

## The Strategies of Economic Development of the Gulf Co-operation Council Member States

The strategies of economic development of the GCC states give an example for investigation of prospects for progressive transformation of an oil-based economy. As far as GCC states entered in 1960-es the world market as strategic oil powers the main engine of large-scale economic modernization was financing of different economic and social programs by petrodollars and preservation of huge state economic sector.

Economic model mentioned above was successful for GCC states in 1960–2000-es, and it was confirmed by many economic indicators. For example, the combined GDP of GCC states grew up to 1,6 bn. dollars (\$), Saudi Arabia entered the group of world 20 largest economies. However, first sharp collapse of oil prices in the middle of 1980s caused big difficulties for GCC because state financing of a wide range of economic sectors was postponed and GCC states experienced deficits of budgets and balances of payments.

GCC growth rates in such circumstances declined, as GDP growth is linked to the GCC oil revenues. At the same time economic needs were financed from GCC government foreign currency reserves, while new surge up of oil prices was expected. So, anti-crisis policy was based on state finance. We must say that GCC states have a solid baggage of financial stability. Oil revenues per capita in GCC are high, according to estimation made in 2014 it was 7900 dollars in Saudi Arabia, 9435 in UAE, 25362 in Kuwait, 361013 in Qatar, while in Algeria it was only 1326 dollars and in average 2514 in the OPEC states [5]<sup>1</sup>.

In early 1990s GCC states began to discuss the problem of reduction of the expenses and subsidies, but measures of financial reform were stated as urgent only after slumps of oil prices in 2008 and 2014. However, GCC states are not alike in the context of financial stability: Qatar and Kuwait are in most favorable financial position, having small population and big oil revenues, and Oman, Bahrain, Saudi Arabia and partly UAE have less favorable financial position.

Shale oil revolution and 2014 oil prices slump forces all oil-based economies to begin wide restructuring. As regards GCC, there are some stages of GCC economic strategies evolution.

Since 1970s:

- building of modern industrially developed economy on the basis of oil and gas industry, petrochemicals and other economic sectors through the leading role of state sector and state financing, and governmental support of private sector;
- building of the society with high level of well-being;

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<sup>1</sup> In current prices

- decreasing of oil GDP in total GDP;
- in the foreign economic strategy: conservation GCC states role as stable suppliers of oil to the world market; investing into economic projects abroad and conservation of big foreign currency reserves.

Since 1990s and early 2000s:

- transformation of GCC national economies into leading in the world according to easiness of doing business and investments indicators;
- beginning of the creation of innovative economy.

In 2009–2014:

- tumbling to the measures of economy and reducing of state financial subsidies, including communal and energy subsidies;
- implementation and development of new sources of state incomes through taxes, tariffs and charges;
- widening of privatization (including partly privatization in the largest state company Saudi Aramco).

Amongst macroeconomic indicators of the GCC states in the course of strategies aimed at creation of industrially developed economy we can emphasize high share of capital expenditures. It is seen on the example of Saudi Arabia, UAE, Qatar in comparison to such oil-exporting countries as Algeria, Nigeria, Russia (Tables 1 and 2 below).

Table 1

#### Capital expenditures in some oil-exporting states

	Capital expenditures				
	Per cent in total expenditures		Per cent in GDP		real growth in 2003–2008
	2003	2008	2003	2008	(Per cent)
Algeria	37,1	40,5	10,9	11,5	104,5
Nigeria	16,6	33,3	3,1	4,4	145,5
Russia	13,1	14,7	4,6	5,0	109,7
Saudi Arabia	14,4	25,9	4,8	6,9	195,1

For 2008 data according to IMF. Source: Occasional Paper Series. European Central Bank. – June 2009. – № 104. – p. 26.

Table 2

#### Capital expenditures in Saudi Arabia, UAE, Qatar and Algeria in 2010–2012

	GDP in 2012, bn.\$,	Total expenditures in 2012, bn.\$.,	Capital expenditures*						
			Bn. \$		per cent of total expenditures		per cent of GDP		Growth of capital expenditures per cent
			2010	2012	2010	2012	2010	2012	2010–12 rr.
Algeria	206395	92455	24299	28807	40,4	31	15	14	118,5
Saudi Arabia	711049	232881	53024	69781	30,4	30	10,1	9,8	131,6

	GDP in 2012, bn.\$,	Total expenditures in 2012, bn.\$,	Capital expenditures*						
			Bn. \$		per cent of total expenditures		per cent of GDP		Growth of capital expenditures per cent
			2010	2012	2010	2012	2010	2012	2010–12 гг.
UAE	383799	113127	18530	22625	20,4	20	6,4	5,9	122,1
Qatar	192402	57336	12155	14621	26,7	25,5	9,7	7,6	120,2

\*government finance. Calculated by the author by data of Joint Arab Economic Report 2013, pp. 49, 112. [1, p. 24]

Lower share of capital expenditures in Saudi Arabia, UAE, Qatar than in Algeria can be explained by type of consumer model of society in GCC.

Achievements of Arabian monarchies in the field of creation of modern economic infrastructure and real estate still did not led to stable growth in non-oil economic sectors. It is confirmed by data of the Institute of International Finance on Saudi Arabia, which show that elasticity between state expenditures and non-oil economic sectors growth rate is very high: 0,42 for the period of 1992–2013 [4, p. 6].

Although GCC states increased manufacturing value added, which is exclusively important for their economic diversification (Table 3 on Saudi Arabia and UAE), its share in GDP of GCC states could not exceed 9–10 per cent.

*Table 3*

**Manufacturing value added in GCC states on the example of Saudi Arabia and UAE (bn. \$, current prices)**

	1970	1980	1990	2000	2010	2014
Saudi Arabia	443	6737	10049	18210	58178	81019
UAE	n.a.	1625	3799	9465	25744	36030

Source: [7; 8]

Without enumeration of tasks of GCC states economic strategies, we may address to an example, reflected in one of projects of such strategy for Abu Dhabi, which is based on Porter's 4-phase model of economic development. For Abu Dhabi on the first phase of development the economy may be driven by factors of production, but in combination with driven forces of the fourth phase (prosperity and wealth). Such combination may help to Abu Dhabi oil-based economy to pass in shorter time second and third phases of development (investment-driven and innovation-driven phases) [11, p. 14.]

However in GCC such model of growth is far from implementation due to the problems, stated above. Besides this, oil revenues still give major share of state revenues. For instance, according to 2014 estimation, oil revenues share in Saudi Arabia budget incomes was 91,7 per cent (and share of oil in GDP was 48 per cent); and 94,5 per cent in Kuwait budget incomes (share of oil in Kuwait

GDP was 55,1 per cent); not less than 80 per cent in UAE budget incomes (share of oil in UAE GDP was about 31,6 per cent). In Qatar and Oman oil revenues share in state budget incomes was 52 per cent and 44 per cent, respectively, (but Qatar and Oman show gas revenues separately from oil) [9, c. 54].

It is important, that in spite of well-known beginnings of GCC states in pilot project on creation of innovative sectors and science and technology cities (as Dubai Internet City, Masdar City in Abu-Dhabi) the level of student's achievements in mathematics and other sciences is lower, than in many other developing countries, according to world rankings. Average world indicator was 451 points (2007), and its highest level was in Taipei (China), but for Oman it was 372, for Kuwait 354, for Saudi Arabia 329, for Qatar 307. And this indicator was higher in Arab states with lower income, than in GCC states: 391 in Egypt, 395 in Syria, 420 in Tunisia, 427 in Jordan.

Such situation in GCC was confirmed by questioning of leaders of commercial companies in 2010–2011 about working force qualification: in GCC insufficient working force qualification was noted by 14,4 per cent of questioned, but in other oil-exporting countries, including such as Venezuela – only 8,6 per cent and in OECD – 6,2 per cent [13, p. 75].

Measures of upgrading of the competitiveness of GCC economies still did not led to breakthrough in economic diversifications, in spite of such achievements as UAE ranking amongst top 10 world countries with the best conditions for doing business and with highest effectiveness in finance governing and entering by Saudi Arabia in 2012–2013 the group of 20 top states in the Global Competitiveness Index.

According to McKinsey Global Institute research center estimation of contribution into economic growth main economic sectors in Saudi Arabia in 2000–2010, the contribution of non-oil private sector was 37 per cent, the contribution of the oil sector was 49 per cent and of non-oil state sector was 14 per cent. Also interesting is a forecast of investment needs of the kingdom. Total investment needs were 768 bn.\$ for 2006–2010, 934 bn.\$ for 2011–2015, 900 bn.\$ for 2016–2020 and 1300 bn.\$ for 2021–2025. Share of investment expenses of government for the same periods was estimated (respectively) at 41 per cent, 51 per cent, 81 per cent and 43 per cent. The highest share of governmental investment expenses for 2016–2020 is explained by the strategy of preparation to shift the center of gravity in economic development from government to the private sector [14, c. 21].

Since 2014 GCC states strategies are under pressure of oil prices slump. So, although the budget project in Saudi Arabia for 2014 did not change share of capital and current expenditures, the cutting of expenses was huge: only for infrastructure and transport expenses were cut by 63 per cent to 6,4 bn.\$. [12].

These problems influenced the Saudi growth rates: GDP in 1 quarter of 2016 grew only by 1,5 per cent (the lowest for the 1 quarter for 5 year period). Moreover, oil sector grew by 5 per cent, but non-oil fell by 0,7 per cent [2]. In Abu-Dhabi since 2014 were fixed large losses of foreign assets and government had to issue state debt instruments for 40 bn. of AED (11 bn.\$) to compensate budget

deficit in 2016, and additional 69 bn. AED for 2017. In 2016 government expenditures in UAE were cut by 5 per cent, for 2017 – by additional 6,5 per cent [3].

We can state, that Arabian monarchies, certainly, would change their economic strategies towards economic system with generally accepted in the world features (taxes, charges, selective approach to subsidies, market principles in public facilities and employment, privatization). Such changes may be as serious as transition to market in former USSR or East Europe. The dynamics of this process can be hampered only by oil prices increase and fears of social unrest. Requirements for changes have been announced. For example, one of the authors of Saudi Arabia new Transformation Plan “Saudi Vision 2030” prince Muhammad Salman al-Saud demands to rise non-oil government revenues from 163 bn. of Saudi riyals to 1 trillion and rise the private sector contribution to GDP from 40 to 65 per cent, rise share of non-oil export in non-oil part of Saudi GDP from 16 per cent to 50 per cent. Also the reform of state subsidies will be undertaken to receive additional income of 30 bn.\$, and introduction of value added tax must give 10 bn.\$ of income [15].

In financially stable Kuwait at the beginning of 2015 emir announced that subsidy reform is urgent [10].

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