by 2034 as these countries become net borrowers.

Furthermore, research has presented the correlation between oil price volatility and economic growth in Middle Eastern nations. Fluctuations in oil prices can significantly affect an Arab nation's GDP growth, investment levels, and inflation rates. This impact is only worsened if the overall contribution of oil to a country's economy is significant.

Transition to renewable energies

In recent years, particularly in the last few decades, growing concerns about Climate change accompanied by a global shift towards renewable energy sources has slowly begun to affect the oil demand. The observable effect of this shift is expected to continue, only growing in the future. As a result, the International Energy Agency expects global oil demand to begin to decline after 2029, with a gradual decline from 2023. By 2030, the demand for oil is expected to fall by almost 200,000 barrels per day (bpd) as compared to 2029 (approx. 105.4 bpd from 105.6 bpd in 2029).

The immediate impact of this on oil-dependent states is that, as global demand declines, we could observe budget deficits and reduced public spending and subsidies. This might have the strongest impact on countries such as Egypt, which provides large subsidies on staple bread to ensure that it is accessible to all citizens, leading to citizens relying on this for sustenance.

Geopolitical Conflicts & Economic Vulnerability

The relation between the existence of geopolitical tensions, its impact on oil exports, and subsequently the economic vulnerability is undeniable. Geopolitical events often trigger a sharp change in oil prices, especially when they involve Oil-Exporting nations (think Russia-Ukraine war, Middle Eastern tensions). In a somewhat correlation to this, Gulf states have historically played a vital role in stabilizing the global oil markets in times of crisis yet still remain vulnerable to the consequences of these events.

Socio-political Resistance to Economic Diversification

Achieving economic diversification may be easier said than done, for it brings with itself a magnitude of challenges in the social and political spheres.

Firstly, Arab states often provide significant subsidies to their people. For example, in 2020, Egypt spent approximately 2.6% of its GDP on energy subsidies and additional investments in food subsidies that cover a large portion of the population. Financing diversification would mean removing or reducing these subsidies, which may face public resistance.

Secondly, having to balance the challenges of job creation with economic diversification may pose difficulties. Currently, the public sector is a significant source of employment, and reducing its importance by promoting private-sector growth may cause unrest and disagreements. There may further be the issue of social perception of certain jobs, with government jobs considered prestigious amongst the people.

Lastly, economic reforms could potentially worsen existing inequalities if the benefits are not distributed equally. If the promoted industries primarily benefit foreign investors or only limited people within the nation, a significant portion of the population may begin to feel marginalized. Furthermore, the demand for larger and more efficient social safety nets could be amplified by the same in response to reforms.

Financial Challenges and Investment Needs

Transitioning into sectors like tourism, technology, and renewable energy
requires significant investments in technology, infrastructural development, and education. The ESCWA report indicates that the Arab region as a whole requires approximately $570 billion until 2030 in order to uniformly finance the achievement of its climate goals.

The IMF further states that enhancing the efficiency and amplitude of public investment plays a vital role in enabling the growth and diversification of the private sector as a whole. ESCWA estimated that the gross public debt in the Arab region has reached a historic high of 1.4 trillion USD. This not only puts certain smaller and middle-income GCC countries at high risk of debt vulnerability, but it further enforces constraints on the ability of Arab states to fund large-scale diversification programs.

Attracting foreign investment is of utmost priority and shall be discussed further in the possible solutions section.

Unemployment & Inequalities

Oil production has historically been shown to negatively impact women's participation in the workforce globally. For example, Ross (2008) observed a significant correlation between oil production and the participation of women in labor and political positions. This trend is especially evident even today in Gulf states, where the female labor force participation hovers at 20-22% while that of their male counterparts at 74.8% as noted by World Bank Data. Essentially, this statistic means that only around 22% of women capable of contributing to the workforce actually do, whereas 74.8% of all men capable of working actually do. Despite the nature of Arab society being a potential reason for the same, it is also a direct consequence of the oil industry being male-dominated. Economies reliant on oil shall face challenges in involving immigrants and women in the workforce, leading to loads of unused potential and a gaping hole when it comes to boosting national and socio-political progress.

The Drawbacks of Globalization

The oil market is globally interconnected, with the prices set on an international scale. As such, events in one region can have a far-reaching effect, influencing oil prices and its supply worldwide. Accounting for around 60% of internationally traded petroleum, OPEC plays a significant role in driving globalization and this interconnectedness.

The Ripple Effect

The interconnectedness of the suppliers and producers of the world's petroleum poses its own risks and consequences. Even small fluctuations in supply and demand can have a significant impact on the prices of oil globally. A supply disruption as small as 5% can have a pronounced impact on oil prices. Oil shortages in one region could lead to supply chain disruptions globally, affecting the transportation of goods and the trade of other oil-dependent products as seen evidently during times of historic crisis. Furthermore, an increase in oil prices due to a shortage in supply could lead to inflation, affecting not only fuel prices but also the prices of several goods and services throughout the economy.

A Geological Reliance

As a result of established trade routes connecting regions across the globe, we also have to consider the impact of geo-political disruptions on these routes. For example, the Strait of Hormuz between the Persian Gulf and the Gulf of Oman is one of the world's most strategically important choke points. It is estimated that almost a quarter of global maritime oil trade flows through this strait, highlighting the vital role played by the region in overseeing global trade.

Major Parties Involved and Their Views

Kingdom of Saudi Arabia (KSA)

With a GDP hovering at around 1 trillion USD, Saudi Arabia is one of the wealthiest countries of the modern era. Most of its compulsion to transition away from a reliance on oil stems from global pressures for sustainability and the need to diversify its economy for job production and inviting private sector growth with increased FDI. It launched Vision 2030 in 2016, an ambitious economic diversification plan that aims to revolutionize many aspects of the economy and reduce the country's reliance on oil by focusing on sectors such as tourism, entertainment, technology, and defense. Projects such as NEOM focus on driving technological innovation to position KSA as a hub for international investment and talent.

Saudi Arabia's dependence on oil and hydrocarbons has been steadily reducing since the turn of 2005. The contribution of oil to the GDP, Revenue, and total exports of the country has significantly reduced over the last 2 decades. According to IMF data, the contribution of oil to GDP has almost halved while the contribution to revenue and exports has declined. Subsequently, the impact of non-oil sectors has been significantly increasing, reaching a record $84.4 Billion in 2022. KSA also prioritizes digital government transformation, witnessing notable progress in the same whilst remaining well above the world and GCC average in the years 2020 and 2022.

However, Saudi Arabia is yet to take up notable progress and release publicly the initiatives it plans to undertake to change the social perception towards certain occupations and sectors, whilst potentially acknowledging its shift to pro-sustainability policies in recent years.

United Arab Emirates (UAE)

The UAE has been a pioneer amongst Arab states in terms of economic diversification and modernization, with Abu Dhabi and Dubai playing especially prominent roles.

Following its Post-Oil Strategy, the nation has placed a special focus on economic diversification, developing the fields of tourism, aviation, finance, real estate, and even space exploration. It leads the way as a global hub for many fields (mainly the ones previously stated), with events such as Expo 2020 and COP 28 helping its position on the global stage. Emiratization policies aim to promote the development of the private sector with local participation and investments in renewable energy showcasing UAE's commitment towards transitioning towards clean energies.

The UAE's objective is clear- it aims to position itself as a global leader when it comes to sustainable development and climate action. Its global leadership, aspirations, long-term visions as stated in UAE Vision 2021 & UAE Centennial 2071, alignment with global goals, and accepted treaties such as the Paris Agreement all reflect the same. The UAE has taken considerable action to tackle negative social perceptions towards certain occupational sectors. Creating economic opportunities in sustainable sectors may indirectly influence social perceptions toward jobs in this sector. By involving the public in this transition, the transition may just be made smoother, justifying a rather sudden transition to pro-sustainable policies, but whether UAE's development programs and initiatives impact all Emirates uniformly is to be discussed, with the Emirates of Dubai and Abu Dhabi undergoing significant modernization in comparison to other Emirates.

State of Kuwait

Kuwait has historically depended on oil as the backbone of its economy, with oil accounting for around 95% of exports and 90% of government export revenue. Considering that Kuwait holds about 7% of global oil reserves and its current production capacity is about 3.15 million barrels per day, the choice to build an economy around this natural resource can be justified. The nation has plans in place to increase oil production capacity to 4.75 million barrels per day by 2040, spending $44 billion on oil production, exploration, and other projects through 2025.

Despite this, Kuwait has expressed ambitions to build a resilient, sustainable economy through economic diversification and developing non-oil project that include the Northern Economic

Zone, the Mubarak Al-Kabeer Port, and tourism projects such as the development of Failaka Island.

However, fluctuations in global energy prices and the possibility of a decline in demand for hydrocarbons over the long term also pose a threat to the country's development. The country not only remains heavily dependent on oil but has also failed to keep up with the relative quality of the visions and plans outlined by neighboring Arab states.

State of Qatar

Qatar's economy has long been reliant on its oil and gas reserves, which account for nearly 60% of its GDP and include a daily crude oil production of approximately 580,000 barrels. This dependence, however, leaves Qatar vulnerable to price volatility and susceptible to the consequences of the global shift away from hydrocarbons due to climate action. Recognizing these challenges, Qatar has initiated several diversification programs. The Qatar National Vision 2030 seeks to reduce oil reliance by promoting growth in sectors such as technology and tourism. Initiatives such as the Qatar Financial Centre and the Qatar Investment Authority have attracted foreign investment, driven innovation, and contributed to building a knowledge-based economy and working force.

Despite these steps, Qatar faces significant hurdles in achieving substantial economic diversification. One major obstacle is the socio-cultural and economic preference for public sector employment amongst local Qatari citizens, something that is driven by higher wages, job security, and social prestige. Consequently, the private sector remains dominated by expats, limiting the development of a skilled local workforce and thereby slowing progress toward the nation's goal of promoting innovation and a knowledge-driven economy.

Gulf Cooperation Council (GCC)

The GCC plays a crucial role in shaping economic policies and fostering collaboration among oil-dependent members that include KSA, UAE, Kuwait, Qatar, Oman, and Bahrain. Accounting for 40% of global oil production, 45% of known oil reserves, and 25% of crude oil exports, the

GCC remains a powerhouse in the hydrocarbon market. Its combined GDP exceeds half of the Middle East's economy, driving regional development and diversification efforts.

GCC nations make use of their oil wealth to fuel infrastructural and economic development, with ambitions to lead initiatives in the region. For example, the UAE aims to establish itself as a key player in sustainability and climate action. However, due to relying on revenue streams from the export of oil and state-driven/sponsored projects, this approach has begun to draw criticism, particularly due to underdeveloped private sectors and overregulation in some member states.

The GCC has the potential to accelerate regional integration and support diversification through collaboration and accountability for national visions. However, its success depends on addressing shared challenges that, if neglected, could hinder progress and exacerbate consequences over time.

International Monetary Fund & The World Bank

The IMF and the World Bank possess significant influence over the economic development of oil-dependent Arab states through policy advice, research, and capacity-building initiatives. The IMF Managing Director, at the GCC Ministerial Meeting, has provided policy advice and capacity development proposals to support reform efforts in Arab nations aiming to diversify their economies. The establishment of a regional office in Riyadh and a Center for Economics and Finance in Kuwait further emphasizes their commitment to supporting reforms in the GCC. The IMF’s research helps identify development opportunities and encourages competitiveness among Arab nations, potentially leading to regional knowledge spillovers.

Together, the IMF and the World Bank on the ‘Bretton Woods at 80 Initiative’ could continue its work in the Middle East, promoting stakeholder discussion and joint initiatives to tackle common economic challenges. IMF proposed the provision of assistance with fiscal policy reforms, including tax reforms and expenditure rationalization, structural reforms to improve the startup/business environment, labor market reforms to promote private sector employment, and financial sector development as well. The role that these agencies play in enabling success cannot be undermined, but Arab states should be wary of the work of independent agencies and keep the concerns of their citizens their utmost priority.

Organization of Petroleum-Exporting Countries (OPEC) and OPEC+

OPEC is an intergovernmental organization currently consisting of 12 member countries whilst OPEC+ consists of 10 additional oil-exporting nations. Its objectives are to unify policies across producing states, secure stable and fair prices, and ensure an efficient, regular supply to consuming nations by controlling export and production levels amongst member states. The authority of this international organization stems from the influence and importance of its member states, such as the UAE, Saudi Arabia, and Russia (in OPEC+), in the global oil market. It plays an important role, particularly during times of international crises, in ensuring a stable supply of oil to consumers.

However, economists have characterized the OPEC+ as a ‘textbook definition of a cartel,’ coordinating production levels in favor of producing nations alone. Considering that OPEC+ itself was established partially in response to US shale oil production, and its increasing role in the oil market, this should not come as too much of a surprise. OPEC and OPEC+ have been the target of accusations of monopolistic practices over the valuable energy resource, particularly from nations such as the United States. For example, OPEC+ decisions for production cuts have been criticized by the US, particularly in the context of the Russia-Ukraine war. Attempts to confront member states about the matter would fail since they could claim immunity from the doctrine of state immunity, even if the organization’s actions could be considered anti-competitive (which they essentially are) under certain jurisdictions.

Furthermore, it faces its own share of internal controversies. In particular, the UAE has expressed concern over some of the organization’s actions, particularly since Russia joined OPEC+ in 2016. This has led to conflict over production quotas and concerns over a lessening role of the UAE within the organization. The inclusion of Russia has shifted the balance of power, effectively establishing a Saudi-Russia leadership axis that has occasionally acted against the interests of other, smaller member states.

While OPEC and OPEC+ could facilitate discussions on economic diversification, this remains unlikely given their history. Member states, reliant on oil revenues, must address diversification independently. The decisions that are taken by these organizations can directly influence the revenue streams, urgency, and resources available to these nations and thus, the capability of these nations to continue supporting diversification projects.

In a way, OPEC and OPEC+ embody a paradox: they ensure economic stability and sustenance whilst simultaneously anchoring member states to the very oil dependency that they now aspire to break away from. These organizations could very well, in a potentially far-fetched manner, be the difference-makers when it comes to the question of whether Arab states can break free from the deepening grip of the oil wealth, or whether they'll just continue to move in with the cycle.

Development of Issue/Timeline

Date	Event	Outcome
September 1960	Formation of OPEC	In Baghdad, Iraq, OPEC was formed by 5 founding members in order to collectively influence the global oil market and maximize profit.
October 1973	1973 Oil Embargo	This well-known oil crisis led to a three-fold increase in global oil prices, from 3$ per barrel to 12$ globally. The decision for this embargo was taken by the Organization of Arab Petroleum-Exporting Countries (OAPEC) against those nations that had

		supported Israel during the Fourth Arab-Israeli War. It led to an increase in geopolitical tensions amongst Western allies due to differing levels of oil dependence. Its impact on the US economy is especially notable, shrinking its economy by approximately 2.5% and leading to stagflation in the late 1970s.
~2010	U.S. Shale Oil Boom	Since the beginning of the boom of Shale oil exports in 2010, the U.S. has grown to be one of the largest oil producers, threatening the share and significance of Arab states in the industry. In 2018, it enabled the U.S. to become a net exporter of oil. This disruption of the oil market caused by the entry of the U.S. has lead to budget deficits in Arab states due to lower revenues (a result of lowering oil prices due to U.S. exports). In the long run, this may threaten to reduce public investments, subsidies, and

		financing of national strategic plans.
2014-2016	Oil Price Crash	The 70 percent price drop during this period was one of the three biggest declines since the Second World War, and the longest since the supply-driven collapse of 1986. Oil-exporting economies experienced a sharp decline in growth and development, slowing down economic activity as a whole. Significant declines in investment and output in these states lead to weaker potential output growth over extended periods. This crisis made it clear that an economy built solely on its reliance on oil was not as stable as was previously thought.
2016	Formation of OPEC+	Russia and non-OPEC nations began cooperating with OPEC, increasing collective influence on the global oil market.
1 January 2019	Withdrawal of Qatar from OPEC	Qatar became the first Middle Eastern Arab nation to leave OPEC, potentially damaging the reputation of the

		organization, destabilizing it, and creating tensions between the OPEC and GCC countries. Although the contribution of Qatar to the overall output of OPEC was minimal (~2%), we cannot write off the size of its economy. Furthermore, this may push smaller producers within OPEC to reconsider their membership status.
8 March 2020	Saudi-Russian Price War	The price war, coinciding with the outbreak of COVID-19, threatened to destabilize economies globally. The crisis overlooked a 65% fall in oil prices in the first quarter of 2020, triggering a stock market crash and forcing the U.S. to threaten KSA with the withdrawal of military support from the Arab nation. This crisis potentially weakened Saudi Arabia's long-term control over oil prices, with the world more cautious since. It also was the beginning of a series of strained relationships among member states within the OPEC+.

Previous Attempts to Solve the Issue

National Vision & Strategic Plans

The establishment of a national vision and strategic plans not only enables accountability of governments but also provides a definite trajectory for the country's development. Saudi Arabia's Vision 2030 was launched in 2016 and is one of the most notable examples of a strategic national plan targeted at reducing the dependence on oil for the economy. The initiative focuses on diversifying the Saudi Arabian economy by expanding sectors such as tourism, technology, entertainment, and renewable energy which have high potential in the country. One of its main projects is NEOM, a futuristic city aimed at being a hub for innovation and technology, drawing in global investments. By setting clear goals, Vision 2030 helps Saudi Arabia effectively utilize its resources, attract foreign investment, and set the foundation for a sustainable, diversified economy. Oman introduced its own Vision 2040 in 2020, a long-term strategy designed to promote the role of the private sector and focus on non-oil industries like tourism, logistics, and manufacturing. The vision also prioritizes education and workforce development, acknowledging that a skilled and adaptable labor force is essential for economic diversification.

Infrastructural Development for Economic Diversification

Furthermore, some Arab states have begun investments in infrastructure and some aspects of human capital. When it comes to vertical diversification, the UAE is undoubtedly a major player. This means that it has expanded existing sectors whilst promoting the development of fields such as tourism, aviation, and trade. Its Post-Oil strategy emphasizes the importance of Research and Development (R&D). The government regards innovation as a tool to promote entrepreneurship and to attract Foreign Direct Investment (FDI). Masdar City, a hub for sustainable technologies, is a prime example of renewable energy projects that not only enable economic diversification but also allow Arab states to become global leaders when it comes to sustainability efforts. Kuwait is a similar case, with its Vision 2035 aiming to diversify its economy away from an oil dependency, focusing on collaborating with the private sector through PPPs and attracting foreign investment.

Policy Changes & Regulatory Reforms

Arab States have further recognized the need for a more business-friendly environment if economic diversification is to be successful. Saudi Arabia has implemented a number of regulatory reforms under Vision 2030, including a simplified new Commercial Registration Law, increased flexibility in selecting names under the Tradenames law, improving access to credit, enhancing investor rights, and the introduction of an Insolvency law. These reforms encourage entrepreneurship, simplify business management, and lower operational costs for businesses. As a direct result of this, Saudi Arabia has seen a significant increase in investments and private sector participation, which is crucial for long-term economic diversification. This shift towards a market-friendly environment aspires to build a resilient economy with a competitive private sector outgrowing the kingdom's reliance.

Promoting the Employment of Local Citizens

Recently, the UAE has implemented Emiratization policies which are designed to promote the contribution of Emiratis, or UAE citizens, in the private sector. Traditionally, the public sector has been the primary employer for the citizens, but these initiatives aim to change that and diversify the employment options available to a local job-seeker. This supports UAE's broader economic diversification goals and is a perfect example of how employment generation, economic diversification, and enhancing the private sector can go hand-in-hand.

Possible Solutions

Investment in Infrastructure

Infrastructural development is crucial to promote non-oil industries such as tourism, technology, and renewable energy. This includes investments in transportation and logistical networks, utilities, and digital infrastructure. Furthermore, investments in ports and airports have the potential to transform a nation into a global trade hub. These investments not only effectively diversify the economy, they also make the region a crucial link in global trade networks beyond just oil exports. But is sudden urbanization and modernization really the way forward? Conserving culture and tradition whilst opening up to radical national development has been a talking point for a number of Arabian states. Considering this in addition to how the ‘social contracts’ established with the people and their opinions are upheld with respect to the discussion is of utmost importance. Could developing Arab states balance the two?

Investment in Human Capital

A major challenge in economic diversification is preparing the labor/workforce necessary to transition from reliance on oil for the economy. For this, investments in education, technical training, STEM research programs, and other similar upskilling programs are of utmost importance. When done effectively, such a workforce is capable of largely diversifying and expanding a nation’s economy. Furthermore, investment into a nation’s human capital promotes innovation, and boosts the startup culture, and R&D programs, diversifying a resilient economy. Ultimately, it is of utmost importance that the people are willing to take up jobs in upcoming, private sector jobs in such fields. Preexisting assumptions and a clear preference towards public, government jobs could pose a challenge. Finally, is it a wise decision for all Arab States to promote the development of the government-independent private sector considering the nature of the governments in the region?

Enhancing Foreign Direct Investment (FDI) & Public-Private Partnerships (PPPs)

To develop new industries, it is of great importance that Arab countries attract FDI to fund those initiatives that the state cannot directly sponsor. This would require implementing incentives into the mix in addition to certain regulatory reforms. Strategic international partnerships can also play a role as seen in the case of many emerging Arab superpowers. Being involved in PPPs can help gather additional resources for infrastructural projects whilst boosting employment and aiding in the growth of private sector enterprises. It shares the associated risks between the public and private sectors, something which could prove beneficial when it comes to emerging sectors such as renewable energy where initial capital costs are high. But before all this, it is imperative that Arab states establish dedicated PPP policies and legal frameworks to support their work. Furthermore, considering the risk of low returns, investor confidence challenges, and fiscal risks, should smaller Arab states consider adopting this high-risk, high-reward policy to tackle the challenge of economic diversification?

Enhancing Innovation & Entrepreneurship

Establishing support systems and mechanisms for Small and Medium Enterprises (SMEs) could prove critical for economic diversification. SMEs are capable of enabling new industries to appear and attempt to establish themselves in the competitive business world. Furthermore, creating technology parks or innovation hubs could largely stimulate R&D in the country, promoting both innovation and entrepreneurship. Although they might play a major role in ensuring the lack of monopoly, concerns are raised whether such support systems for SMEs could in fact have an opposite, detrimental effect in the long run, destabilizing the economy.

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