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Introduction

For decades, the economies of the Gulf Cooperation Council (GCC) countries – Saudi Arabia, the United Arab Emirates (UAE), Kuwait, Oman, Qatar, and Bahrain – have heavily relied on petroleum production and fossil fuel exports. Income from petroleum has enabled these countries to transform into some of the world’s wealthiest nations, allowing them to build advanced infrastructure, sustain high standards of living, and provide strong public services. However, relying on a single natural resource leads to major economic risks that demands immediate and collective actions.

Oil prices constantly fluctuate because of the changes in global demand, international conflicts, technological developments, and environmental policies.

When oil prices drop, government revenue decreases, making it more difficult to fund healthcare, education, infrastructure, and other public services. Moreover, the world’s transition towards renewable energy and lower carbon emissions is expected to reduce long-term demand for fossil fuels.

Therefore, economic diversification has become one of the most important priorities for Gulf countries. In fact, many Gulf governments have already started plans to develop industries like tourism, manufacturing, logistics, education, and renewable energy.



Fig. 1: Members of the Gulf Cooperation Council

Background

Oil production in the Gulf began during the early twentieth century, making dramatic changes to the region's economies. Before the discovery of oil, many Gulf communities relied on fishing, pearl diving, agriculture, and trade. As oil exports expanded after World War II, governments received enormous revenues that allowed them to rapidly modernize their countries.

Throughout the second half of the twentieth century, oil exports provided significant income to Gulf countries and helped finance rapid economic development. However, this also led to a strong dependence on oil revenue. According to the IMF, oil revenue accounted for approximately 94% of Kuwait's government revenue and 77% of Saudi Arabia's in 2014. This dependence made GCC economies vulnerable to changes in global oil prices.

The weakness of oil-dependent economies became obvious during periods when oil prices fell drastically, especially between 2014 and 2016 and during the COVID-19 pandemic in 2020. Between 2014 and 2016, oil prices fell because global oil production increased while demand was lower than expected. During the COVID-19 pandemic, lockdowns and reduced travel caused global demand for oil to drop significantly. As a result, governments earned less income from oil and had to make difficult financial decisions. For example, Saudi Arabia's oil revenue fell from about 913 billion riyals in 2014 to 343 billion riyals in 2016.

US oil prices turn negative

Price per barrel of WTI



Source: Bloomberg, 20 April 2020, 20:15 GMT

BBC

Fig. 2: Oil Fluctuations from 2000 to 2020

At the same time, climate change has accelerated international efforts to reduce fossil fuel consumption. Today, many countries are investing heavily in renewable energy and electric vehicles. As a result, Gulf governments recognize that dependence on petroleum is now not a sustainable long-term strategy.

To prepare for the future, GCC countries have introduced ambitious economic

transformation plans. Saudi Arabia launched Vision 2030, aiming to expand tourism, manufacturing, mining, and renewable energy. The UAE has focused on becoming a global center for aviation, finance,



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and logistics. Qatar has invested in education and sports, while Oman, Kuwait, and Bahrain are also promoting private sector development and entrepreneurship.

Problems Raised

Economic Vulnerability

Heavy dependence on petroleum leaves Gulf economies highly vulnerable to changes in global oil prices. Since oil exports play a vital role in government revenue, even small price declines can create serious financial difficulties. For example, in Saudi Arabia, oil revenue fell from 32.3% of GDP in 2014 to 18.4% in 2015, while total government revenue fell from 36.9% to 25.4% of GDP.

When governments receive less income, they may reduce public spending, delay infrastructure projects, or cut subsidies provided to citizens. These actions can slow economic growth and reduce employment opportunities. Furthermore, unpredictable revenue makes long-term planning much more difficult for both governments and businesses.

As renewable energy becomes more common around the world, future demand for oil may continue to decline, increasing pressure on Gulf economies to develop alternative industries.

Saudi Arabia's Government Revenue Composition as a Percent of GDP

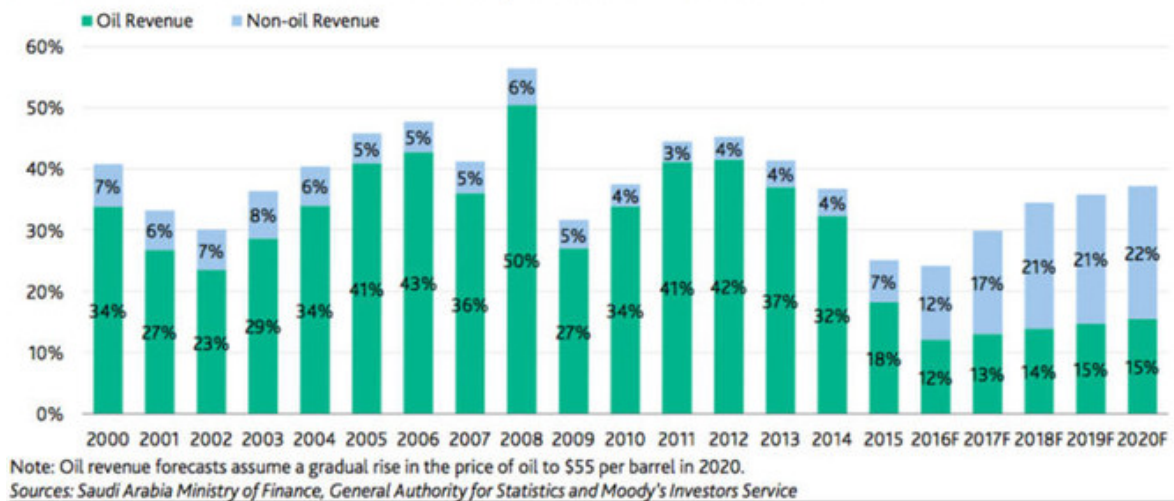


Fig. 3: Saudi Arabia's government revenue as % of GDP from 2000 to 2020

Youth Unemployment and Skills Gap

Many Gulf countries have young and growing populations, but there are not enough jobs outside the oil industry. For many years, government jobs have been more popular because they often offer higher salaries, better benefits, and greater job security. However, governments cannot create enough public-sector jobs for everyone.



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At the same time, many private companies struggle to employ workers with the skills they need, especially in fields such as technology, engineering, and renewable energy. This skills gap can lead to long-term unemployment, making it harder for young people to gain experience and find jobs in the future. It can also increase the burden on governments by requiring more spending on welfare while reducing tax income. Therefore, without improving education, job training, and private-sector opportunities, it will be difficult for Gulf countries to build a more diverse and sustainable economy.



Fig. 4: GCC and IMF Meeting

International Actions

IMF Policy Advice for Gulf Countries

The International Monetary Fund (IMF) has worked closely with Gulf Cooperation Council (GCC) countries by publishing reports and providing economic policy recommendations. The IMF encourages governments to reduce their dependence on oil revenues by strengthening the private sector, introducing tax reforms such as value-added tax (VAT), investing in education and technology, and carefully managing sovereign wealth funds.

The IMF also carries out regular economic assessments of GCC member states through its Article IV consultations. These reports evaluate each country's economic performance and recommend policies that strengthen public finances, encourage investment, and support long-term diversification. Not just this, but the IMF further advised GCC countries to continue economic reforms even when oil prices recover so they can build more stable and diversified economies.

ESCWA Support for Economic Diversification

The United Nations Economic and Social Commission for Western Asia (ESCWA) supports GCC countries through research, technical assistance, and policy recommendations. ESCWA has worked with Gulf governments to improve employment opportunities, encourage entrepreneurship, promote digital transformation, and expand renewable energy. For example, ESCWA has supported digital transformation initiatives that help governments and businesses adopt new technologies and improve digital services. The commission also helps member states align their national diversification plans with

the United Nations Sustainable Development Goals (SDGs), supporting long-term economic growth beyond the oil sector.

ESCWA also organizes regional conferences and workshops where policymakers from Arab countries, including GCC members, can share successful economic policies and discuss common challenges. This allows countries to learn from one another and improve their own diversification strategies.

Key Players

Gulf Cooperation Council (GCC) States

Saudi Arabia, UAE, Qatar, Kuwait, Oman, and Bahrain are leading their own diversification plans. Each country has chosen different priority sectors based on its strengths and available resources. Saudi Arabia focuses heavily on tourism, manufacturing, mining, and renewable energy through Vision 2030, which aims to increase private-sector growth and develop new sources of government revenue beyond oil. The UAE has developed successful aviation, finance, logistics, and technology sectors, which have helped reduce its reliance on oil. Qatar has invested in education and sports to attract investment and develop new sources of economic activity.



Fig. 5: Leaders of the GCC Member States

International Monetary Fund (IMF)

The IMF advises oil-exporting countries on keeping their finances stable while relying less on oil income. Oman is an example of how the IMF has supported a GCC country facing these challenges. After oil prices drastically fell in 2014, Oman faced large budget deficits because of its dependence on oil income. The IMF recommended government reforms, reducing government spending, increasing non-oil revenue, and supporting private businesses. Oman later introduced measures such as reducing subsidies and introducing VAT to improve its finances. While the IMF does not directly control national policies, its economic analysis and policy recommendations helped Oman identify economic risks and improve its economic problems.



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Possible Solutions

Encouraging Foreign Investment

Governments should create a business-friendly environment that attracts more foreign investment. For example, lengthy business registration procedures and restrictions on foreign ownership can make it more difficult for foreign companies to enter the market. Governments can address this issue by simplifying business regulations and offering incentives for companies to invest in industries such as technology, renewable energy, manufacturing, and tourism. Foreign investment can bring new technology, create jobs, and support the developments of industries beyond oil.

Foreign investment should also be promoted through transparent regulations and stable economic policies. Expanding sectors such as tourism, logistics, finance, healthcare, manufacturing, and renewable energy will create a more diverse sources of national income and increase economic resilience.

Supporting Private Businesses and SMEs

Small and medium-sized enterprises offer employment opportunities. Governments can support SMEs by providing easier access to loans, simplifying business registration and licensing procedures, offering business training, and encouraging entrepreneurship among younger generations. In the long term, this initiative may gradually reduce the skills gap by providing young people the opportunities to gain experience in entrepreneurship and business operation. It can also help diversify the economy by supporting new businesses, creating more employment opportunities, and reducing dependence on the oil industry.

Monitoring National Development Plans

GCC countries should strengthen the monitoring and evaluation of their national development strategies, such as Saudi Arabia's Vision 2030. The United Nations Development Program (UNDP) could work with each GCC country to regularly review the progress of these

plans and provide recommendations for improvement. This could include tracking targets such as non-oil economic growth, private-sector development, and youth employment. External monitoring could increase transparency and encourage governments to stay committed to their long-term goals. The UN could also provide technical support and resources to help countries address problems and adjust their strategies. In the long term, this would help ensure that economic diversification plans will be successfully implemented.



Fig. 6: Saudi Arabia's Vision 2030



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Glossary

Economic Diversification

Expanding an economy into new production sectors away from a single dominant industry to reduce risk and stabilize revenue.

Gross Domestic Product (GDP)

The total economic value of all final goods and services produced inside a country over a specific time period, usually measured and reported annually.

Small and Medium-sized Enterprises (SMEs)

Independent businesses that typically employ fewer than 250 workers, though the specific employment threshold varies by country, and contribute significantly to economic growth.

Fossil Fuels

Natural energy resources such as oil, natural gas, and coal that are formed over millions of years.

Renewable Energy

Energy produced from natural resources that can be replenished.

Vision 2030

Saudi Arabia's national strategy to diversify its economy and reduce dependence on oil.

Value-Added Tax (VAT)

A tax placed on goods and services that is added on every stage of production and distribution, introduced by some Gulf countries to increase government revenue and reduce dependence on oil income.

Public Sector

The government-controlled area of an economy that includes organizations, institutions, and services managed or funded by the government, such as public healthcare and education provided for citizens.

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